

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

Anacortes School District No. 103
Skagit County

Audit Period
September 1, 2005 through August 31, 2006

Report No. 72255

Issue Date
March 16, 2007



Washington _____
State Auditor
_____ Brian Sonntag



**Washington State Auditor
Brian Sonntag**

March 16, 2007

Board of Directors
Anacortes School District No. 103
Anacortes, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Anacortes School District No. 103's financial statements and compliance with federal laws and regulations.

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Skagit County
September 1, 2005 through August 31, 2006**

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Federal Summary

Anacortes School District No. 103 Skagit County September 1, 2005 through August 31, 2006

The results of our audit of Anacortes School District No. 103 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

- An unqualified opinion was issued on the District's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the District.
- We issued an unqualified opinion on the District's compliance with requirements applicable to its major federal programs.
- We reported no findings, which are required to be disclosed under OMB Circular A-133.
- We noted in our Independent Auditor's Report on Financial Statements that the Schedule of Expenditures of Federal Awards was fairly presented.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The District qualified as a low-risk auditee under OMB Circular A-133.
- The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.553/555/559 84.010	Child Nutrition Cluster Title I

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

**Anacortes School District No. 103
Skagit County
September 1, 2005 through August 31, 2006**

Board of Directors
Anacortes School District No. 103
Anacortes, Washington

We have audited the financial statements of Anacortes School District No. 103, Skagit County, Washington, as of and for the year ended August 31, 2006, and have issued our report thereon dated January 10, 2007.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 10, 2007

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

**Anacortes School District No. 103
Skagit County
September 1, 2005 through August 31, 2006**

Board of Directors
Anacortes School District No. 103
Anacortes, Washington

COMPLIANCE

We have audited the compliance of Anacortes School District No. 103, Skagit County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended August 31, 2006. The District's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended August 31, 2006.

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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BRIAN SONNTAG, CGFM
STATE AUDITOR

January 10, 2007

Independent Auditor's Report on Financial Statements

Anacortes School District No. 103 Skagit County September 1, 2005 through August 31, 2006

Board of Directors
Anacortes School District No. 103
Anacortes, Washington

We have audited the accompanying financial statements of Anacortes School District No. 103, Skagit County, Washington, as of and for the year ended August 31, 2006, as listed on page 8. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anacortes School District No. 103, as of August 31, 2006, and the changes in financial position, thereof, for the year then ended on the basis of accounting described in Note 1.

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

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Long-Term Debt is also presented for purposes of additional analysis as required by the prescribed accounting manual. These schedules are not a required part of the financial statements. Such information has been

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

This report is intended for the information and use of the governing body and management of the District. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 10, 2007

Financial Section

**Anacortes School District No. 103
Skagit County
September 1, 2005 through August 31, 2006**

FINANCIAL STATEMENTS

Balance Sheet – 2006
Statement of Revenues, Expenditures and Changes in Fund Balance – 2006
Statement of Fiduciary Net Assets – Other Trust and Agency Funds – 2006
Statement of Changes in Fiduciary Net Assets – Other Trust and Agency Funds – 2006
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SUPPLEMENTAL INFORMATION

Schedule of Long-Term Debt – 2006
Schedule of Expenditures of Federal Awards – 2006
Notes to the Schedule of Expenditures of Federal Awards – 2006

REPORT F196
 E.S.D. 189
 COUNTY: 29 SKAGIT

ANACORTES SCHOOL DISTRICT NO. 103
 Balance Sheet as of August 31, 2006
 ANNUAL FINANCIAL STATEMENTS

