

**GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) NOTES  
TO THE FINANCIAL STATEMENTS**

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**(Name of School District)**  
**Notes to Financial Statements ①**  
**September 1, 200X-1 through August 31, 200X**

**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The \_\_\_\_\_ School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of providing public school services. 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.

*(Add explanations of blended or discretely presented component units, if applicable.)*

For financial reporting purposes, the \_\_\_\_\_ (*name of district*) includes all funds and organizations that are controlled by or dependent on the district's board of directors. Control by or dependence on the district was determined on the basis of budget adoption, taxing authority, outstanding debt secured by the general credit of the district, obligation of the district to finance any deficits that may occur, or receipt of significant subsidies from the district.

B. Basis of Presentation

The accounts of the district are organized on the basis of funds in governmental fund financial statements, each of which is considered a separate accounting entity. 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. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The district's basic financial statements in this report consist of:

**Government-Wide Financial Statements**

Overall, governmental activities are reported here without displaying individual funds or fund types and display information about the district as a whole. They include the primary government (*and its component unit*) however, they do not contain fiduciary activities or funds.

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The government-wide financial statements consist of the following:

**a. Statement of Net Assets** – The statement of net assets report all financial and capital resources. Capital assets (land, land improvements, building, building improvements, vehicles, and equipment) are reported at historical cost, net of accumulated depreciation.

**b. Statement of Activities** – The operations of the district presented as net (expense) revenue of its individual function/program. General revenues are divided into property taxes, interest, and investment earnings. The expenses and revenues are reported as follows:

**Expenses** – Expenses are reported by function/program that includes direct and indirect expenses. Depreciation expenses are allocated to direct expenses if they can be specifically identified with a function/program. Interest expenses may be considered direct (interest on long-term debt, when borrowing is essential to the creation or continuing existence of a program) or indirect expenses (interest on long-term liabilities).

**Revenues** – The revenues are divided into program revenues and general revenues. Program revenues derived directly from the program itself or from parties outside the district's taxpayers, as a whole. They reduce the net cost of the function to be financed from the district's general revenues. Program-specific grants and contributions include revenues arising from mandatory and voluntary non-exchange transactions with federal, state governments, organizations, or individuals that are restricted for use in a particular program.

General revenues are revenues that are not required to be reported as program revenues such as property taxes levies for a specific purpose and all non-tax revenues (interest and investment earnings).

## **Fund Financial Statements**

The governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. It includes the general fund, special revenue fund, capital projects fund, transportation vehicle fund, and debt service fund. Governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and the district considers all revenues available if they are collected within 60 days after year-end to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for the unmatured principal and interest, which are recorded when due. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts thus are not current liabilities of the debt services fund. Long-term liabilities are not recognized in governmental fund liabilities.

## **GOVERNMENTAL FUNDS**

### General Fund

This fund is the district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund. The revenues of the general fund are derived primarily from the State of Washington, local property taxes and

federal grants. In keeping with the principle of as few funds as necessary, food services, maintenance, data processing, printing, and transportation activities are included in this fund.

#### Special Revenue Fund

These funds account for the proceeds of specific revenue sources that are legally restricted for specific purposes.

#### Associated Student Body Fund

This fund is used to account for the extracurricular fees and resources collected in fund-raising events for students. Disbursements require the joint approval of the appropriate student body organization and the district's board of directors. This fund is accounted for as a special revenue fund since the financial resources legally belong to the district.

#### Debt Service Fund

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

#### Capital Projects Fund

This fund is used to account for financial resources to be used for the construction or acquisition of major capital assets. This fund must be used when projects are financed wholly or in part by bond issues, intergovernmental resources, major private donations, or insurance recoveries. Expenditures in this fund may also be for energy capital improvements to existing buildings and the purchase of certain initial equipment for existing buildings.

#### Transportation Vehicle Fund

This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures related to pupil transportation equipment. *(The major sources of revenues in this fund include the state reimbursement for pupil transportation equipment and special levies.) (or) (The district contracts bus services so the only revenue in this fund is interest income.)*

#### Permanent Fund

These funds are used to report resources legally restricted such that only earnings, and not principal, may be used to support the district's programs.

