

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

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**Seattle School District No. 1**  
**King County**

Audit Period  
**September 1, 2008 through August 31, 2009**

**Report No. 1003703**

Issue Date  
**May 24, 2010**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

May 24, 2010

Board of Directors  
Seattle School District No. 1  
Seattle, Washington

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

Please find attached our report on Seattle School District No. 1's financial statements and compliance with federal laws and regulations.

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

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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# Federal Summary

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

The results of our audit of Seattle School District No. 1 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### **FINANCIAL STATEMENTS**

An unqualified opinion was issued on the financial statements.

#### **Internal Control Over Financial Reporting:**

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no significant deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

### **FEDERAL AWARDS**

#### **Internal Control Over Major Programs:**

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified significant deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the District's compliance with requirements applicable to its major federal programs, with the exception of the Indian Education Program in which we issued a qualified opinion on compliance with applicable requirements.

We reported findings that are required to be disclosed under OMB Circular A-133.

**Identification of Major Programs:**

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.553/555	Child Nutrition Cluster
84.010	Title I Part A
84.027/173	Special Education Cluster
84.060	Indian Education Grants to Local Educational Agencies
84.367	Improving Teacher Quality
84.391	ARRA – Special Education Cluster, IDEA Part B (Recovery Act)
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants (Recovery Act)
93.600	Head Start

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$2,010,094.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 1. The District's internal controls are inadequate to ensure compliance with federal procurement requirements.

<b>CFDA Number and Title:</b>	84.010 Title I Grants to Local Educational Agencies 84.027/173 Special Education Cluster 84.060 Indian Education Grants to Local Educational Agencies 84.391 ARRA - Special Education IDEA Part B (Recovery Act) 93.600 Headstart
<b>Federal Grantor Name:</b>	U.S. Department of Health and Human Services
<b>Federal Award/Contract Number:</b>	S060A080393
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

#### Background

Federal regulations require grantees that use federal money to purchase goods and services follow their own procurement procedures as long as they are in compliance with state and local laws and regulations.

If no state and local laws and regulations address a particular type of procurement, entities are to follow federal law and standards in the Federal Office of Management and Budget Circular A-102 Grants Management Common Rule, which requires them to use a competitive process, such as obtaining quotations, when those goods or services do not cost more than \$100,000.

Grantees may solicit services from only one vendor when they determine awarding the contract is not feasible using bids or competitive proposals, and the goods and services are available from a single source, or competition is determined to be inadequate. Moreover, grantees and subgrantees are to maintain records sufficient to detail the significant history of procurement.

In our 2004 and 2007 audits, we notified District management of these requirements, and in our audit of fiscal year 2008 we reported noncompliance with federal procurement requirements. These conditions have not been resolved.

## Description of Condition

We found that the District did not comply with federal procurement requirements as follows:

**Special Education:** We examined eight personal service contracts totaling \$1,172,328 charged to Special Education grants. The District could not provide documentation to show these contracts were competitively procured. District staff stated they considered the contracts sole source, but did not have documentation to show how the District reached that conclusion.

**Indian Education:** We examined two personal service contracts totaling \$14,603 charged to the Indian Education grant. The District could not provide documentation to show the contracts were competitively procured. District staff stated they considered the contracts sole source, but did not have documentation to show how the District reached that conclusion.

**Head Start:** We examined four personal service contracts totaling \$217,982 charged to the Head Start grant. The District could not provide documentation to show these contracts were competitively procured. District staff stated they considered the contracts sole source, but did not have documentation to show how the District reached that conclusion.

**Title I:** We examined six personal service contracts totaling \$175,998 charged to the Title I grant for private tutoring services. The District could not provide documentation showing these contracts were competitively procured. District staff stated they considered the contracts sole source, but did not have documentation to show how the District reached that conclusion.

## Cause of Condition

District staff was unaware of federal requirements related to procurement. The District also did not follow previous audit recommendations.

## Effect of Condition

By not complying with federal procurement requirements, the District cannot ensure contracts paid with federal funds are awarded to the lowest responsible bidder. By not retaining appropriate supporting documentation, the District cannot demonstrate other providers were unable to supply the necessary personal services before it selected vendors. Therefore, it is possible other providers were not provided an opportunity to compete for these contracts, which can affect contract price and quality of service.

## Recommendation

We recommend the District comply with federal requirements when procuring personal services, and maintain adequate records to support procurement of services, including justification for sole source procurements.

## District's Response

*The District concurs with this finding with regard to the fiscal year 2009. Due to lack of uniform purchasing requirements across the District, there were programs that did not have sufficient documentation for their sole source contracts. These contracts were still in effect during the time when the State Auditors documented a similar finding during FY 2008.*

*After the finding of the FY 2008 audit, the District has initiated uniform purchasing requirements that include justification for sole source contracts. The District now has uniform purchase requirements which require that Sole Source documentation of sole source contracts among other statutory and District requirements. This program took about a year to implement and although effective during the fiscal year 2009, the program became fully effective in FY 2010.*

## Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## Applicable laws and Regulations

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section .300, states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Circular A-102 *Grants Management Common Rule* is codified in different sections of the Code of Federal Regulations depending on the federal granting agency. The applicable sections for the procurement requirements for these grants are stated in part as follows:

Special Education: 34 CFR 80.36 – Department of Education

### UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS (AND TRIBAL GOVERNMENTS)

Requirements for procurement are contained in the A-102 Common Rule (§\_\_\_\_.36), portions of which are reproduced below:

- (b) Procurement standards. (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . . (9) Grantees



and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price . . .

c) Competition. (1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 92.36 . . . (3) Grantees will have written selection procedures for procurement transactions . . .

(d) Methods of procurement to be followed.

(1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(3) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

(i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical;

(ii) Proposals will be solicited from an adequate number of qualified sources;

(iii) Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees;

(iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and

(v) Grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

(4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

(A) The item is available only from a single source . . . .

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 2. The District does not have adequate internal controls to ensure compliance with eligibility requirements for its Indian Education program.

<b>CFDA Number and Title:</b>	84.060 Indian Education Grants to Local Educational Agencies
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	S060A080393
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$153,703

#### Background

The Indian Education grant is designed to help schools address education and culturally related academic needs of Indian students in need of assistance with meeting state academic standards. Districts receive money based on the number of eligible students. District must have a signed eligibility form indicating the student is a member of an eligible tribe, and the student must be enrolled in the District during the period in which enrollment is counted. The District claimed 1,123 students on its 2008-2009 grant application and received \$233,792, or approximately \$206 per eligible student.

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program activities.

#### Description of Condition

In a 2007 program audit, the Office of Indian Education, U.S. Department of Education, found the number of eligibility forms on file did not support the number of students counted for funding. In our current audit, we again found the District could not substantiate the number of students counted for funding. The District was able to provide 927 eligibility forms, 377 of which were found to be eligible for inclusion in the count. Common reasons for ineligibility included:

- The student was no longer enrolled.
- Duplicate eligibility forms for the student.
- The student was not a member of an eligible tribe.

We are questioning costs for students claimed for which the District could not provide enrollment records and eligibility forms. This represents 746 students, or \$153,703 in questioned costs.

### **Cause of Condition**

The District did not have a system to ensure ineligible students were not counted for funding purposes. The District did not retain sufficient documentation in accordance with program guidance to demonstrate compliance with eligibility requirements.

### **Effect of Condition and Questioned Costs**

The District risks continued noncompliance with grant requirements that could jeopardize future federal funding and require the District to return federal funds to the grantor. We are questioning costs for 746 students, or \$153,703.

### **Recommendation**

We recommend the District maintain records to support the number of students included on the grant application. Each student claimed should have a properly completed eligibility form and be enrolled in the District during the count period. We further recommend the District consult with the Office of Indian Education about repayment of questioned costs.

### **District's Response**

*The District concurs with the finding and recognizes the need to ensure that only eligible students are counted for funding purposes. Prior to this finding, the District initiated a review of its own management practices for the Indian Education program and found that there were ineligible students enrolled into the program. An internal audit review found that the District lacked sufficient documentation to support student eligibility.*

*Program management identified that student eligibility is at risk whenever students move out of the District. Enrollment documentation has not been previously updated in a timely manner resulting in continued enrollment for ineligible students. Program management identified ineligible students and reported the ineligible students to the State Auditor during the current year audit.*

*The District has committed to review and correct eligibility data; maintain sufficient eligibility documentation, review and refund questioned costs to the Department of Indian Education in a timely manner.*

### **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## Applicable laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities.

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

The Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001, states:

### SEC. 7117. STUDENT ELIGIBILITY FORMS.

(a) IN GENERAL- The Secretary shall require that, as part of an application for a grant under this subpart, each applicant shall maintain a file, with respect to each Indian child for whom the local educational agency provides a free public education, that contains a form that sets forth information establishing the status of the child as an Indian child eligible for assistance under this subpart, and that otherwise meets the requirements of subsection (b).

(b) FORMS- The form described in subsection (a) shall include —

(1) either —

(A)(i) the name of the tribe or band of Indians (as defined in section 7151) with respect to which the child claims membership;

(ii) the enrollment number establishing the membership of the child (if readily available); and

(iii) the name and address of the organization that maintains updated and accurate membership data for such tribe or band of Indians; or

(B) the name, the enrollment number (if readily available), and the name and address of the organization responsible for maintaining updated and accurate membership data, of any parent or grandparent of the child from whom the child claims eligibility under this subpart, if the child is not a member of the tribe or band of Indians (as so defined);

(2) a statement of whether the tribe or band of Indians (as so defined), with respect to which the child, or parent or grandparent of the child, claims membership, is federally recognized;

(3) the name and address of the parent or legal guardian of the child;

(4) a signature of the parent or legal guardian of the child that verifies the accuracy of the information supplied; and

(5) any other information that the Secretary considers necessary to provide an accurate program profile . . .

(f) MONITORING AND EVALUATION REVIEW

2) FALSE INFORMATION- Any local educational agency that provides false information in an application for a grant under this subpart shall —

(A) be ineligible to apply for any other grant under this subpart; and

(B) be liable to the United States for any funds from the grant that have not been expended . . .