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	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund
ASSETS:						
Cash & Cash Equivalents	784,773.53	19,558.06	7,252.04	12,201.21		
Minus Outstanding Warrants	754,623.52	7,234.01		12,189.85		
Taxes Receivable	2,517,411.21		1,562,110.44	0.06		
Due From Other Funds						
Due From Other Gov. Units	176,024.77					
Accounts Receivable	11,745.68					
Interfund Loans Receivable						
Accrued Interest Receivable						
Inventory	175,030.73	25,222.56				
Prepaid Items	3,801.08					
Investments	1,686,665.99	286,954.91	1,546,579.38	694,097.26	27,802.11	332,206.83
Investments/Cash w/Trustees						
Investments-Deferred Comp						
Self-Insur Security Dep						
TOTAL ASSETS	4,600,829.47	324,501.52	3,115,941.86	694,108.68	27,802.11	332,206.83
LIABILITIES:						
Accounts Payable	429,841.61	37,360.88				
Contracts Payable Current						
Accrued Interest Payable						
Accrued Salaries	19,887.31					
Rev Anticipation Notes Pay						
Payroll Ded & Taxes Pay	2,369.98					
Due to Other Govt. Units						
Deferred Compensation Pay						
Est Employee Benefits Pay						
Due to Other Funds						
Interfund Loans Payable						
Deposits						
Matured Bonds Payable						
Matured Bond Interest Pay						
Arbitrage Rebate Payable						
Deferred Revenue	2,543,372.39	55,017.84	1,562,110.44			
	2,995,471.29	92,378.72	1,562,110.52			
TOTAL LIABILITIES						
FUND BALANCE:						
Reservation of Fund Balance	460,497.00			694,108.68		300,000.00
Unreserve Desig. Fund Balance	410,257.00					32,206.83
Unreserve Undesig. Fund Balance	734,604.18	232,122.80	1,553,831.34	694,108.68	27,802.11	332,206.83
TOTAL FUND BALANCE	1,605,358.18	232,122.80	1,553,831.34	694,108.68	27,802.11	332,206.83
TOTAL LIAB & FUND BALANCE	4,600,829.47	324,501.52	3,115,941.86	694,108.68	27,802.11	332,206.83

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

	General Fund	Assoc. Student Body	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund
REVENUES:						
Local	6,156,144.22			31,409.82	3,777.43	
State	17,072,548.39		3,324,467.05		83,152.84	
Federal	1,894,844.74					
Other	66,665.44					
TOTAL REVENUES	25,190,202.79	464,743.71	3,324,467.05	31,409.82	86,930.27	14,556.99
						14,556.99
EXPENDITURES:						
CURRENT:						
Regular Instruction	14,052,672.69					
Special Education	3,028,819.00					
Vocational Education	1,053,161.38					
Skills Center						
Compensatory Programs	1,533,764.93					
Other Instructional Progs	88,052.06					
Community Services	7,143.71					
Support Services						
Student Activities/Other	4,873,290.96					
CAPITAL OUTLAY:		461,401.39				
Sites						
Building				9,816.21		
Equipment				58,620.34		
Energy				954.96		
Transportation Equipment	49,659.19				73,736.33	
Other						
DEBT SERVICE:						
Principal			2,257,811.15			
Interest and Other Charges			1,113,998.27			
TOTAL EXPENDITURES	24,686,563.92	461,401.39	3,371,809.42	69,391.51	73,736.33	
REVENUES OVER (UNDER) EXP:	503,638.87	3,342.32	47,342.37-	37,981.69-	13,193.94	14,556.99
OTHER FINANCING SOURCES (USES):						
Bond Sales & Refund Bond Sales						
Long-Term Financing						
Transfers In						
Transfers Out (GL 536)	11,002.00-			11,002.00		
Other Financing Uses (GL 535)			58,947.25			
Other	1,381.80					
TOTAL OTHER FINANCING SOURCES (USES)	9,620.20-		58,947.25	11,002.00	57,921.25-	
EXCESS OF REVS & OTHER FIN SOURCES OVER (UNDER) EXP AND OTHER FIN USES	494,018.67	3,342.32	11,604.88	26,979.69-	44,727.31-	14,556.99
BEGINNING TOTAL FUND BALANCE	1,111,339.51	228,780.48	1,542,226.46	721,088.37	72,529.42	317,649.84
Prior Year(s) Corrections or Restatements						
ENDING TOTAL FUND BALANCE	1,605,358.18	232,122.80	1,553,831.34	694,108.68	27,802.11	332,206.83

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

REPORT F196
 E.S.D. 189
 COUNTY: 29 SKAGIT

ANACORTES SCHOOL DISTRICT NO. 103
 Statement of Fiduciary Net Assets
 Other Trust & Agency Funds
 For The Year Ended August 31, 2006