### **FIDUCIARY FUNDS** ⓘ

Fiduciary funds' reporting focuses on net asset and changes in net assets. Trust and agency funds are used to account for assets held for individuals, private organizations, other districts, or other funds in its fiduciary capacity as trustee or agent.

#### Private-Purpose Trust Fund

This fund is used to account for resources legally held in trust in which principal and income benefit individuals, private organizations, or other districts

Pension [and Other Employee Benefit] @ Trust Fund

This fund is used to account for resources that are required to be held in trust for the members and beneficiaries of pension plan or other employee benefit plan.

Agency Fund

This fund is used to account for resources where the district's role is purely custodial. (Describe your district's agency funds.)

Major and Non-major Funds

The district considers all governmental funds "major funds".

C. Measurement Focus, Basis of Accounting

The districtwide financial statements measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), and financial position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The private-purpose trust funds are reported on the accrual basis of accounting. Agency funds that are custodial in nature and do not involve measurement of results of operation, are reported on the accrual basis of accounting.

## **BASIS OF ACCOUNTING**

In the government-wide financial statements, governmental activities are presented using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this method, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. The district considers revenues derived from property taxes available when they are collected within 60 days after year-end.

### Eliminations and Reclassifications

In the process of aggregating data the government-wide Statement of Net Assets and the Statement of Activities, the inter-fund receivables and payables within governmental funds, except those with fiduciary funds, were eliminated.

#### D. Assets, Liabilities, and Net Assets or Equity

##### 1. Cash, Cash Equivalents and Investments

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.

The county treasurer is the ex officio treasurer for the district. In this capacity, the county treasurer receives deposits and transacts investments on the district’s behalf.

Washington State statutes authorize the district to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States and (2) deposits in any state bank or trust company, national banking association, stock savings bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability. Temporary investments are stated at cost plus accrued interest, which approximates market. Other investments of the district are reported at fair value.

##### 2. Receivables and Payables

The account receivables represent amounts due for services rendered by the district, net of allowance for doubtful accounts. The district considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year.

Due From/To Other Funds

In governmental funds, activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” They are eliminated in government-wide financial statements.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

3. Inventory and Prepaid Items

Inventory is valued at cost using the first-in, first-out (FIFO) method (or weighted average method). @ District inventories are recorded when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the districtwide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activity columns in the districtwide financial statements. Capital assets are defined by the district as assets with an initial, individual cost of more than \$\_\_\_\_\_ (record capitalization amount) and an estimated useful life in excess of one year. Such assets are valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Property, plant, and equipment of the district is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Building improvements	5-50
Pupil transportation vehicles	3-13
Other vehicles	5
Portables	25
Office equipment	10
Computer equipment	4

Fixed assets used in governmental fund operations are accounted for as capital outlay expenditures upon acquisition.

Pledged Assets ④

(Identify the assets pledged, the amount of the associated liability, the duration of the pledge, and other pertinent facts concerning the security arrangement.)

Deferred Revenues

Deferred revenues consist of amounts collected before revenue recognition criteria are met, and receivables, which, under the modified accrual basis of accounting, are measurable but not available, e.g., unearned property tax revenues, unearned revenues from federal, state and local grants, and unearned revenues on long-term receivables. In government-wide financial statements, property taxes less amounts estimated as uncollectible are accrued, therefore there are no deferred property tax revenues.

5. Compensated AbsencesSick Leave

Employees earn sick leave at a rate of \_\_\_\_ 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 statute 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.

Vested sick leave for employees eligible for retirement is recorded as long-term debt liabilities in government-wide financial statements. These expenditures are recorded when paid, except termination sick leave that is accrued upon death or retirement. Vested sick leave is computed using the (termination payment method) (vesting method). ④ *(Note: If you have computed your estimate for vested sick leave using a methodology other than the termination or vesting methods discussed in GASB 16, please include a brief description of the methodology used.)* The amount of accrued sick leave as of August 31, xxxx, was \$\_\_\_\_. (Employees earn sick leave at a rate of \_\_\_\_ days per year up to a maximum of 1 contract year. The district has not adopted the buy out provisions for sick leave as authorized under RCW 28A.400.210. As such, no liability exists for buy out of sick leave.) ④

Vacation

Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported as long-term debt in government-wide financial statements. No expenditure is reported for these amounts.