(h) TIMING OF CHILD COUNTS- For purposes of determining the number of children to be counted in calculating the amount of a local educational agency's grant under this subpart (other than in the case described in subsection (g)(1)), the local educational agency shall —

(1) establish a date on, or a period not longer than 31 consecutive days during, which the agency counts those children, if that date or period occurs before the deadline established by the Secretary for submitting an application under section 7114; and

(2) determine that each such child was enrolled, and receiving a free public education, in a school of the agency on that date or during that period, as the case may be.

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 3. The District does not have adequate internal controls to ensure that the required parent committee is established for its Indian Education program.

<b>CFDA Number and Title:</b>	84.060 Indian Education Grants to Local Educational Agencies
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	S060A080393
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

#### Background

The Indian Education grant is designed to help schools address education and culturally related academic needs of Indian students in need of assistance with meeting state academic standards.

In order to receive this money, Districts are required to develop specific programs with the participation and written approval of a committee composed of a majority of parents of Indian children in the District's schools, teachers, and a student in a secondary school. The committee must have at least six members, operate under District-approved bylaws and keep minutes of its meetings.

The District received \$233,792 through this program in 2008-2009.

#### Description of Condition

In a 2007 program audit, the Office of Indian Education, U.S. Department of Education, found the District could not demonstrate that it had a parent committee, and recommended the District retain records documenting the Committee composition, bylaws, and meeting minutes. During our current audit, the District was unable to provide documentation to show it had this parent committee during the grant period.

#### Cause of Condition

Subsequent to the program review, the District agreed to form a parent committee and establish bylaws. However, the District did not perform adequate monitoring to ensure that a committee or bylaws were formed.

## **Effect of Condition**

Without a Parent Committee, the District is not complying with grant requirements. Continued noncompliance could jeopardize future federal funding and require the District to return federal funds to the grantor.

## **Recommendation**

We recommend that the District establish a Parent Committee in accordance with program regulations and maintain sufficient records of Committee meetings to demonstrate compliance with grant requirements. We also recommend the District monitor the Parent Committee to ensure that the Committee fulfills its obligations under the grant agreement.

## **District's Response**

*The District concurs with the finding and recognizes the need to establish a Parent Committee in accordance with program regulations as well as maintain sufficient records of Committee meetings.*

*Earlier in the current fiscal year, the District initiated a review of the Indian Education management practices and found that there lacked a system to document evidence of Parental Involvement within the program. Parental involvement was informal and verbal.*

*The District has initiated a systems review to ensure that Parental Committee meetings are documented to demonstrate Parental Involvement. Changes include a commitment for a periodic review of Program administration to ensure that these requirements are followed.*

## **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## **Applicable laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, Section 300 -- Auditee responsibilities, states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.



*The Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 states in part:*

Section 1001 Statement of Purpose

The purpose of this title is to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on challenging State academic achievement standards and state academic assessments. This purpose can be accomplished by . . .

(12) affording parents substantial and meaningful opportunities to participate in the education of their children.

Section 7114(c) ASSURANCES— Each application submitted under subsection (a) shall include assurances that . . .

(3) the program for which assistance is sought—

(A) is based on a comprehensive local assessment and prioritization of the unique educational and culturally related academic needs of the American Indian and Alaska Native students for whom the local educational agency is providing an education;

(B) will use the best available talents and resources, including individuals from the Indian community; and

(C) was developed by such agency in open consultation with parents of Indian children and teachers, and, if appropriate, Indian students from secondary schools, including through public hearings held by such agency to provide to the individuals described in this subparagraph a full opportunity to understand the program and to offer recommendations regarding the program; and

(4) the local educational agency developed the program with the participation and written approval of a committee—

(A) that is composed of, and selected by--

(i) parents of Indian children in the local educational agency's schools;

(ii) teachers in the schools; and

(iii) if appropriate, Indian students attending secondary schools of the agency;

(B) a majority of whose members are parents of Indian children;

(C) that has set forth such policies and procedures, including policies and procedures relating to the hiring of personnel, as will ensure that the program for which assistance is sought will be operated and evaluated in consultation with, and with the involvement of, parents of the children, and representatives of the area, to be served;  
(D) with respect to an application describing a schoolwide program in accordance with section 7115(c), that has—

(i) reviewed in a timely fashion the program; and

(ii) determined that the program will not diminish the availability of culturally related activities for American Indian and Alaska Native students; and

(E) that has adopted reasonable bylaws for the conduct of the activities of the committee and abides by such bylaws.

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 4. Seattle School District did not comply with federal requirements over its Safety Net funds.

<b>CFDA Number and Title:</b>	84.027/173 Special Education Cluster 84.391 AARA - Special Education IDEA Part B (Recovery Act)
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$21,610

#### Background

School districts may apply for Safety Net awards through the state Office of Superintendent of Public Instruction's (OSPI) Special Education Safety Net Committee to assist in paying special education costs when the cost of educating a special needs student exceeds available resources. These awards are made up of State and federal funding.

Districts apply for these awards mid-year, based on projections of expenditures and resources. Districts must comply with federal and state requirements for Individualized Education Plans (IEP) for special education students. IEPs are written programs that explain students' educational needs, goals, services to be provided and the cost of those services. Districts receive safety net funding specific to each student to be used in accordance with the IEP. Districts are to notify OSPI when these students withdraw from the District. OSPI may recover safety net money not used by a district.

The District received \$459,223 in Safety Net money in 2008-2009.

#### Description of Condition

Two students whose educational costs were paid with Safety Net money withdrew from the District. The District did not notify OSPI and retained the money.

#### Cause of Condition

The District believed OSPI automatically adjusted their subsequent grant award when special education students with high needs withdrew from the District. This resulted in

the District failing to comply with federal and state laws regarding the use of Safety Net funds.

### **Effect of Condition and Questioned Costs**

The Safety Net application process relies on the District to notify OSPI and return money when special education students withdraw from the District. Since the District did not properly notify OPSI, we are questioning costs of \$21,610 for two students.

### **Recommendation**

We recommend the District follow proper procedures for returning Safety Net funds and contact OSPI to determine the amount to be repaid, if any.

### **District's Response**

*The District concurs with this finding. During fiscal year 2009-2010, Seattle Public Schools submitted 82 student's IEPs for Safety Net reimbursement. Out of the 82 submitted 61 were approved for funding. Two students with IEP approved funding during fall of 2009 left the District. The District's Special Education State Count excluded the two students but the Safety Net Count did not. The District was not aware of continued funding based on the two students after their departure.*

*The District has contacted the State Safety Net Coordinator at OSPI for guidance on the appropriate process for addressing the issue of "student withdrawals and Safety Net Reimbursement" in the future and the district intends to follow the following procedures:*

- 1. Complete a monthly review for attendance/enrollment for all students receiving Safety Net reimbursement.*
- 2. Notify the District Safety Net Coordinator and OSPI with names of students who withdraw from the district.*

### **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

### **Applicable laws and Regulations**

Title 34, Code of Federal Regulations, Section 300.704, State-level activities, states in part:

(c)(3)(c)(B)

Establish eligibility criteria for the participation of an LEA that, at a minimum, take into account the number and percentage of high need children with disabilities served by an LEA;

(c)(3)(c)(D)

Establish criteria to ensure that placements supported by the fund are consistent with the requirements of Sec. Sec. 300.114 through 300.118;

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), states in part:

Appendix A, Section C(1) To be allowable under Federal awards, costs must meet the following general criteria:

(b) Be allocable to Federal awards under the provisions of this Circular.

(c) Be authorized or not prohibited under State or local laws or regulations.

(d) Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

(i) Be the net of all applicable credits.

Appendix A, Section C(4) Applicable credits.

1.a. Applicable credits refer to those receipts or reduction of expenditure type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are . . . adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

WAC 392-140-600

Special education safety net – Applicable provisions:

The provisions of WAC 392-140-600 through 392-140-685 apply to the determination of safety net allocations of state special education moneys and Individuals with Disabilities Education Act (IDEA) federal funds for the 2007-08 school year and thereafter.

WAC 392-140-605

Special education safety net – Application types, certification, worksheets: Application for safety net funding shall be made on Form SPI 1381 - Certification published by the superintendent of public instruction . . .

(1) . . . The school district making application for either or both categories of safety net funding shall certify that:

(a) The district recognizes that differences in costs attributable to district philosophy, service delivery choice, or accounting practice are not a legitimate basis for safety net awards.

(b) The application complies with the respective safety net application standards of WAC 392-140-616 and 392-140-617;

(c) The application provides true and complete information to the best of the school district's knowledge;

(d) The district understands that safety net funding is not an entitlement, is subject to adjustment and recovery, may not be available in future years, must be expended in program 21 or program 24 as specified in the award letter, and certifies that federal medicaid has been billed for all services to eligible students;

#### WAC 392-140-609

Special education safety net – Standards and criteria - Appropriate and properly and efficiently prepared and formulated IEPs: Individualized education programs (IEPs) which are appropriate, properly and efficiently prepared and formulated are those IEPs that meet all of the following criteria:

(1) The IEPs comply with federal and state procedural requirements.

(2) The delivery of specially designed instruction identified on the IEP also complies with state and federal requirements (i.e., regularly scheduled teaching or training activities provided or designed by special education qualified staff).

(3) The provision of special education services conforms with areas of need identified in the student's evaluation and/or reevaluation made pursuant to chapter 392-172A WAC.

#### WAC 392-140-616

Special education safety net – Standards – High need student applications

For districts requesting safety net funding to meet the extraordinary needs of an eligible high need special education student, the district shall convincingly demonstrate at a minimum that:

(1) The IEP for the eligible special education student is appropriate, and properly and efficiently prepared and formulated.

(2) All of the following criteria apply to the high need student:

(a) Costs eligible for safety net consideration must be associated with providing direct special education and related services identified in a properly formulated IEP.

(b) In order to deliver appropriate special education and related services to the student, the district must be providing services which incur costs exceeding:

(i) The annual threshold as established by the office of superintendent of public instruction for state funding; then

(ii) Three times the average per pupil expenditure (as defined in section 9101 of the Elementary and Secondary Education Act of 1965) for the state of Washington for federal funding . . .