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	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash		
Cash on Hand	600.00	
Cash on Deposit with Cty Treasurer	67.72	
Minus Warrants Outstanding	66.84-	
Due From Other Funds		
Accounts Receivable		
Accrued Interest Receivable		
Investments		
Investments/Cash W/Trustees	9,039.98	
Other Assets		
Capital Assets, Land		
Capital Assets, Buildings		
Capital Assets, Equipment		
Accum. Depreciation, Buildings		
Accum. Depreciation, Equipment		
TOTAL ASSETS	9,640.86	
LIABILITIES:		
Accounts Payable	119.11	
Due to Other Funds		
TOTAL LIABILITIES	119.11	
Net Assets Held in Trust:		
Reserved for Other Items		
Reserved for Trust Principal		
Unreserved, Designated for Other Items	9,521.75	
Unreserved, Undesignated Fund Balance		
Total Net Assets Held in Trust	9,521.75	

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

REPORT F196
 E.S.D. 189
 COUNTY: 29 SKAGIT

ANACORTES SCHOOL DISTRICT NO. 103
 Statement of Changes in Fiduciary Net Assets
 Other Trust & Agency Funds
 For The Year Ended August 31, 2006

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ADDITIONS:			
Contributions:			
Private Donations			
Employer			
Members			
Other		6,126.50	Private Purpose Trust
Total Contributions		6,126.50	Other Trust
Investment Earnings:			
Net Increase (Decrease) in			
Fair Value of Investments		367.31	
Interest		367.31	
Dividends		367.31	
Total Investment Earnings		367.31	
Less Investment Expense		367.31	
Net Investment Earnings			
Rent or Lease Revenue			
Total Additions		6,493.81	
DEDUCTIONS:			
Benefits			
Refund of Contributions			
Administrative Expenses			
Scholarships		1,000.00	
Other		2,321.36	
Total Deductions		3,321.36	
Changes in Net Assets			
Net Assets--Beginning of Year		6,349.30	
Prior Year (s) Corrections or Restatemnts			
Net Assets--End of Year		9,521.75	

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

OTHER COMPREHENSIVE BASIS OF ACCOUNTING
MODIFIED ACCRUAL BASIS (F-196)
Anacortes School District
Notes to Financial Statements
September 1, 2005 through August 31, 2006

Note 1 Summary of Significant Accounting Policies

a. Reporting Entity

The Anacortes School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of providing public school services to students in grades K–12. Oversight responsibility for the district's operations is vested with the independently elected board of directors. Management of the district is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

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

b. Basis of Presentation—Fund Accounting

The Anacortes School District presents governmental fund financial statements and related notes on the modified accrual basis of accounting as prescribed by generally accepted accounting principles (GAAP), and required by its regulatory agencies, the Office of Superintendent of Public Instruction and the State Auditor's Office. However, the district elects to not present districtwide financial statements, and management's discussion and analysis, which are departures from GAAP. Long-term debt is reported on a required supplementary schedule. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. The regulatory agencies require all funds be presented as major funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate. The various funds in the report are grouped into governmental (and fiduciary) funds as follows:

GOVERNMENTAL FUNDS

General Fund

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

Capital Projects Funds

These funds account for financial resources to be used for the construction or acquisition of major capital assets. The capital projects fund type consists of the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund—This fund is used to account for resources set aside for the acquisition and construction of capital assets.

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

Debt Service Fund

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

Special Revenue Funds

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

Permanent Funds

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

FIDUCIARY FUNDS

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

Private-Purpose Trust Fund

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

c. Basis of Accounting

The district's accounting policies, as reflected in the accompanying financial statements, conform to the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A 505.010(1), and RCW 28A.505.020. This manual allows for a practice that differs from generally accepted accounting principles in the following manner:

- (1) Districtwide statements are not presented.
- (2) The financial statements do not report capital assets.
- (3) Debt is not reported on the face of the financial statements. It is reported on the notes to the financial statements and on the Schedule of Long-Term Debt. The Schedule of Long-Term Debt is required supplement information.
- (4) The original budget is not presented. This information is available through the Office of Superintendent of Public Instruction.
- (5) The Management Discussion and Analysis is not required.

The modified accrual basis of accounting is used for all governmental funds. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and the district considers all revenues available if they are collected within 60 days after year end to pay liabilities of the current period. Property taxes receivable are measurable but not available and are, therefore, not accrued. However, categorical program claims and inter-district billings are measurable and available and are, therefore, accrued.