(No unrecorded liability exists for other employee benefits.) ④

6. Long-Term Obligations

In the districtwide financial statements long-term debt and other long-term obligations are reported as liabilities (in the applicable district activities) on the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, district fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Net Assets

In government-wide financial statements, the “Invested in Capital Assets, Net of Related Debt” component consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The “Restricted Net Assets” component reports the net assets where constraints placed on net assets by external laws, regulations, or legislation. Therefore, they are available for disbursements only for specific purposes (i.e., debt service, capital projects, and others). The “Unrestricted Net Assets” are assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

*Net Assets.* The government-wide statement of net assets reports \$ \_\_\_\_\_ of restricted net assets, of which \$ \_\_\_\_\_ is restricted by enabling legislation.

**Note 2 Reconciliation of Districtwide and Fund Financial Statements**

A. Explanation of Certain Differences Between the District Fund Balance Sheet and Districtwide Statement of Net Assets

The district fund balance sheet includes reconciliation between fund balance—total district funds and net assets—district activities as reported in the districtwide statement of net assets. Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the \$ \_\_\_\_\_ difference is as follows:

(Record a schedule of adjustments. Examples of reductions include deferred charges on refunding bonds payable to be amortized as interest expense, deferred charge for bond issuance charges to be amortized over the debt term, and bond issuance discount to be amortized as interest expense. Additions may include accrued interest payable, capital leases payable, claims and judgments, and compensated absences. These should be totaled to a Net Adjustment to increase [decrease] fund balance—total district funds to arrive at net assets—district activities.)

Some **possible** narrative examples follow. These are examples only and not intended to be all inclusive. The district should modify for those applicable to its circumstances:)

- Capital Assets – When capital assets (land, building, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the district as a whole.

Cost of capital assets	\$xxxx
Accumulated Depreciation	<u>(xxxx)</u>
Net	XXXX

- Unamortized Bond Issuance Costs – In governmental funds, bond issuance costs were charged to expenditures, while the unamortized bond issuance costs are shown as deferred charges on the statement of net assets. (Refer to Note xxx—Unamortized bond issuance costs).
- Long-Term Liabilities – The \$xxxx of long-term liabilities, net of unamortized bond premium/discount applicable to the district’s governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.
- Elimination of Deferred Property Taxes – They will not be collected for several months after year-end and are not considered “available”. Therefore, they are reported as deferred revenue in governmental funds. They are eliminated in the government-wide financial statements.
- Due To/Due From – Internal transfers between governmental funds were eliminated in government-wide statements to avoid the “doubling-up” effect. The remaining balances are from the private-purpose trusts, which are reclassified to third party receivable/payable.

B. Explanation of Certain Differences Between the District Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Districtwide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances—total district funds and changes in net assets of district activities as reported in the districtwide statement of activities.

(Detail reconciling items providing a financial schedule as well as a narrative. Some **possible** narrative examples follow. These are examples only and not intended to be all inclusive. The district should modify for their applicable circumstance.)<sup>2</sup>

- Depreciation of Capital Assets - Governmental funds report capital outlays as expenditures, however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$\_\_\_\_\_ difference are as follows:

Capital Outlay	\$	
Depreciation Expense	(	)

- Sales of Capital Assets - The net effect of various miscellaneous transactions involving capital assets resulted in an increase [decrease] in net assets as detailed below: <sup>2</sup>

(In the statement of activities, only the gain/loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the cost of the capital assets sold.)

(Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.)

(The statement of activities reports losses arising from the trade-in of existing capital assets to acquire new assets. Governmental funds do not report any gain or loss of a trade-in of capital assets.)<sup>2</sup>

- Repayment of Long-Term Debt Principal - The repayment of the principal of long-term debt reduces the fund balance in governmental funds. However it reduces the liabilities in the statement of net assets
- Amortization of Bond Premium/Discount & Issuance Costs – The current year amortization of bond premium/discount & issuance costs is as follows:
- Compensated Absences and others - Certain expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. Details of the \$\_\_\_\_\_ difference is as follows: (Examples: edit to reflect your district.)<sup>2</sup>

Compensated absences		\$ _____
Claims and judgments		_____
Accrued interest		_____
		\$ _____

## **Note 3 Stewardship, Compliance, and Accountability**

### Budgetary Information

#### General Budgetary Policies

The State of Washington laws and regulations require that school districts are in compliance with Generally Accepted Accounting Principles (GAAP). School district's accounting systems should provide the basis for the budgetary control. Chapter 28A.505 of the Revised Code of Washington (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.