(c) The total cost of educational services must exceed any carryover of federal flow-through special education funding as of August 31 of the prior school year.

(3) The state safety net oversight committee shall adapt the high need student application as appropriate for applications prepared by the Washington state school for the blind and the Washington school for the deaf.

WAC 392-140-660

Special education safety net – Approved application – Special education safety net allocations:

(1) The special education safety net allocation for an individual district shall be the smaller of:

(a) The amount requested by the school district; or

(b) The amount authorized by the state oversight committee.

(2) Special education safety net allocations for high need students under WAC 392-140-605(1) shall use appropriated federal and state moneys.

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 5. The Seattle School District paid a Title I paraprofessional who did not meet highly qualified requirements.

<b>CFDA Number and Title:</b>	84.010 Title I Grants to Local Educational Agencies
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$31,455

#### Background

The federal No Child Left Behind Act requires school districts to ensure any paraprofessional who is hired by the school district after January 8, 2002 and who works in a program supported with Title I, Part A funds meets specific qualification requirements. Paraprofessionals who work in a program supported with Title I, Part A funds and who were hired by a school district prior to January 8, 2002, must have met these requirements by the end of the 2005-2006 school year.

Seattle School District spent \$13,390,542 in Title I money in 2008-09. The Title I grant objective is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. Title I program guidelines include requirements that the District submit accurate Highly Qualified Teacher and Paraprofessional information to Office of Superintendent of Public Instruction and that all teachers and paraprofessionals are highly qualified by August 31, 2007.

#### Description of Condition

In our audit, we found that the District had one paraprofessional who did not meet the highly qualified requirements. This staff member was detected and reported by the District to the Office of Superintendent of Public Instruction (OSPI) in the Highly Qualified Teacher and Paraprofessional Report submitted to OSPI.

We determined that the staff member earned approximately \$31,455 in the 2008-09 school year. We also determined that the District had 73 teachers who did not meet Highly Qualified Teacher (HQT) requirements. However, none of these teachers taught Title I classes.



## **Cause of Condition**

District staff was aware of the requirement. The District thought this staff member was providing services unrelated to Title I.

## **Effect of Condition and Questioned Costs**

We are questioning costs of \$31,455. The questioned costs represent the amount of payroll costs charged to Title I for the instructional assistant who was known to not meet highly qualified requirements.

## **Recommendation**

We recommend that District officials monitor staff levels to ensure it complies with highly qualified paraprofessional requirements.

## **District's Response**

*The district ensures that all teachers and instructional assistants who work in Title I schools have earned the Highly Qualified Teacher (HQT) designation. To meet this objective, the Human Resource department at Seattle Public School District has put in place procedures to prevent and detect instances where less than HQT perform instructional duties within Title I schools. This process involves a periodic review and a correcting process to ensure that only HQT's provide instruction within Title I schools.*

*During the summer of 2009, a Highly Qualified Teacher resigned. As a result of the resignation, the District unintentionally staffed the position temporarily with an instructional assistant (IA). Shortly after the staffing, the District realized this during its review process and reported to the OSPI about the error. Subsequent to an internal review of teachers and IAs with HQT designations, the District reported an exception on May 28th, 2009. The IA was removed from the Title I school and required to complete the State test, Praxis, which would help complete the HQT requirement. Since then, the IA has completed the requirement. We continue to monitor staff qualifications to ensure compliance with HQT requirements through periodic reviews within the Human Resources department.*

## **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## **Applicable laws and Regulations**

U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Subpart C, section 300 -- Auditee responsibilities for paraprofessionals, states:

Qualifications of paraprofessionals.

- a. An LEA must ensure that each paraprofessional who is hired by the LEA after January 8, 2002 and who works in a program supported with

Title I, Part A funds meets specific qualification requirements. Paraprofessionals who work in a program supported with Title I, Part A funds and who were hired by an LEA prior to January 8, 2002, had to meet these requirements by the end of the 2005-2006 school year. The term “paraprofessional” means an individual who provides instructional support; it does not include individuals who have only non-instructional duties (such as providing technical support for computers, providing personal care services, or performing clerical duties). A paraprofessional works in a program supported with Title I, Part A funds if the paraprofessional is paid with Title I, Part A funds in a Title I targeted assistance school or works as a paraprofessional in a schoolwide program school.

b. A paraprofessional must hold a high-school diploma or its recognized equivalent and meet one of the following requirements:

(1) Have completed at least two years of study at an institution of higher education.

(2) Have obtained an associate’s or higher degree.

(3) Have met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness.

c. A paraprofessional who is proficient in English and a language other than English and acts as a translator or who has duties that consist solely of conducting parental involvement activities need only have a high-school diploma or its recognized equivalent.

# Schedule of Federal Audit Findings and Questioned Costs

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

### 6. The Seattle School District's internal controls for billing payroll costs to the State Fiscal Stabilization Fund (Recovery Act) program are inadequate.

<b>CFDA Number and Title:</b>	84.394 ARRA - State Fiscal Stabilization Fund – Education State Grants (Recovery Act)
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	GR0995089
<b>Questioned Cost Amount:</b>	\$8,080 currently identified (total unknown)

#### Background

The State Fiscal Stabilization Fund program, funded by the American Recovery and Reinvestment Act, is designed to augment funding for elementary, secondary and postsecondary, and early childhood education programs at the state and local level. The District received a one-time appropriation of approximately \$19.8 million in 2009. Of that, \$12.5 million was spent on salaries and \$4.1 million was spent on benefits.

The District uses a payroll system it installed in 2008 to process these payments.

#### Description of Condition

Our audit identified significant deficiencies in controls over payroll processing that prevented the District from detecting overpayments to employees whose salaries were funded by the program. In addition, the deficiencies do not allow us to determine the total number of employees who were overpaid. Therefore, we are unable to ascertain the total unallowable and questioned costs.

#### Cause of Condition

When it switched to the new system, District staff members manually entered employee pay codes into the new system. No one did a review to ensure they were correct. Therefore, the District's controls were insufficient to detect and correct errors in a timely manner.

## **Effect of Condition and Questioned Costs**

We identified one employee who was overpaid \$40,402. The amount of the overpayment charged to the State Fiscal Stabilization Fund was \$8,080. The overpayment is unallowed and we are questioning these costs. Based on the internal control weaknesses identified and information provided by the District, not all employees who were overpaid have been identified. Therefore, we cannot determine the entire amount the District may have overpaid with Recovery Act funds.

This issue was reported as a significant deficiency in the District's financial statement audit report in accordance with *Government Auditing Standards*, prescribed by the Comptroller General of the United States.

We will issue a Special Report later this year outlining all of the issues associated with the District's salary overpayments.

## **Recommendation**

We recommend the District establish and follow controls to prevent payroll data entry errors. We also recommend these controls be designed to detect and correct employee overpayments in a timely manner.

We further recommend that the District identify all overpayments paid with the State Fiscal Stabilization Fund program and contact the Office of the Superintendent of Public Instruction to resolve the questioned costs.

## **District's Response**

*The District concurs with the State Auditors findings as noted. The next steps in the process will include analysis and review of payroll data to detect potential payment errors. The District will document instances of overpayments.*

*As per District analysis for payments made during fiscal year 2009 with the State Fiscal Stabilization Fund Program, the District noted one instance of overpayment. The District will contact the Office of the Superintendent of Public Instruction and resolve any questioned costs.*

## **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## **Applicable laws and Regulations**

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, states in part: Section .300(b)

The auditee shall

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal

awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), states:

Appendix A, C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria . . .

b.) Be allocable to Federal awards under the provisions of this Circular.2 CFR part 225 . . .

d.) Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

# Schedule of Audit Findings and Responses

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

7. **The Seattle School District's internal controls over financial statement preparation, payroll processing and accounting for expenditures are inadequate.**

### Background

District management, the state Legislature, state and federal agencies and bondholders rely on the information in financial statements and reports to make decisions. District management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified significant deficiencies in controls that adversely affect the District's ability to produce reliable financial statements. *Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies, as defined below in the Applicable Laws and Regulations section, as a finding.

### Description of Condition

#### Financial statement preparation

District staff members did not have adequate knowledge of and experience with prescribed financial reporting requirements. Staff did not use the Accounting Manual for Public School Districts in the State of Washington for guidance and information related to capital asset transactions, and recorded them incorrectly.

Our review of the District's internal controls again noted no one independent of financial statement and associated note disclosures reviewed them for accuracy. We reported this condition in our last audit.

#### Payroll processing

In fiscal year 2009, the District processed more than \$330 million in payroll. We noted that when District changed its payroll system in 2008, it did not update its internal controls to address the increased risks of error or inappropriate entries related to manual data entry. Therefore, the District's controls over this payroll information are insufficient to detect and correct errors in a timely manner.

## **Cause of Condition**

### **Financial statement preparation**

District management is responsible for ensuring annual financial reports are accurate, complete, and comply with reporting requirements. However, the District relies on our audit to identify errors in the financial statements and notes, rather than dedicating the necessary staff time, training and other resources to ensure annual financial reports are accurate and complete.

### **Payroll Processing**

During the payroll system conversion, District staff members manually entered employee pay codes into the new system. No one reviewed these to ensure individual pay rates were the rates shown in the signed employee contracts.

## **Effect of Condition**

### **Financial statement preparation**

The District's financial statements contained errors that were not detected by District personnel. We found the District misclassified expenditures and misreported the following:

- Capital outlays of \$811,405 related to buildings were reported as "equipment" on the financial statements. This was a misclassification error.
- General Fund salaries and benefits of \$674,169 were incorrectly reported in the Capital Projects Fund.
- Accounts payable of \$1.6 million belonging to construction payments were reported in the General Fund, instead of the Capital Projects Fund. This overstated General Fund liabilities and understated Capital Projects Fund liabilities.
- The District reported its Private Purpose Trust Fund Balance of \$2.1 million as unreserved and undesignated. However, the principal balance of the account is restricted by the trust agreement and cannot be spent, so it must be reported as "Reserved for Trust Principal". Therefore, this overstated the District's total unreserved, undesignated fund balance, which represents unrestricted money available for expenditure.