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

All governmental funds reporting focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. This means that only current assets and current liabilities are included on their balance sheets.

d. Budgetary Data

General Budgetary Policies

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

Budgetary Basis of Accounting

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

e. Assets, Liabilities, and Fund Equity

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

The district's year-end investments are as follows:

	Number of Securities	Carrying Amount
Certificates of Deposit or Other Time Deposits	1	\$332,207
County Treasurer's Investment Pool	6	\$2,704,740
Commercial Paper	1	1,546,400
Total Investments	8	\$4,583,347

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 expenditure when it is consumed. Reservation of fund balance is not necessary. Management may reserve a portion of fund balance in any amount as a budgetary technique to ensure the availability of resources at the appropriate time. Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for commodities.

f. Revenue and Expenditure Recognition

Debt Service

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

Property Taxes

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

Compensated Absences

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

Under the provisions of RCW 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 following:

For certificated employees the district's estimate is that a teacher belonging to TRS 1 will retire from the ASD once they have at least 15 years toward teaching. Cert experience is based on in-state and out-of-state for eligibility purposes. The district's assumption is that a TRS 2 and TRS 3 teacher would need 20 years experience (based on the same criteria) before we feel they would retire with our district. TRS 1 – recognize only those employees with at least 15 years experience; maximum of 1,274 (tchrs) or 1,440 (admin) hours for retirement purposes.

For classified employees there is no difference between belonging to Plan 1 or Plan 2 for PERS/SERS. The benchmark for assuming an employee will retire with the ASD is based on bargaining group versus membership in either PERS 1, 2, or 3. All groups except the unrepresented have a 15 year benchmark and the unrepresented have a benchmark of 10 years. The employment date listed is the date employed with the ASD. Adjustments to that date have been made for those employees with known experience in other districts or PERS/SERS covered positions. Therefore, those employees with hire dates after 9-1-89 are discounted for all groups except unrepresented with that group discounting employment after 9-1-94. There is a maximum of 1,440 hours for retirement buyback purposes.

Benefits are FICA/Medicare only at 7.65%; assumes no retirement, unemployment, or L&I. There is a concern on the part of the district that setting the benchmarks may show an ongoing liability but the district is restricted by law from issuing a contract that exceeds the current school year (except in the case of the Superintendent.

Note 2 Capital Assets

The district's capital assets are insured in the amount of \$78,663,766 for fiscal 2006. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

Note 3 Pensions

A. General Information

Substantially all Anacortes 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 as of September 30, 2005:

Program	Active Members	Inactive Vested Members	Retired Members
TRS	67,270	7,022	37,321
PERS	155,578	22,567	68,609
SERS	50,350	5,564	2,131

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 e under TRS and SERS programs are defined benefit, defined pension plans whose members joined on or after July 1, 1996 or September 1, 2000 for SERS and TRS, 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 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 on 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 all systems, except that future rates may be adjusted to meet the system needs.

B. Contributions

Employee contribution rates as of August 31, 2006:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	2.48%	Plan 2 SERS	2.75%
Plan 3 TRS and SERS	5% minimum		15% 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 15.0 percent.

Employer contribution rates as of August 31, 2006:

Plan 1 TRS	2.92%*	Plan 1 PERS	3.69%*
Plan 2 TRS	2.92%*	Plan 2 SERS	2.94%*
Plan 3 TRS	2.92%*	Plan 3 SERS	2.94%*

* Includes DRS Administrative Expense Rate of .19%

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):

Plan	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>
Plan 1 TRS	94,886	31,199	26,407	27,021	58,444
Plan 2 TRS	30,712	13,044	12,927	12,119	26,165
Plan 3 TRS	207,367	81,358	76,225	78,184	174,629
Plan 1 PERS	15,517	2,854	5,373	4,439	7,194
Plan 2 SERS	56,379	7,648	11,682	11,720	32,585
Plan 3 SERS	42,368	8,613	14,827	15,441	45,868

Historical trend information showing TRS and PERS progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's June 30, 2006, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

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

Note 4 Risk Management

In fiscal year 2005-2006 the district made payments totaling \$17,129.68 to the unemployment insurance pool that is administered by Northwest Educational Service District 189 on behalf of several local school districts. These funds are operated for the districts' benefit in lieu-of the district making monthly premium payments to the state of Washington for unemployment beneficiaries as they occur and minimizes the district's cost for the program.

The district made payments totaling \$176,660 to the property/liability insurance pool administered by Puget Sound ESD 121 for fiscal year 2005-2006. The purpose of the pool is to provide members with the capability and authority to jointly purchase property/liability insurance, provide a plan of self-insurance, establish and maintain a reserve to pay for self-insurance coverage, and provide related purchased reinsurance to provide for major claims.