Encumbrance accounting is used in the governmental funds. Encumbrances (such as purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be appropriated and honored during the subsequent year.

## **Note 4 Detailed Notes on All Funds**

### A. Cash, Cash Equivalents, and Investments

The county treasurer is the ex officio treasurer for the district. In this capacity, the county treasurer receives deposits and transacts investments on the district's behalf.

The district's cash and cash equivalents are covered entirely by federal depository insurance or by collateral held by the district's custodial banks in the district's name.

Statutes authorize the district to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States and (2) deposits in any state bank or trust company, national banking association, stock saving bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability.

All temporary investments are stated at cost plus accrued interest that approximates market. Investments are shown on the combined balance sheet at cost, net of amortized premium, or discount.

Reductions in market value are not reflected on the financial statements. Gains or losses on investments sold or exchanged are recognized at the time the transactions are completed.

(FORMAT OPTION #1 ③⑥⑦)

All of the district's investments (except for investments of deferred compensation plans,) ② 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, 20XX are as follows:

	Number of Securities	Carrying Amount	Market Value
Certificates of Deposit or Other Time Deposits			
Repurchase Agreements			
Bankers' Acceptance			
Obligations of the U.S. Government or Its Subsidiary Corporations			
Investments Held by Broker-Dealers Under Reverse Repurchase Agreements: U.S. Government Securities U.S. Instrumentality Securities			
State Treasurer's Investment Pool			
County Treasurer's Investment Pool			
Total Investments			

(FORMAT OPTION #2 ⓄⓄ)

The district's investments (excluding investments for deferred compensation plans) Ⓞ are categorized as follows to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the district or its agent in the district's name holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the district's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or its trust department or agent but not in the district's name.

The district's investments as of August 31, 20XX are as follows:

	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of Deposit or Other Time Deposits					
Repurchase Agreements					
Bankers' Acceptances					
Obligations of the U.S. Government or Its Subsidiary Corporations					
Investment Held by Broker-Dealers Under Reverse Repurchase Agreements:					
U.S. Government Securities					
U.S. Instrumentality Securities					
Total					
State Treasurer's Investment Pool					
County Treasurer's Investment Pool					
Total Investments					

(The money that the district places in escrow as a condition of self-insuring with the Washington State Department of Labor and Industries is reported in this account). Ⓞ

**B. Receivables**

Receivables as of year-end for the district’s governmental and fiduciary funds, including the applicable allowances for uncollectible accounts, are as follows:

	<b>General</b>	<b>ASB</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Transportation Vehicle Fund</b>	<b>Permanent</b>	<b>Private-Purpose Trust</b>
Receivables:							
Interest							
Taxes							
Accounts							
Special assessm’t							
Intergovernmental							
Intergovernmental Restricted							
Gross receivables							
Less: Allowance for Uncollectibles							
Net total receivables							

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of August 31, 20XX the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable:		
General fund	\$ _____	\$ _____
Debt service fund	_____	_____
Capital projects fund	_____	_____
Transportation vehicle fund	_____	_____
Special assessments not yet due (debt service fund)	_____	_____
Grant drawdowns prior to meeting all eligibility requirements	_____	_____
Total deferred/unearned revenue for governmental funds	\$ _____ =====	\$ _____ =====

C. Capital Assets

(Prepare the following schedules to include information for two years if these notes are to be included in a two-year audit report.)

Purchases of items over \$\_\_\_\_\_ are capitalized and depreciated in the districtwide statements.

	Balance 9/1/200X-1	Additions	Deletions	Balance 8/31/200X
<b>Capital assets, not depreciated:</b>				
Land				
Construction in progress				
Total Capital assets, not being depreciated				
<b>Capital assets, being depreciated:</b>				
Buildings				
Improvements other than buildings				
Transportation equipment				
Equipment and machinery				
Total capital assets being depreciated				
<b>Less: Accumulated depreciation:</b>				
Buildings				
Improvements other than buildings				
Equipment and machinery				
Total accumulated depreciation				
Total capital assets, being depreciated, net				
<b>Governmental activities capital assets, net</b>				

**Impairment of Assets**

(If impairment of assets exists, disclose the asset impaired, reason for impairment, original value of asset, reduction of asset value, and other relevant information surrounding the impaired assets.)