In addition we noted the following errors in the notes to the financial statements:

- The Notes to the Financial Statements contained inaccurate information, missing disclosures, and terminology inconsistent with the Accounting Manual.

The District did not correct these errors and omissions in the final financial statements. As a result, financial statement users do not have accurate information to evaluate and understand the financial position of the District.

## **Payroll processing**

At least 150 employees were paid at a higher placement on the pay scale than their contracts supported. Thus far, a total of \$335,000 has been identified as overpaid. This is the result of a systemic issue. Based on the internal control weaknesses identified and the fact that we did not test the payroll records for each of the District's approximately 8,500 employees, we could not identify the total number of employees who were overpaid for this report.

Our Office will issue a Special Report later this year outlining all issues associated with the salary overpayments. In addition, we are issuing a Single Audit finding in this report to address overpayments paid with American Recovery and Reinvestment Act money.

## **Recommendation**

We recommend the District ensure employees responsible for financial accounting are adequately trained in accounting for and reporting District financial information in accordance with the Accounting Manual.

We also recommend the District establish policies and procedures governing the preparation and review of financial statements and note disclosures to prevent or detect and correct errors and omissions.

We further recommend the District improve controls over preventing payroll data entry errors and detecting and correcting employee overpayments in a timely manner.

## **District's Response**

*We concur with the findings and we believe the recommendations provide a starting point for a remediation plan to ensure adequate internal controls over financial statement preparation. Current financial controls focus on proper payments to vendors and employees and we believe that our next steps include establishing procedures that ensure that account balances are correctly presented within the context of financial statements.*

## **Auditor's Remarks**

We thank the District for its cooperation and assistance during the audit and look forward to reviewing the District's corrective action during our next audit.

## **Applicable Laws and Regulations**

*Government Auditing Standards*, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

- a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a



material weakness, yet important enough to merit attention by those charged with governance.

b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Chapter 9, Section 7 of the *Accounting Manual for Public School Districts in the State of Washington*, issued by the Superintendent of Public Instruction and the State Auditor's Office, states in part:

#### Capital Outlay Expenditures

Capital outlay expenditures are those which result in the acquisition of capital assets or additions to capital assets. They include capital expenditures for land or existing buildings, improvements to grounds, construction of buildings, additions to buildings, remodeling of buildings, and purchase or installment of initial or additional major items of equipment. Include expenditures for facilities to house students during the construction or remodeling of a school building. Legal fees for capital projects are chargeable to the Capital Projects Fund. Election costs may be charged to the Capital Projects Fund upon passage of the levy. Election costs for failed levies are charged to the General Fund but may be reimbursed by the Capital Projects Fund if the levy passes at a later time provided it is within the same fiscal period.

#### Salaries

The salaries and other direct expenditures of school district employees who are hired or assigned to the planning or construction management of capital projects, which have been approved as provided above, are recorded under the Capital Projects Fund.

Capital projects' planning includes the development of facility specifications and construction design. It is defined as preparing specifications for building projects or preparing architectural blueprints or other design specifications by planning directors, architects, engineers, or draftsmen who spend significant time performing these duties. Salaries for capital project planning are not to be charged to the Capital Projects Fund for a specific project after the facility specifications or the construction design planning has been completed. Planning for the operation of existing facilities is not to be charged to the Capital Projects Fund.

Construction management, as it pertains to capital projects, is defined as directing, managing, or inspecting one or more capital projects. Salaries of staff project directors, inspectors, or monitors who spend significant time performing these services are designated as construction management salaries. Salaries for construction management shall not be

charged to the Capital Projects Fund after the building is occupied and accepted by school district board action.

The salaries of individuals who spend time performing duties that directly support capital project planning or construction management are to be charged directly to the Capital Projects Fund. Salaries of individuals engaged in the operations of the school district are not to be charged to the Capital Projects Fund. However, costs for staff paid to move their classroom/office as a direct result of a remodel or construction may be charged to the Capital Projects Fund. Salaries of individuals who also perform duties chargeable to another fund should be allocated in proportion to their duties to both the Capital Projects Fund and the other fund. Capital Projects Fund salaries may be processed through the General Fund, which is then reimbursed by the Capital Projects Fund.

Real estate management salaries are not to be charged to the Capital Projects Fund.

# Schedule of Prior Federal Audit Findings

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Seattle School District No. 1. The State Auditor's Office has reviewed the status as presented by the District.

<b>Audit Period:</b> 2008	<b>Report Reference No:</b> 1001794	<b>Finding Reference No:</b> 1	<b>CFDA Number(s):</b> 47.076, 84.010, 84.186 and 93.600
<b>Federal Program Name and Granting Agency:</b> Education and Human Resources – National Science Foundation; Head Start – U.S. Department of Health and Human Services; Safe and Drug-Free Schools and Communities: State Grants and Title I Grants to Local Educational Agencies – U.S. Department of Education		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Instruction Institute of Systems Biology Seattle Pacific University	
<b>Finding Caption:</b> The District does not have internal controls to ensure compliance with federal procurement requirements.			
<b>Background:</b> Federal regulations require grantees that use federal money to purchase goods and services follow their own procurement procedures as long as they are in compliance with state and local laws and regulations. If no state and local laws and regulations address a particular type of procurement, entities are to follow federal law and standards in the Federal Office of Management and Budget Circular A-102 Grants Management Common Rule, which requires them to use a competitive process, such as obtaining quotations, when those goods or services do not cost more than \$100,000. Grantees may solicit services from only one vendor when they determine awarding the contract is not feasible using bids or competitive proposals, and the goods and services are available from a single source, or competition is determined to be inadequate. Moreover, grantees and subgrantees are to maintain records sufficient to detail the significant history of procurement.  In our 2004 audit, we notified District management of these requirements, and in the 2007 audit we reported noncompliance with federal procurement requirements to District management. These conditions have not been resolved.			
<b>Status of Corrective Action: (check one)</b> <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <ol style="list-style-type: none"> <li><i>Procurement rules were reviewed and revised based on this finding. The district distributed revised guidance regarding the responsibilities for review, approval and execution of contracts and other agreements and sole source justification. These documents were revised to reflect the requirements for federally funded procurements.</i></li> </ol>			

*Copies of this memorandum and the referenced forms are attached.*

2. *Training in the area of grant compliance and Federal Regulations has been implemented. Training was provided for Managers and Supervisors on September 15, 2009 and a follow-up meeting was held on November 4, 2009. The content of the meetings included the new Grant Guidelines and process for managers, principals, teachers and other district staff. There were also documents given to managers that contained information about budget analyst assignments, grant guidelines, intent to apply form, and the revised PSC Procedures*
  
3. *At the district's request, OSPI is providing training to program managers federal programs in the following areas:*
  - *OMB Circular A-87—Allowable Costs (Codified as 2 CFR 225)*
  - *OMB Circular A-133—Audit Requirements and the related Compliance Supplement*
  - *OMB Circular A-102—Grants and Cooperative Agreements with State and Local Governments*
  - *34 CFR 80—Administrative Requirements*
  - *34 CFR 76—Requirements for grants passed to districts through the state agency, OSPI*

*This training will occur in January, 2010.*

<b>Audit Period:</b> 2008	<b>Report Reference No:</b> 1001794	<b>Finding Reference No:</b> 2	<b>CFDA Number(s):</b> 84.010
<b>Federal Program Name and Granting Agency:</b> Title I Grants to Local Educational Agencies – U.S. Department of Education		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Instruction	
<b>Finding Caption:</b> The Seattle School District does not have adequate internal controls to ensure accuracy of Highly Qualified Teacher (HQT) data.			
<b>Background:</b> The federal No Child Left Behind Act requires school districts to ensure any teacher hired after the first day of the 2002-03 school year to teach a core academic subject and who works in a program supported with Title I money is highly qualified as defined by federal regulations.  Seattle School District spent \$13,596,992 in Title I money in 2007-2008. The Title I grant objective is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. Title I program guidelines include requirements that the District submit accurate Highly Qualified Teacher reporting information to Office of Superintendent of Public Instruction and that all teachers and paraprofessionals are highly qualified by August 31, 2007.			
<b>Status of Corrective Action: (check one)</b>			
<input type="checkbox"/> Fully Corrected	<input checked="" type="checkbox"/> Partially Corrected	<input type="checkbox"/> No Corrective Action Taken	<input type="checkbox"/> Finding is considered no longer valid

**Corrective Action Taken:**

- *District staff has been made aware of the requirement to retain records to demonstrate compliance with Highly Qualified (HQ) requirements. As of Spring 2009, HQ records are compiled and maintained in Human Resources Department.*
- *As of spring 2009, Human Resources (HR) has lead responsibility for SPS's oversight of Highly Qualified (HQ) requirements. Staff in Titles I and II departments provides assistance to HR as needed.*
- *As of spring 2009, HR conducted a thorough review of all district staff to determine HQ status for every teacher and instructional assistant (IA). For all non-HQ staff, HR worked with them and their principals to develop HQ Plans. As of Fall 2009, many of those staff have completed the actions in their HQ Plans, and others continue to work on their corrective actions.*
- *In October and November 2009, HR has conducted another thorough review, and is overseeing the same process as in spring 2009. There appear to be far fewer non-HQ staff at this point.*
- *As of Fall 2009, all IAs providing instruction in our Title I schools are HQ.*
- *As of Fall 2009, all but two teachers in our Title I schools are HQ. HR is working with those two to confirm HQ Plans and to have the plans accomplished before second semester begins (2/1/10).*
- *HR is working with Technology Services to improve the HQ reporting capacity of our technology infrastructure, thus increasing efficiency with the HQ process.*
- *Starting in spring 2009 and still continuing, SPS administration has been working with principals and teachers to understand HQ requirements, so that they staff their schools and make teaching assignments appropriately per each employee's HQ status.*

<b>Audit Period:</b> 2008	<b>Report Reference No:</b> 1001794	<b>Finding Reference No:</b> 3	<b>CFDA Number(s):</b> 84.010
<b>Federal Program Name and Granting Agency:</b> Title I Grants to Local Educational Agencies – U.S. Department of Education		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Instruction	
<b>Finding Caption:</b> Seattle School District does not have adequate internal controls to ensure private schools may receive Title I services in an equitable manner			
<b>Background:</b> Seattle School District spent \$13,596,992 in federal Title I money in fiscal year 2008. Title I money is to be used to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. The grant requires that the District, after consultation with private school officials, provide equitable services to eligible private school children and their teachers and families.			