The district is exposed to various risks of loss related to its property and liability exposures. The District is one of 70 school districts and four educational service district members of the Washington Schools Risk Management Pool, which was formed August 30, 1986, pursuant to Chapter 48.62 of the Revised Code of Washington.

The Washington Schools Risk Management Pool has published its own audited financial report for the year ended August 31, 2006, which can be obtained from:

David Hayasaka
Executive Director
Washington Schools Risk Management Pool
PO Box 66838
Burien, WA 98166

Note 5 Lease Obligations and Conditional Sales Contract Obligations

For the fiscal year ended August 31, 2006, the district had incurred additional long-term debt as follows:

Lease-Purchase Commitments	Amount	Annual Payment	Final Payment Date	Interest Rate	Balance Due
Computers	\$253,279	\$63,320	July 2007	4.94%	\$63,320
Computers	\$217,897	\$54,474	July 2008	4.7%	\$108,949
Total Lease-Purchase Commitments					\$172,269

Other Long Term Commitments	Amount	Annual Payment	Final Payment Date	Interest Rate	Balance Due
Copiers	\$241,295	\$41,031	varies	varies	\$106,571
Total Other Long-Term Commitments					\$106,571

Note 6 Debt

Bonds payable at August 31, 2006, are comprised of the following individual issues:

Issue Name	Amount Authorized	Notes	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
Jan, 2004	\$9,155,000	Refunded May 1997 bonds	\$135,000 - \$2,565,000	12/1/2016	2.0% - 4.05%	\$8,940,000
Dec, 2003	\$4,125,000	Refunded Jan 1996 bonds	\$50,000 - \$1,085,000	12/1/2014	2.0% - 4.0%	\$4,040,000
Sept, 2003	\$4,250,000	Refunding 5/1/1993 Issue	\$70,000 - \$655,000	6/1/2010	2.0% - 3.5%	2,490,000
May, 1997 (Noncallable)	\$3,675,000	Refunded 9/1/2003	\$775,000 - \$1,050,000	12/1/2007	4.9% - 6.25%	\$2,050,000
August, 2001	\$8,220,000	Refunded 1995 Issue	\$105,000 - \$1,335,000	12/1/2013	2.65% - 4.0%	\$7,945,000
Total Voted Debt						\$25,465,000
July, 2004	\$102,889	LOCAL 8 yr	\$5,701 - \$7,372	6/1/2012		\$79,891
July, 2004	\$445,759	LOCAL 13 yr	\$15,917 - \$23,463	6/1/2017		\$388,668
Total Non-voted Debt						\$468,559
TOTAL GENERAL OBLIGATION BONDS						\$25,933,559

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year(s) ended August 31, 2006.

Long-Term Debt Payable at 9/1/05	\$28,191,370
New Issues	\$0
Debt Retired	\$2,257,811
Long-Term Debt Payable at 8/31/06	\$25,933,559

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2006:

Years Ending August 31,	Principal	Interest	Total
2007	\$2,518,086	\$1,014,265	\$3,532,351
2008	\$2,662,545	\$901,619	\$3,564,164
2009	\$1,982,602	\$809,306	\$2,791,908
2010	\$2,110,407	\$738,833	\$2,849,240
2011	\$1,569,775	\$659,801	\$2,229,576
2012 - 2016	\$15,090,144	\$1,859,881	\$16,950,025
Total	\$25,933,559	\$5,983,706	\$31,917,265

At August 31, 2006 the district had \$1,553,831.34 available in the Debt Service Fund to service the general obligation bonds.

Note 7 Summaries of Significant Contingencies

Litigation

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

Arbitrage Rebate

The Tax Reform Act of 1986 requires the district to rebate the earnings on the investment of bond and revenue anticipation note proceeds, in excess of their yield, to the federal government. This requirement is effective for the district's July 1995 and May 1997 bond issues totaling \$24,892,000. There is no contingent liability for arbitrage rebate for the fiscal year ending August 31, 2006.