Depreciation expense was charged to functions/programs as follows:

Regular instruction	\$ _____
Special instruction	_____
Vocational instruction	_____
Compensatory education	_____
Other instruction programs	_____
Community services	_____
Support services	_____
Extracurricular activities (ASB)	_____

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/200X	Additional Local Funds Committed	Additional State Funds Committed
Total				

(Capital assets determined to be surplus and held for resale are included. They totaled \$\_\_\_\_\_ (and \$\_\_\_\_\_) as of August 31, 200X (and 200X-1, respectively). (In addition, capital assets amounting to \$\_\_\_\_\_ (and \$\_\_\_\_\_) as of August 31, 200X (and 200X-1, respectively) are being managed for rental income.)

The district's capital assets are insured in the amount of \$\_\_\_\_\_ (and \$\_\_\_\_\_) for fiscal 200X (and 200X-1, respectively). In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

*(Districts leasing capital assets to outside organizations are to make lessor capital lease disclosures as follows:*

- a. *General description of the lease equipment and property.*
- b. *Nature and extent of leases with related parties.*
- c. *Future minimum lease payments to be received on capital leases in total and yearly for the next five years.*
- d. *Portion of future minimum lease payments representing imputed interest and other costs.*
- e. *Allowance for uncollectible lease payments.*
- f. *Unguarded residual value accruing to the district's benefit.*
- g. *Unearned revenue.*
- h. *Amount of unearned revenue used to offset initial indirect costs charged against revenue.*
- i. *Contingent rental included in revenue.*

*Lessor operating lease disclosures are as follows:*

- a. *Cost and carrying value (if different) of capital assets by major class subject to leases and total related accumulated depreciation.*
- b. *Future minimum rental on noncancelable leases in total and for each of the next five years.*
- c. *Contingent rental included in revenue.)*

## **Note 5 Pensions**

### **A. General Information**

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

Membership by retirement system program as of September 30, 200X:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	X,XXX	X,XXX	X,XXX
PERS	X,XXX	X,XXX	X,XXX
SERS	X,XXX	X,XXX	X,XXX

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

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

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

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits after five years of credited service and attainment of age 60 or after ten years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65.

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

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

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

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

**B. Contributions**

Employee contribution rates as of August 31, \_\_\_\_:

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

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

Employer contribution rates as of August 31, \_\_\_\_:

Plan 1 TRS    ____%	Plan 1 PERS    ____%	
Plan 2 TRS    ____%	Plan 2 SERS    ____%	
Plan 3 TRS    ____%	Plan 3 SERS    ____%	

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (Participant information for all plans is as of September 30):

<u>Plan</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
Plan 1 TRS	\$ _____	\$ _____	\$ _____
Plan 2 TRS	\$ _____	\$ _____	\$ _____
Plan 3 TRS	\$ _____	\$ _____	\$ _____
Plan 1 PERS	\$ _____	\$ _____	\$ _____
Plan 2 SERS	\$ _____	\$ _____	\$ _____
Plan 3 SERS	\$ _____	\$ _____	\$ _____

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, 200X 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

*(For smaller school districts that are audited by the State Auditor's Office on a two-year cycle, information is required for both years being examined. For the notes, which will be included in the two-year audit report, include the information in parentheses.)*

**Note 6 Deferred Compensation Plan** ④

(District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the district, a state retirement system, or another governmental entity. The district retains a right of legal access to the plan assets (valued at market) until paid or made available to the employees, subject only to the claims of the district's general creditor.) ④

*(If the plan assets have been used in the past for purposes other than the payment of benefits, disclosure should be made of such use. The administering district in a multiple-jurisdiction plan should also disclose that portion of the assets in the fund to which it has legal access, as distinguished from the assets held for other participating districts.)* ②

*(Any liability for unfunded compensation plans should include all deferred amounts, including accrued interest, and should be reported as a liability of the salary-paying fund (1) to show the district's contractual commitment to the employees and (2) to recognize compensation and interest expenditure at the time the deferred compensation is earned or the interest is incurred.)* ②

**Note 7 Risk Management** ④

*(The following risk management paragraphs pertain to risk management pools and self-insurance. Select the paragraphs pertinent to your district and adjust them as necessary.)*

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

*(District participates in an insurance pool.)*

In (month and year), ② the district joined together with other school districts in the state to form (name of risk pool), a public entity risk pool currently operating as a common risk management and insurance program for (unemployment insurance, unemployment compensation). ② The district pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the (name of risk pool) ② provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$\_\_\_\_\_ for each insured event.