**Status of Corrective Action: (check one)**

Fully Corrected       Partially Corrected       No Corrective Action Taken       Finding is considered no longer valid

**Corrective Action Taken:**

*Training in the area of grant compliance and Federal Regulations has been implemented. Training was provided for Managers and Supervisors on September 15, 2009 and a follow-up meeting was held on November 4, 2009. The content of the meetings included the new Grant Guidelines and process for managers, principals, teachers and other district staff. The intent of this training is to help managers and supervisors to provide equitable services to eligible private school children, their teachers and families.*

# Status of Prior Audit Findings

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

The status of findings contained in the prior years' audit reports of Seattle School District No. 1 is provided below:

**1. The Seattle School District's internal controls over financial statement preparation and payroll processing are inadequate.**

Report No. 1001794, dated July 20, 2009

### **Background**

District management, the state Legislature, state and federal agencies and bondholders rely on the information in financial statements and reports to make decisions. District management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified significant deficiencies in controls that adversely affect the District's ability to produce reliable financial statements. *Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies as a finding.

### **Status**

#### **Financial Reporting**

We noted the District has not taken action to ensure staff is adequately trained in accounting and reporting District financial information in accordance with the Accounting Manual for Public School Districts in the State of Washington. In addition, the District did not develop policies and procedures governing the preparation and review of financial statements and note disclosures that would detect and correct errors and omissions timely.

We will issue a finding over financial reporting during the current audit. We will also review the status of the finding during the next audit.

#### **Payroll Processing**

The District has partially corrected internal control weaknesses noted in this finding.

The payroll processing and the Human resource department have been segregated to prevent instances where data integrity is compromised. The payroll processing department has trained staff that prepares payroll information and reconciles payroll data to accounting data.

We will issue a finding over payroll processing during the current audit. We will also review the status of the finding during the next audit.

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

**Seattle School District No. 1  
King County  
September 1, 2008 through August 31, 2009**

Board of Directors  
Seattle School District No. 1  
Seattle, Washington

We have audited the financial statements of Seattle School District No. 1, King County, Washington, as of and for the year ended August 31, 2009, and have issued our report thereon dated May 24, 2010.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Responses as Finding 7, that we consider to be significant deficiencies in internal control over financial reporting.



A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **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, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

The District's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the audit committee, 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

May 24, 2010

# 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

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

Board of Directors  
Seattle School District No. 1  
Seattle, Washington

### **COMPLIANCE**

We have audited the compliance of Seattle School District No. 1, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended August 31, 2009. 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.

As described in Findings 1, 2 and 3 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the District did not comply with requirements related to procurement and eligibility for the Indian Education program. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to the programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are

required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 4, 5 and 6.

## ***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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1, 2, 3, and 6 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs, we consider Findings 2 and 3 to be material weaknesses.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the audit committee, 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

May 24, 2010

# Independent Auditor's Report on Financial Statements

## Seattle School District No. 1 King County September 1, 2008 through August 31, 2009

Board of Directors  
Seattle School District No. 1  
Seattle, Washington

We have audited the accompanying financial statements of Seattle School District No. 1, King County, Washington, as of and for the year ended August 31, 2009, as listed on page 44. 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 Seattle School District No. 1, as of August 31, 2009, 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 the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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.

The Schedule of Families and Education Levy and Notes to the Schedule of Families and Education Levy are not a required part of the financial statements but are supplementary information presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 a large initial "B" and "S".

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

May 24, 2010

# **Financial Section**

## **Seattle School District No. 1 King County September 1, 2008 through August 31, 2009**

### ***FINANCIAL STATEMENTS***

Balance Sheet – 2009  
Statement of Revenues, Expenditures and Changes in Fund Balance – 2009  
Statement of Fiduciary Net Assets – Other Trust and Agency Funds – 2009  
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### ***SUPPLEMENTAL INFORMATION***

Schedule of Long-Term Debt – 2009  
Schedule of Expenditures of Federal Awards – 2009  
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Schedule of Families and Education Levy – 2009  
Notes to the Schedule of Families and Education Levy – 2009

Seattle Public Schools No. 001

Balance Sheet

Governmental Funds

August 31, 2009

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	95,542,421.44	2,708,124.83	11,715,187.55	285,964,857.16	15,010.31	0.00	395,945,601.29
Minus Warrants Outstanding	-7,658,861.90	-60,933.66	0.00	-3,684,484.21	0.00	0.00	-11,404,279.77
Taxes Receivable	61,686,011.71		40,268,513.26	14,933,261.12	0.00	0.00	116,887,786.09
Due From Other Funds	4,509,000.33	34,140.86	0.00	0.00	0.00	0.00	4,543,141.19
Due From Other Governmental Units	8,263,451.95	0.00	0.00	0.00	0.00	0.00	8,263,451.95
Accounts Receivable	1,508,113.33	0.00	0.00	-8,038.45	0.00	0.00	1,500,074.88
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	84,021.02	3,204.84	14,553.56	352,722.22	18.88	0.00	454,520.52
Inventory	848,605.24	0.00					848,605.24
Prepaid Items	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments	0.00	0.00	0.00	48,333,200.80	0.00	0.00	48,333,200.80
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
<b>TOTAL ASSETS</b>	<b>164,782,763.12</b>	<b>2,684,536.87</b>	<b>51,998,254.37</b>	<b>345,891,518.64</b>	<b>15,029.19</b>	<b>0.00</b>	<b>565,372,102.19</b>
<b>LIABILITIES:</b>							
Accounts Payable	13,859,725.48	260,036.43	607.00	24,834,732.28	0.00	0.00	38,955,101.19
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	19,910,443.77	0.00		0.00			19,910,443.77
Revenue Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	8,259,631.84	0.00		0.00			8,259,631.84
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	4,322,334.12						4,322,334.12
Due To Other Funds	0.00	6,267.65	0.00	4,536,873.54	0.00	0.00	4,543,141.19

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



Seattle Public Schools No. 001

Balance Sheet

Governmental Funds

August 31, 2009

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	83,924.92	0.00		9,647,670.85			9,731,595.77
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
Deferred Revenue	62,492,328.43	106,690.75	40,337,178.07	18,447,760.67	87.96	0.00	121,384,045.88
<b>TOTAL LIABILITIES</b>	<b>108,928,388.56</b>	<b>372,994.83</b>	<b>40,337,785.07</b>	<b>57,467,037.34</b>	<b>87.96</b>	<b>0.00</b>	<b>207,106,293.76</b>
<b>FUND BALANCE:</b>							
Reservation Of Fund Balance	4,114,219.18	0.00	3,094,584.32	273,350,429.00	0.00	0.00	280,559,232.50
Unreserved, Designated Fund Balance	31,559,411.00	0.00		0.00		0.00	31,559,411.00
Unreserved, Undesignated Fund Balance	20,180,744.38	2,311,542.04	8,565,884.98	15,074,052.30	14,941.23	0.00	46,147,164.93
<b>TOTAL FUND BALANCE</b>	<b>55,854,374.56</b>	<b>2,311,542.04</b>	<b>11,660,469.30</b>	<b>288,424,481.30</b>	<b>14,941.23</b>	<b>0.00</b>	<b>358,265,808.43</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>164,782,763.12</b>	<b>2,684,536.87</b>	<b>51,998,254.37</b>	<b>345,891,518.64</b>	<b>15,029.19</b>	<b>0.00</b>	<b>565,372,102.19</b>

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2009

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	146,226,075.53	4,070,732.79	80,890,313.07	39,225,970.66	314.83		270,413,406.88
State	294,993,001.11		0.00	7,762,977.69	0.00		302,755,978.80
Federal	48,203,480.56		0.00	0.00	0.00		48,203,480.56
Federal Stimulus	19,786,731.00						19,786,731.00
Other	7,344,867.97		0.00	0.00	0.00	0.00	7,344,867.97
<b>TOTAL REVENUES</b>	<b>516,554,156.17</b>	<b>4,070,732.79</b>	<b>80,890,313.07</b>	<b>46,988,948.35</b>	<b>314.83</b>	<b>0.00</b>	<b>648,504,465.21</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	218,782,029.14						218,782,029.14
Federal Stimulus	16,714,570.62						16,714,570.62
Special Education	69,630,656.90						69,630,656.90
Vocational Education	9,158,588.65						9,158,588.65
Skills Center	0.00						0.00
Compensatory Programs	67,801,741.17						67,801,741.17
Other Instructional Programs	24,945,852.18						24,945,852.18
Community Services	1,160,796.31						1,160,796.31
Support Services	119,282,023.59						119,282,023.59
Student Activities/Other		4,310,774.50				0.00	4,310,774.50
<b>CAPITAL OUTLAY:</b>							
Sites				0.00			0.00
Building				137,674,001.92			137,674,001.92
Equipment				8,053,835.76			8,053,835.76
Energy				0.00			0.00
Transportation Equipment					0.00		0.00
Other	1,186,917.30						1,186,917.30
<b>DEBT SERVICE:</b>							
Principal	0.00		63,635,000.00	0.00			63,635,000.00
Interest and Other Charges	0.00		18,438,209.25	0.00			18,438,209.25
<b>TOTAL EXPENDITURES</b>	<b>528,663,175.86</b>	<b>4,310,774.50</b>	<b>82,073,209.25</b>	<b>145,727,837.68</b>	<b>0.00</b>	<b>0.00</b>	<b>760,774,997.29</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-12,109,019.69</b>	<b>-240,041.71</b>	<b>-1,182,896.18</b>	<b>-98,738,889.33</b>	<b>314.83</b>	<b>0.00</b>	<b>-112,270,532.08</b>