Note 8 Other Disclosures

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 Board action as stated in the June 19, 1974, minutes and has remained in the joint venture ever since. The district's current equity of \$42,105.65 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. The district may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

Note 9 Subsequent Events

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

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 E.S.D. 189
 COUNTY: 29 SKAGIT

ANACORTES SCHOOL DISTRICT NO. 103
 Schedule of Long-Term Debt
 For The Year Ended August 31, 2006

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Description	(1) Beginning Outstanding Debt 9/1/2005	(2) Amount Issued/ Increased	(3) Amount Redeemed/ Decreased	(4) Ending Outstanding Debt 8/31/2006 (1)+(2)-(3)
Total Voted Bonds	27,685,000.00		2,220,000.00	25,465,000.00
Total Non-Voted Notes/Bonds	506,370.00		37,811.00	468,559.00
Qualified Zone Academy Bonds				
Other Long-Term Debt:				
Capital Leases				
Contracts Payable (GL 603)	524,555.00		245,715.00	278,840.00
NonCancelable Operating Leases				
Claims & Judgements				
Compensated Absences	771,542.00	74,900.00		846,442.00
Other Long-Term Debt				
Total Other Long-Term Debt	1,296,097.00	74,900.00	245,715.00	1,125,282.00
Total Long-Term Debt	29,487,467.00	74,900.00	2,503,526.00	27,058,841.00

Anacortes School District No 103
Schedule of Expenditures of Federal Awards
For the Year Ending August 31, 2006

1	2	3	4	6			8
Federal CFDA Number	Federal Agency Name	Federal Program Title	Pass-Through Agency	Expenditures			Footnote Ref
				Pass- Through Awards	Direct Awards	Total	
US Dept of Agriculture							
10.550		Commodities	WA OSPI	\$34,307		\$34,307	
10.553		School Breakfast Program	WA OSPI	\$35,662		\$35,662	
10.555		National School Lunch Program	WA OSPI	\$220,292		\$220,292	
10.558		Child Care Food Program	WA OSPI	\$137		\$137	
10.559		Summer Food Service Program	WA OSPI	\$5,399		\$5,399	
10.582		Fresh Fruits/Veg Grant	WA OSPI	\$13,305		\$13,305	
10.665		Federal Forest	Off of St Treasurer	\$91,800		\$91,800	
		USDA Subtotal		\$400,902		\$400,902	
General Services Administration							
39.999		Homeless Student Transportation Agreement	NW ESD 189 fr	\$2,317		\$2,317	
		National Science Foundation	Wa St Dept of Tr	\$2,317		\$2,317	
National Science Foundation							
47.076		Education and Human Resources	WWU	\$4,892		\$4,892	
		National Science Foundation		\$4,892		\$4,892	
US Department of Education							
84.010		Title I	WA OSPI	\$353,023		\$353,023	
84.027		Special Ed State Grants	WA OSPI	\$904,005		\$904,005	
84.048		Voc Ed Basic Grants to States	WA OSPI	\$18,703		\$18,703	
84.173		Special Ed - Preschool Grants	WA OSPI	\$18,535		\$18,535	
84.186		Title IV Part A Safe & Drug Free Schools	NW ESD 189	\$11,968		\$11,968	
84.186		Safe & Drug Free Schools/Comm St Gr	NW ESD 189	\$6,414		\$6,414	
84.186		Safe & Drug Free Schools/Comm St Gr	Lakewood SD	\$7,286		\$7,286	
84.318		Title II Part D Enh Educ thru Technology	WA OSPI	\$9,723		\$9,723	
84.298		Title V Innovative Programs	WA OSPI	\$6,313		\$6,313	
84.367		Title II Part A Teacher & Princp Quality	WA OSPI	\$102,425		\$102,425	
		Dept of Education Subtotal		\$1,438,395		\$1,438,395	
US Dept of Health and Human Services							
93.994		Maternal & Child Hlth Block Grants	UW	\$8,073		\$8,073	
		US Dept of Hlth/Human Serv Subtotal		\$8,073		\$8,073	
Total Federal Awards Expended				\$1,854,579		\$1,854,579	

Anacortes School District No. 103
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ending August 31, 2006

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures for Federal Awards is prepared on the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2 - NON CASH AWARDS - CHILD IMMUNIZATION

The amount of child immunizations reported on the schedule is the market value of vaccines distributed by the District during the current year. The value is determined by the WA Department of Health. The district did not receive any immunizations for children.

NOTE 3 - SCHOOLWIDE PROGRAMS

The district did not operate any schoolwide programs.

NOTE 4 - TRANSFERABILITY

The district did not transfer any funds between programs as allowed by federal regulations.

NOTE 5 - SMALL RURAL SCHOOLS ACHIEVEMENT (SRSA)

The district is not eligible for SRSA.