*(District buys commercial insurance.)* ④

The district continues to carry commercial insurance for all other risks of loss, including (description of insurance). ② Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(District is self-insured.) @

Beginning in (month and year), @ the district began covering all (claim settlements, judgments) @ out of its General Fund. The district currently reports (all, some) @ of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

	9/1/200X-1 Liability	Current Year Claims and Changes in Estimates	Claim Payments	8/31/200X Balance
(Prior Year)				
(Current Year)				

At August 31, 200X, the amount of liabilities was \$ \_\_\_\_\_. This liability is the district's best estimate based on available information. Changes in the reported liability since August 31, \_\_\_\_\_ 200X-1, resulted in the following:

(Included in the August 31, 200X, balance are claims of \$ \_\_\_\_\_, representing losses for which the lowest amount in a range of probable losses has been accrued because no amount with that range is a better estimate of loss. The district estimates that those losses could be as high as \$ \_\_\_\_\_.) @

At August 31, 200X, General Fund investments of \$ \_\_\_\_\_ were held for purposes of funding the district's future claims liabilities. As a result, \$ \_\_\_\_\_ of the General Fund balance is designated for payment of future claims liabilities.

**Note 8 Lease Obligations and Conditional Sales Contract Obligations<sup>④</sup>**

(Provide a general description of lease arrangement, e.g., basis for determining contingent rental, renewal terms, purchase option, escalation clauses, restrictions, and nature and extent with related parties.)

For the fiscal year(s) <sup>⑤</sup> ended August 31, 200X, the district had incurred additional long-term debt as follows:

Lessor	Amount	Annual Installment	Final Installment Date	Interest Rate(s)	Balance Due
Lease-Purchase Commitments					
Total Lease-Purchase Commitments					
Conditional Sales Contracts					
Total Conditional Sales Contracts					
Other Long-Term Commitments					
Total Other Long-Term Commitments					

(Disclose the following for capital leases:

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

Disclose the following for operating leases: <sup>⑥</sup>

- a. Future minimum lease payments for each of the next five years and in total for noncancelable leases extending over one year.
- b. Rental expenditure of the year with separate disclosure of minimum rentals, contingent rental, and sublease rental revenue.)

**Note 9 Long-Term Debt** ④

(Describe bond issues: Amount issued, date of issue, annual redemption, interest rate, and amount outstanding at August 31.)

Bonds payable at August 31, 200X, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
Total General Obligation Bonds					

(Prepare the following schedule to include information for two years if these notes are to be included in a two-year audit report.)

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year(s) ⑤ ended August 31, 20XX:

Long-Term Debt Payable at 9/1/200X-1	
New Issues	
Debt Retired	
Long-Term Debt Payable at 8/31/200X	

The following is a schedule of annual requirements to amortize long-term debt at August 31, 200X:

(Include as many lines as necessary (minimum of five years) to report total long-term debt.)

Years Ending August 31,	Payment	Interest Expense	Premium/Disc Amortized	Carrying Amount of Bonds
20				
20				
20				
Total				

At August 31, 200X (and 200X-1), ⑤ the district had \$\_\_\_\_\_ (and \$\_\_\_\_\_, respectively,) ⑥ available in the Debt Service Fund to service the general obligation bonds.

**Bonds Authorized but Unissued** ④

(Schedule of bonds authorized but unissued.)

**Refunded Debt** ④

(In the year of advance refunding.)