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

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2009

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00	0.00	0.00
Long-Term Financing	0.00			0.00	0.00	0.00	0.00
Transfers In	1,573,339.66		1,958,450.00	0.00	0.00		3,531,789.66
Transfers Out (GL 536)	0.00		0.00	-3,531,789.66	0.00	0.00	-3,531,789.66
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00	0.00	0.00
Other	43,715.91		0.00	18,094,183.19	0.00		18,137,899.10
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,617,055.57</b>		<b>1,958,450.00</b>	<b>14,562,393.53</b>	<b>0.00</b>	<b>0.00</b>	<b>18,137,899.10</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>-10,491,964.12</b>	<b>-240,041.71</b>	<b>775,553.82</b>	<b>-84,176,495.80</b>	<b>314.83</b>	<b>0.00</b>	<b>-94,132,632.98</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>59,806,501.68</b>	<b>2,551,583.75</b>	<b>10,884,915.48</b>	<b>374,039,475.10</b>	<b>14,626.40</b>	<b>0.00</b>	<b>447,297,102.41</b>
Prior Year(s) Corrections or Restatements	6,539,837.00	0.00	0.00	-1,438,498.00	0.00	0.00	5,101,339.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>55,854,374.56</b>	<b>2,311,542.04</b>	<b>11,660,469.30</b>	<b>288,424,481.30</b>	<b>14,941.23</b>	<b>0.00</b>	<b>358,265,808.43</b>

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

Seattle Public Schools No. 001

Statement Of Fiduciary Net Assets

Fiduciary Funds

August 31, 2009

	Private Purpose Trust	Other Trust
<b>ASSETS:</b>		
Imprest Cash	40,911.30	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	2,059,465.87	0.00
Minus Warrants Outstanding	-22,500.00	0.00
Due From Other Funds	0.00	0.00
Accounts Receivable	7,837.08	0.00
Accrued Interest Receivable	3,183.18	0.00
Investments	0.00	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	
<b>TOTAL ASSETS</b>	<b>2,088,897.43</b>	<b>0.00</b>
<b>LIABILITIES:</b>		
Accounts Payable	36,535.08	0.00
Due To Other Funds	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>36,535.08</b>	<b>0.00</b>
<b>NET ASSETS:</b>		
<b>Net assets held in trust for:</b>		
Reserved for Other Items	0.00	0.00
Reserved for Self Insured Risk		0.00
Reserved for Trust Principal	0.00	0.00
Unreserved, Designated for Other Items		0.00
Unreserved, Undesignated Fund Balance	2,052,362.35	0.00
<b>TOTAL NET ASSETS</b>	<b>2,052,362.35</b>	<b>0.00</b>

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

Seattle Public Schools No. 001

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended August 31, 2009

	Private Purpose Trust	Other Trust
<b>ADDITIONS:</b>		
<b>Contributions:</b>		
Private Donations	83,905.21	0.00
Employer		0.00
Members		0.00
Other	0.00	0.00
<b>TOTAL CONTRIBUTIONS</b>	<b>83,905.21</b>	<b>0.00</b>
<b>Investment Income:</b>		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	44,831.29	0.00
Less Investment Expenses	0.00	0.00
Net Investment Income	44,831.29	0.00
<b>Other Additions:</b>		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
<b>TOTAL ADDITIONS</b>	<b>128,736.50</b>	<b>0.00</b>
<b>DEDUCTIONS:</b>		
Benefits		0.00
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	101,750.00	
Other	70,057.93	0.00
<b>TOTAL DEDUCTIONS</b>	<b>171,807.93</b>	<b>0.00</b>
Net Increase (Decrease)	-43,071.43	0.00
Net Assets--Beginning	2,095,433.78	0.00
Prior Year(s) Corrections or Restatements	0.00	0.00
<b>NET ASSETS--ENDING</b>	<b>2,052,362.35</b>	<b>0.00</b>

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

**Seattle School District No. 1**  
**Notes to Financial Statements**  
**For fiscal year ended August 31, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

A. Reporting Entity

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

1. Governmental Funds

a. 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.

**Seattle School District No. 1**  
**Notes to Financial Statements**  
**For fiscal year ended August 31, 2009**

b. Capital Projects Fund

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 purchase, major repair, rebuilding, and debt service expenditures related to pupil transportation equipment

c. Debt Service Fund

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

d. Special Revenue Funds

This fund type accounts for the proceeds of specific revenue sources legally restricted for specific purposes. The Associated Student Body 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. This fund accounts 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 school principals.

2. Fiduciary Funds

Trust funds are used to account for assets held by the district in a trustee and agency capacity. Fiduciary funds in the District include only private purpose trust funds.

a. Private Purpose Trust Funds

These funds are 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:

**Seattle School District No. 1**  
**Notes to Financial Statements**  
**For fiscal year ended August 31, 2009**

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

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

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

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

**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, unless the district enters into binding conditions with state oversight pursuant to RCW 28A.505.110.



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E. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents

All of the district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

As of August 31, 2009, and the investment balances are as follows:

Investment Type	Fund	Carrying Amount	Fair Value
County Treasurer's Investment Pool	General	\$ 95,590,138	\$ 95,231,421
	Capital Projects	277,475,012	276,486,043
	Debt Service	11,817,535	11,715,188
	Associated Student Body	2,608,643	2,589,640
	Transportation Vehicle	15,064	15,010
	Private Purpose Trust	2,067,323	2,059,466
US Government Agency	Capital Projects	\$ 46,427,597	\$ 48,333,201
	Total	\$ 436,001,312	\$ 436,429,969

Impaired Investments

As of August 31, 2009 the King County Investment Pool held one remaining impaired investment. Restructuring of Victoria is underway, and expected to be entirely completed during September 2009. The pool's pro rate share of assets in Victoria is transferred to a new company holding the same securities as Victoria. This will be managed by the current Enforcement Manager. This may result in a potential recovery range of 50 to 76 percent.

Receivables

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

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Inventory

Inventory consists of expendable supplies held for consumption and is valued at cost using the weighted average method perpetual inventory system. The cost is recorded as expenditure when individual inventory items are consumed. USDA commodity inventory consists of food donated by the United States Department of Agriculture and is valued at the prices paid by USDA for the commodities.

Fund Balance – May contain designation or reserves

Reservation is a legal restriction on spending of the fund balance of a district based upon statute, WAC or other legal requirements beyond the discretion of the board of directors of the district. Examples include anticipated carryover or recovery of revenues previously received and restricted as to usage.

Unreserved, Designated is used to set aside financial resources for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies.l.

F. Revenue and Expenditure Recognition

Debt Service

Principal and interest on 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.

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.

**Seattle School District No. 1**  
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Compensated Absences

a. Vacation Leave

Employees earn vacation leave monthly, at various rates, (from fifteen to twenty-eight days per year), based on the number of years employed. Represented and unrepresented employees and school principals may carry over no more than thirty days of vacation leave from one fiscal year to the next. No annual leave cashout is allowed except for separation from the District. No employee may cash out more than 30 days of annual leave at the time of separation from the District. Vacation pay, including benefits, is reported as expenditures, and payroll liability.

b. Sick Leave

Employees earn sick leave at the rate of one day per month. 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 (4) 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 annual accumulation, as of December 31 of each year.

Expenditures for sick leave are recognized 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 is based on 25% of per diem value of all accumulated sick leave of the employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments, plus related Security and Medicare taxes.

NOTE 2 PENSIONS

A. General Information

Substantially all Seattle School District full-time and qualifying part-time employees participate in one of the following three (3) 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).

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Membership by retirement system program as of June 30, 2008:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Member</u>	<u>Retired Members</u>
TRS	66,524	8,699	39,150
PERS	161,668	27,267	73,122
SERS	51,774	8,600	3,873

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

Plan 1 under the TRS and PERS program are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with adjusted 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 and 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 and SERS programs, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years 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 program 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 10 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 (2) 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 SERS 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 (Plan 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 for PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer

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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 July 1, 2009:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.26%	Plan 2 SERS	4.68%
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 option rates range begins at 5 percent and increase to a maximum of 15 percent.

Employer contribution rates as of July 1, 2009:

Plan 1 TRS *	8.46%	Plan 1 PERS*	5.29%
Plan 2 TRS *	8.46%	Plan 2 SERS*	7.54%
Plan 3 TRS*	8.46% **	Plan 3 SERS*	7.54%**

\* DRS Administrative Expense Rate of 0.16% is included in employer rate.

\*\* Applies to Defined benefit portion only

Under current law, the employer must contribute 100 percent of the employer-required contribution. Employer's required contributions in dollars:

Plan	FY 08-09	FY 07-08	FY 06-07
Plan 1 TRS	1,934,514	1,422,581	1,356,297
Plan 2 TRS	3,677,996	2,156,889	1,598,392
Plan 3 TRS	12,989,507	7,962,353	6,213,330
Plan 1 PERS	624,482	535,123	455,438
Plan 2 SERS	2,740,977	1,972,732	1,632,784
Plan 3 SERS	3,072,728	2,214,420	1,870,508

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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, 2007 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 Bldg.  
PO Box 43113  
Olympia, WA 98504-3113

**NOTE 3 RISK MANAGEMENT**

As a public school district, the Seattle School 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.

In September 2001, the district joined the Washington Schools Risk Management Pool, a public entity risk pool currently operating as a common risk management and insurance program for much of its general and property risks. The district pays an annual premium to the pool for its insurance coverage. The agreement for formation of the Washington Risk Management Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for property claims in excess of \$1,000,000 and liability claims in excess of \$3,000,000 for each insured event. For excess worker compensation and employer's liability coverage, the district acquires the coverage directly from a commercial insurer.