On \_\_\_\_\_, 20\_\_\_\_, the district issued \$\_\_\_\_\_ million in general obligation bonds with an average interest rate of \_\_\_\_\_ percent to advance refund \$\_\_\_\_\_ million of outstanding 19\_\_\_\_ series bonds with an average interest rate of \_\_\_\_\_ percent. The net proceeds of \$\_\_\_\_\_ million (after payment of \$\_\_\_\_\_ million in underwriting fees, insurance, and other issuance costs) plus an additional \$\_\_\_\_\_ million of 19\_\_\_\_ series sinking fund moneys were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 19\_\_\_\_ series bonds. As a result, the 19\_\_\_\_ series bonds are considered to be defeased.

The district advance refunded the 20\_\_\_\_ series bonds to reduce its total debt service payments over the next \_\_\_\_\_ years by \$\_\_\_\_\_ million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$\_\_\_\_\_ million. ④

**CALCULATION OF DIFFERENCE IN CASH FLOW REQUIREMENTS & ECONOMIC GAIN**

Cash Flows Difference		
Old Debt Service Cash Flows		
New Debt Service Cash Flows		
Less Accrued Interest Included in ____ / ____ / ____ Payment		
Plus District Contribution from Sinking Fund Resources		
Total		
Economic Gain		
Present Value of New Debt Service Cash Flows		
Less Accrued Interest Included in ____ / ____ / ____		
Plus District Contribution from Sinking Fund Resources		
Total		

(In the periods following an advance refunding in which the old debt is still outstanding.)

**Prior Year Defeasance of Debt** ④

(In prior years, the district defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements. At August 31, 200X (and 200X-1), ④ \$\_\_\_\_\_ million (and \$\_\_\_\_\_ million respectively,) ④ of bonds outstanding are considered defeased.)

**Note 10 Interfund Loans** ④

(Prepare the following schedule to include information for two years if these notes are to be included in a two-year audit report.)

The following table depicts loan activity:

Debtor Fund	Due To	Balance At 9/1/200X-1	Loan Activity		Balance At 8/31/200X
			New Loans	Repayments	
Totals					

**Note 11 Summary of Significant Contingencies**

(Describe the contingencies or state that there were none at balance sheet date. Contingencies that are both probable and the amount of the loss that can be reasonably estimated should be accrued and disclosed with a description. A reasonably possible contingency should be disclosed with a description of the contingency and the range of possible amounts of gain and loss. Care should be used in disclosing gain contingencies not to mislead the reader. Remote possibilities should be disclosed if they relate to loss contingencies of guaranties, financing arrangements, or other similar obligations.)

Litigation

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

Or

(Describe the litigation that materially impacts the district.)

Arbitrage Rebate ④ (Tax Reform Act of 1986)

(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 \_\_\_\_\_ bond issue(s) after September 1, 1986, currently totaling \$\_\_\_\_\_. Of the rebate, 90 percent is due and payable five years from the date bonds were issued and at five-year intervals thereafter. The remaining 10 percent is payable 60 days after they are retired. Because positive arbitrage can be offset against negative arbitrage, the rebatable amount fluctuates each year and may or may not be owed at the payment intervals. Because of the uncertainty of having to make this payment, the district is contingently liable for arbitrage rebate currently computed to total \$\_\_\_\_\_.)

**ESD 113 Insurance Cooperative**

*(Applicable disclosure for school districts that participated in the ESD 113 Insurance Cooperative which ceased operations in August 2003. This contingency disclosure will be required for all districts that participated in the cooperative until the earlier of ESD 113 obtaining outside coverage that will mitigate individual districts' liability or the potential unpaid liability becomes immaterial in relation to the district's statement.)*

In (month and year), the district joined together with other school districts to form ESD 113 Insurance Cooperative, a public entity risk pool for property and casualty insurance.

On August 20, 2003, the ESD 113 Insurance Cooperative (EIC) Advisory Board voted to cease operation of the EIC. The EIC continues to be responsible for the resolution of all open claims and other liabilities arising from the time of operation of the EIC up to August 31, 2003. The EIC provided property and liability insurance to members. Provisions of the EIC agreement, Chapter 48.62 RCW, and Chapter 236-22 WAC require that only the remaining assets be distributed after all financial and legal obligations of the EIC have been resolved.

Based on the EIC's April 2003 actuarial study by PriceWaterhouseCoopers and current year-end EIC reports, the EIC does not hold sufficient assets to cover the estimated liabilities for which it is responsible. A member assessment is necessary to provide sufficient assets to adequately fund remaining EIC responsibilities.

It is both probable and reasonably estimated that the district may be liable for at least \$\_\_\_\_\_ (current year actual assessment) or a possible assessment of \$\_\_\_\_\_ (worst case assumption) over the next six years. Of this amount, \$\_\_\_\_\_ is due in the 2003—2004 fiscal year. The remainder is reported here as a contingent liability in the amount of \$\_\_\_\_\_.

The projected assessment is based on current claims reported and an actuarial projection based on the prior six years. The EIC will have an assessment of the contingency conducted annually to evaluate the district's probable liability. The time period for disclosing the contingency may change with each year's evaluation.

**Note 12 Other Disclosures**

*(Identify other matters that should be disclosed, such as:)*

(The district operates a skills center in cooperation with \_\_\_\_\_ neighboring districts for the purpose of training students of all \_\_\_\_\_ districts in certain vocational skills. The proportionally larger financial operations of this facility are included in these financial statements. For fiscal 200X (and 200X-1), revenues totaled \$\_\_\_\_\_ (and \$\_\_\_\_\_ respectively), as compared to the (respective) preceding fiscal year(s) revenues of \$\_\_\_\_\_ (and \$\_\_\_\_\_). Expenditures totaled \$\_\_\_\_\_ (and \$\_\_\_\_\_ ) as compared to the (respective) preceding fiscal year(s) expenditures of \$\_\_\_\_\_ (and \$\_\_\_\_\_).

(Operation of a proportionally larger cooperative program to transport the district's students and those of \_\_\_\_\_ neighboring districts are included in these financial statements. For fiscal 200X (and 200X-1), these cooperative revenues totaled \$\_\_\_\_\_ (and \$\_\_\_\_\_ respectively), as compared to the (respective) preceding fiscal year(s) revenues of \_\_\_\_\_

\$ \_\_\_\_\_ (and \$ \_\_\_\_\_). ⑤ Cooperative expenditures totaled \$ \_\_\_\_\_ (and \$ \_\_\_\_\_) ⑥ as compared to the (respective) ⑥ preceding fiscal year(s) expenditures of \$ \_\_\_\_\_ (and \$ \_\_\_\_\_) ⑤.) ④

(The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by passing Resolution \_\_\_\_\_ dated \_\_\_\_\_, 20\_\_\_\_, and has remained in the joint venture ever since. The district's current equity of \$ \_\_\_\_\_ 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.) ④

**Note 13 Subsequent Events**

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

Or

*(Describe significant events after the financial statement date that materially impact the next and future years.)*

## **Instructions**

- ① *Notes to financial statements are neither all-inclusive nor intended to replace professional judgment in determining disclosure necessary for fair presentation in the circumstances. Notes to financial statements should not be cluttered with unnecessary and immaterial disclosures. Materiality and particular circumstances must be considered in assessing the propriety of the notes to financial statements. Notes to financial statements provide necessary disclosure of material items, the omission of which would cause the financial statements to be misleading.*
- ② *Use the material in parentheses if appropriate; otherwise delete it.*
- ③ *Reference to fiduciary funds is appropriate only if the district has a trust and/or agency fund.*
- ④ *This note is appropriate if the district has the particular circumstance; for example changes in long-term debt are shown only if the district has long-term debt; pledged assets are disclosed only if the district has pledged assets, etc.*
- ⑤ *Notes to financial statements are an integral part of the financial statements. Notes must be prepared on a timely basis. For smaller school districts that are audited by the State Auditor's Office on a two-year cycle, information is required for both years being examined. For the notes that will be included in the two-year audit report, include the information in parentheses.*
- ⑥ *Choose Format Option #1 or #2, depending on the circumstance. Format #1 should be used where all (during the entire year) of the district's investments are insured or registered and held in the district or in the district's name by its agent. Otherwise, Format #2 should be used.*
- ⑦ *If the district has any investment during the year that is not fully insured, registered, or held in the name of the district, extensive additional disclosure is required. Reference to disclosure requirements published in GASB Statement No. 3 is necessary.*
- ⑧ *If another valuation method is used, adjust the note accordingly and explain the impact on the financial statements.*
- ⑨ *Prepare this note only if some leases are not capitalized. (Payments on capitalized leases are included in the note CHANGES IN LONG-TERM DEBT as debt service.)*

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