The insurance schedule is as follows:

**Self Insured Retention**

Property	\$100,000 per occurrence
Earthquake	5% of affected values subject to \$100,000 minimum and \$1,000,000 Maximum per occurrence.
Flood	\$100,000 per location subject to a Pool-wide Minimum loss of \$1,000,000
Automobile and Bus	Physical damage \$1,000 per occurrence
General Liability	\$1,000,000 per occurrence
Money, Security, Employee Dishonesty	\$5,000 per occurrence
Employment Practices Liability	\$1,000,000 per occurrence
Errors and Omissions Liability	\$1,000,000 per occurrence
Workers Compensation	\$600,000 per occurrence

**Seattle School District No. 1**  
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**Insurance Coverage Limits**

<u>Type of Coverage</u>	<u>2008-09</u>
General Liability	\$20,000,000 per occurrence
Sexual Abuse Liability	20,000,000 per occurrence
	20,000,000 aggregate
Automobile Liability	20,000,000 per occurrence
Property	500,000,000 per occurrence
Earthquake	25,000,000 Pool wide aggregate
Flood	100,000,000 Pool wide aggregate
Workers Compensation	Statutory
Employers' Liability	1,000,000 per occurrence
Boiler & Machinery	50,000,000 per occurrence
Commercial Crime – Money & Securities	50,000 per occurrence
Commercial Crime – Employee Dishonesty	500,000 per occurrence
Employment Practices Liability	20,000,000 per claim & aggregate
Errors and Omissions Liability	20,000,000 per occurrence

The District self-insures for some of these claim risks in general liability and industrial insurance liability out of its General Fund. It reports all 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.

General Liabilities, consisting of Legal Liabilities, were restated as a prior period adjustment. Prior to 2008, the District accrued legal liabilities and expenditures estimated for each fiscal year. This practice has been discontinued beginning with fiscal year 2009, and the 2008 ending balance in Legal Liabilities was reversed as a prior year adjustment to 2009 beginning fund balance. The impact of the prior year adjustment on the General Liabilities and the fund Balance is shown below.

	General Liabilities	Fund Balance - Designated for other items
August 2008 Original	\$ 6,539,837	\$ 24,363,223
Prior Year Adjustment	\$(6,539,537)	\$ 6,539,537
August 2008 Restated	\$ -	\$ 30,903,060
August 2009 Final	\$ -	\$ 31,559,411

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Changes in the District's current claims liability amounts, estimated based on available information at August 31, 2009, and 2008 respectively are as follows:

	Beginning of Year Balance	Claims & Changes In Estimates	Claims Payments	End of Year Balance
<b>General Liabilities</b>				
2007-08 reported	\$ 4,605,726	\$ 2,075,677	\$ (141,566)	\$ 6,539,837
Prior year adjustment	\$ (4,605,726)	\$ (2,075,677)	\$ 141,566	\$ (6,539,837)
2007-08 restated	\$ -	\$ -	\$ -	\$ -
<b>Industrial Insurance Liabilities</b>				
2007-08	\$ 3,765,440	\$ 3,411,368	\$ (3,544,766)	\$ 3,632,042
2008-09	\$ 3,632,042	\$ 3,263,269	\$ (2,999,291)	\$ 3,896,020
<b>Total for District</b>				
2007-08 reported	\$ 8,371,166	\$ 5,487,045	\$ (3,686,332)	\$ 10,171,879
Prior year adjustment	\$ (4,605,726)	\$ (2,075,677)	\$ 141,566	\$ (6,539,837)
2007-08 restated	\$ 3,765,440	\$ 3,411,368	\$ (3,544,766)	\$ 3,632,042
2008-09	\$ 3,632,042	\$ 3,263,269	\$ (2,999,291)	\$ 3,896,020

**NOTE 4 LONG TERM DEBT**

**A. General Obligation Bonds**

In June 2007, The District issued the Building Excellence ("BEX III") Series A & B bonds which voters approved in February 2007. The bonds sold at a premium resulting in gross proceeds of \$419,989,425 and will be used for the capital projects in the BEX III program. The bonds mature between 2008 and 2013 and the principal and interest will be serviced from funds collected from the voter-approved tax levy revenues collected over the same period.



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Bonds payable at 8/31/09, are comprised of the following individual issues:

Name and Purpose of Issue	Rates	Amount		8/31/2009		
		Authorized	9/1/2008 Beg. Bal.	Additions	Reductions	Balance
Limited Tax General Obligation Bonds - Voter Approved						
2007 BEX III Series A & B	4.00 – 5.35%	\$ 412,415,000	\$389,615,000		\$62,985,000	\$ 326,630,000
Limited General Obligation Bonds - Non Voted						
1999 Qualified Zone Academy Bond - improvements to schools	0%	5,120,000	2,915,000		110,000	2,805,000
2000 Qualified Zone Academy Bond - improvements to schools	0%	2,178,880	1,528,880		225,000	1,303,880
2001 Qualified Zone Academy Bond - improvements to schools	0%	1,325,900	1,175,900		25,000	1,150,900
2001 School Support Center - Series A	5.00 – 5.25%	33,500,000	32,115,000		290,000	31,825,000
2003 Qualified Zone Academy Bond - improvements to schools	0%	3,057,000	3,057,000			3,057,000
Total LTGO & LGO Bonds		<u>\$ 457,596,780</u>	<u>\$ 430,406,780</u>	<u>\$ -</u>	<u>\$63,635,000</u>	<u>\$ 366,771,780</u>

At August 31, 2009, the District had \$11,660,469 available in Debt Service Fund to service the general obligation bonds.

The Tax Reform Act of 1986 requires the district to rebate to the federal government the earnings on the investment of tax-exempt bond in excess of their yield. This requirement is effective for the district's 2007 BEX (III) Series A bonds issued in June 2007. Ninety percent of the arbitrage earnings are due and payable five years from the date the bonds were issued and at five-year intervals thereafter. The remaining 10 percent is payable 60 days after the debt is retired. Because positive arbitrage can be offset against negative arbitrage, the rebated amount fluctuates each year and may or may not be owed at the payment intervals. As of 8/31/09, the District estimates there will not be any arbitrage liability and therefore has not set aside any amount in reserved fund balance.

**Seattle School District No. 1**  
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**B. Changes in Long-term Debt**

	Long-Term Debt Payable 9/1/2008	Debt Inc/(Decr)	Long-Term Debt Payable 8/31/2009
Limited Tax General Obligation Bonds	\$ 389,615,000	\$ (62,985,000)	\$ 326,630,000
General Obligation Bonds	40,791,780	(650,000)	40,141,780
Estimated Vacation Leave	4,969,772	625,093	5,594,865
Estimated Sick Leave	19,161,010	(1,810,110)	17,350,900
Claims & Judgments	920,575	1,097,905	2,018,480
Contracts	1,387,958	(1,387,958)	-
<b>Total</b>	<u>\$ 456,846,095</u>	<u>\$ (65,110,070)</u>	<u>\$ 391,736,025</u>

**C. Debt Service Requirements to Maturity**

Principal and interest payment requirements to retire all the limited general obligation bonds and limited tax general obligation bonds are as follows:

Fiscal Year Ending Aug 31	Principal	Interest	Total
2010	\$ 70,328,880	\$ 15,692,344	\$ 86,021,224
2011	71,780,000	12,962,988	84,742,988
2012	75,090,900	10,045,219	85,136,119
2013	77,515,000	6,437,775	83,952,775
2014	43,247,000	2,508,306	45,755,306
2015 – 2019	6,530,000	6,771,875	13,301,875
2020 – 2024	11,810,000	4,418,925	16,228,925
2025 - 2027	10,470,000	860,475	11,330,475
	<u>366,771,780</u>	<u>59,697,906</u>	<u>426,469,686</u>

**Seattle School District No. 1**  
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**NOTE 5 INTERFUND TRANSACTIONS**

Interfund transactions consist of: 1) reimbursement due to the General Fund for salary, inventory issues, and work-order expenditures budgeted, and properly chargeable to other funds, recorded as reductions in expenditures to the General Fund, and expenditures in the reimbursing fund; 2) transfers to Debt Service Fund for debt payments and 3) other interfund transfer as authorized.

Interfund Receivables and payable as of August 31, 2009:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$ 4,509,000	\$ -
Capital Projects	-	4,536,874
Debt Service	-	-
Transportation	-	-
ASB	34,141	6,267
Subtotal	<u>4,543,141</u>	<u>4,543,141</u>
Fiduciary Funds	-	-
Total	<u>\$ 4,543,141</u>	<u>\$ 4,543,141</u>

**NOTE 6 SUMMARIES OF SIGNIFICANT CONTINGENCIES**

The Seattle School District has no known legal obligation that would materially impact the financial position of the District.

**NOTE 7 CONSTRUCTION COMMITMENTS**

The District adopted a Facilities Master Plan (the "Plan") in 1992 that provides direction for the strategic use of all District facilities through 2010 and is the basis for developing its capital improvement program. The Plan was most recently updated in March 2008 expanding the period covered through 2020.

The Plan identifies facility requirements based on student enrollment and demographics, projected space requirements, community use, and a facilities inventory. Planning is accomplished through a community-based approach, including input from the City, community organizations, parents, and District staff, as well as consideration of requirements relating to historical and landmark buildings.

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Since 1995, the District has obtained voter approval for a series of major capital levies, divided between two purposes, the Building Excellence Levies (BEX) and the Buildings, Technologies and Athletics Levies (BTA), to further the goals of the Plan. The BTA program focuses on deferred maintenance, code requirements, seismic upgrades, and modernization of athletic facilities, classroom technology and management information systems.

*BEX Levies.* In February 1995, Seattle voters approved a six-year, \$330 million BEX property tax levy to fund renovation and/or construction of 19 school buildings throughout the District. The levy enabled the District to completely renovate West Seattle High School and Ballard High School, among other buildings.

In February 2001, Seattle voters approved a six-year \$398 million BEX II property tax levy to fund renovation and/or new construction in 17 school buildings throughout the District. The levy enables the District to completely renovate three aging high schools, namely Roosevelt, Cleveland, and Garfield, as well as Madison Middle School. The levy also increased capacity at elementary and middle schools in the southeast part of the City, and improved technology support.

In February 2007, Seattle voters approved a six-year \$490 million BEX III Capital Bond (of which the Bonds are a portion), which will help pay for projects divided into three categories: Building Projects, Infrastructure Improvements, and Technology Improvements. The Building Projects component includes the renovations or replacement of seven school facilities and continues the District's long-range plan for renewing aging school buildings throughout the District. The Infrastructure Improvements component includes health and safety upgrades such as replacement or repair of plumbing to ensure drinking water quality, interior upgrades to improve indoor air quality, and replacement and renovation of athletic fields. The Technology Improvements component includes replacement of outdated classroom computers, expansion of a website that keeps families informed of student progress; and improvements to business and academic systems. This levy replaces an expiring capital levy.

*BTA Levies:* In February 1998, the voters of Seattle passed a six-year \$150 million BTA I Levy to fund the District's Buildings, Technology and Athletic Facilities program. There are four components to the BTA I levy: Building Reinvestment (\$60 million), Technology (\$40 million), Athletic Facilities (\$40 million), and Science and Performing Arts (\$10 million). In total, the levy financed more than 465 facility improvement projects at every school.

In February 2004, Seattle voters continued the work of BTA I by approving a six-year \$178 million capital levy ("BTA II"), which pays for nearly 700 projects, improving every school in the District. The BTA II levy contains three major components: Buildings (\$95.5 million), Technology (\$42.75 million), and Academics (\$39.75 million).

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<u>Project</u>	<u>Project Authorized Amount</u>	<u>Accumulated Revenue to 8/31/09</u>	<u>Accumulated Expenditures to 8/31/09</u>
<b>BEX II</b>			
Building Construction	407,000,000		409,059,458
Technology	26,000,000		25,698,614
BEX II total	433,000,000	435,783,700*	434,758,072
<b>BTA I</b>			
Building Reinvestment	60,000,000		54,114,750
Athletic Fields	40,000,000		38,221,726
Science and Arts	6,000,000		6,273,784
Technology	40,000,000		40,974,431
BTA I total	146,000,000	154,024,298	139,584,691
<b>BTA II</b>			
Building Reinvestment	95,500,000		56,636,593
Academics	36,620,000		24,914,215
Technology	39,880,000		34,857,141
BTA II total	172,000,000	137,024,121	116,407,948
<b>BEX III</b>			
Building Construction	383,000,000		156,383,259
Infrastructure	26,000,000		12,499,209
Technology	42,000,000		12,808,263
BEX III total	451,000,000	440,753,642*	181,690,731

Revenue includes other operating sources (General Fund and Debt Service Fund)

**NOTE 8 OTHER DISCLOSURE**

Prior Period Adjustments

A. General Liabilities, consisting of Legal Liabilities, were restated as a prior period adjustment. Prior to 2008, the District accrued legal liabilities and expenditures estimated for each fiscal year. This practice has been discontinued beginning with fiscal year 2009, and the 2008 ending balance in Legal Liabilities was reversed as a prior year adjustment to 2009 beginning fund balance.

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The impact of the prior year adjustment on the General Liabilities and the fund Balance is shown below.

	<u>General Liabilities</u>	<u>Fund Balance - Designated for other items</u>
August 2008 Original	\$ 6,539,837	\$ 24,363,223
Prior Year Adjustment	(\$6,539,537)	\$ 6,539,537
August 2008 Restated	\$ -	\$ 30,903,060
August 2009 Final	\$ -	\$ 31,559,411

B. The Capital Fund balance was overstated \$1,438,499 for August 31, 2008. Capital Fund expenditures were correspondingly understated due to expenditures not recognized in fiscal year 2008. Balances were restated as follows as a prior period adjustment.

	<u>2008 Capital Fund Balance</u>	<u>2008 Capital Expenditures</u>
August 2008 Original	\$374,039,475	\$143,220,409
Prior Year Adjustment	(1,438,498)	1,438,498
August 2008 Restated	372,600,977	144,658,907

**Leases**

The District has several operating leases for the facilities used for the New Center School, warehouses for capital programs and copiers. The minimum lease payments for each of the next five years for non cancelable leases are:

Year Ended Aug 31,	
2010	\$ 1,588,987
2011	1,437,944
2012	1,426,681
2013	886,071
2014	83,832
Total	<u>\$ 5,423,515</u>

**Alliance For Education**

The Alliance For Education is an independent nonprofit organization which acts as a constructive partner to the Seattle School District to engage the greater community in public education. The Alliance for Education pursues its mission of helping every child in Seattle Public Schools achieve academic success by securing seed capital for innovations in learning and by fostering city-wide support for excellence in schools. The Board of Directors of the Alliance

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**For fiscal year ended August 31, 2009**

For Education is a broad-based group of civic, business, education and community leaders and includes Maria Goodloe-Johnson, Superintendent of the District, as well as the President of the School Board.

A Memorandum of Understanding provides a framework for a variety of collaborative efforts, including grant funded work at the District, community engagement efforts, fundraising initiatives and various technical and professional supports. In March of 2009, the District and the Alliance announced more than \$9 million dollars in grant awards to support implementation of the District's five-year strategic plan, Excellence For All. These multi-year grants are from local and national foundations and include the Bill & Melinda Gates Foundation (\$7.2 million), the Eli & Edythe Broad Foundation (\$1.2 million), The Boeing Company (\$307,000), and The Stuart Foundation (\$254,000). The District is the subrecipient and accounts for these as reimbursable grants. The district is also subrecipient through the Alliance for ten other grant awards totaling \$1.8 million dollars for various periods beginning in 2003 and extending through 2011.

**NOTE 9 SUBSEQUENT EVENTS**

Impaired Investments

As of Dec. 31, 2009, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities; and the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principle is \$5,718,799 and the district's fair value of these investments is \$2,094,622.

**Interest Rate Risk.** As of Dec. 31, 2009, the Pool's average duration was 0.68 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

**Credit Risk.** As of Dec. 31, 2009, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Seattle Public Schools No. 001

Schedule of Long-Term Debt

For the Year Ended August 31, 2009

Description	Beginning	Amount	Amount	Amount	Ending
	Outstanding Debt September 1, 2008	Issued/Increased	Redeemed/Decreased	Outstanding Debt August 31, 2009	
Total Voted Bonds	389,615,000.00	0.00	62,985,000.00	326,630,000.00	
Total Non-Voted Notes/Bonds	32,115,000.00	0.00	290,000.00	31,825,000.00	
Qualified Zone Academy Bonds (QZAB)	8,676,780.00	0.00	360,000.00	8,316,780.00	
<b>Other Long-Term Debt:</b>					
Capital Leases	0.00	0.00	0.00	0.00	
Contracts Payable (GL 603)	1,387,958.00	0.00	1,387,958.00	0.00	
NonCancellable Operating Leases	0.00	0.00	0.00	0.00	
Claims & Judgements	920,575.00	1,097,905.00	0.00	2,018,480.00	
Compensated Absences	24,130,781.80	0.00	1,185,016.80	22,945,765.00	
Other Long-Term Debt	0.00	0.00	0.00	0.00	
Total Other Long-Term Debt	26,439,314.80	1,097,905.00	2,572,974.80	24,964,245.00	
<b>TOTAL LONG-TERM DEBT</b>	456,846,094.80	1,097,905.00	66,207,974.80	391,736,025.00	



SEATTLE PUBLIC SCHOOLS  
KING COUNTY  
EIN: 916001541  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR FISCAL YEAR ENDING AUGUST 31, 2009

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA No.	Other Identification Number		Direct Awards	Expenditures		Foot note
				Fund	Contract No.		Pass-Through Awards	Total	
US Dept. of Agriculture	OSPFI	School Breakfast Program	10.553	1010			\$ 1,785,693.57	\$ 1,785,693.57	4
	OSPFI	National School Lunch Program	10.555	1010			\$ 5,971,330.36	\$ 5,971,330.36	4
	OSPFI	Area Eligible Snack	10.555	1010			\$ 94,127.54	\$ 94,127.54	4
	OSPFI	National School Lunch Program - Non Cash Asst. Food Commodities	10.555	1010			\$ 412,725.95	\$ 412,725.95	2
	OSPFI	Child and Adult Care Food Program	10.558	1A04-08	17-03-0321		\$ 82,991.39	\$ 82,991.39	4
	OSPFI	Child and Adult Care Food Program	10.558	1A04-09	17-03-0321		\$ 138,233.58	\$ 138,233.58	4
	OSPFI	Child Nutrition Discretionary Grants Limited Availability	10.579	1K24-09	GR0710045		\$ 11,488.74	\$ 11,488.74	
	OSPFI	Fresh Fruit and Vegetable Program	10.582	1H55-09			\$ 15,596.57	\$ 15,596.57	
	OSPFI	Fresh Fruit and Vegetable Program	10.582	1H56-09			\$ 28,320.35	\$ 28,320.35	
	Office of State Treasurer	Schools and Roads - Grants to States	10.665	1000			\$ 158,159.82	\$ 158,159.82	4
		<b>Subtotal of Department of Agriculture</b>				\$ -	\$ 8,698,667.87	\$ 8,698,667.87	
US Dept of Commerce		Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	1C70-08	NA07NMF472036 3	\$ 19,454.84		\$ 19,454.84	
		Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	1H49-08	AB133F08SE2241	\$ 4,304.61		\$ 4,304.61	
		<b>Subtotal of Department of Commerce</b>				\$ 23,759.45	\$ -	\$ 23,759.45	
Department Of Defense	National Security Agency	Mathematical Sciences Grants Program	12.901	1G61-10	H98230-09-1-0311		\$ 85,159.94	\$ 85,159.94	
		<b>Subtotal of Department of Defense</b>	20.205			\$ -	\$ 85,159.94	\$ 85,159.94	
Department Of Transportation	WSDot	Highway Planning and Construction	20.205	1G45-07	Local Agency Agreement		\$ 17,583.40	\$ 17,583.40	
		<b>Subtotal of Department of Transportation</b>				\$ -	\$ 17,583.40	\$ 17,583.40	

SEATTLE PUBLIC SCHOOLS  
KING COUNTY  
EIN: 916001541  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR FISCAL YEAR ENDING AUGUST 31, 2009

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA No.	Other Identification Number		Direct Awards	Expenditures		Foot note
				Fund	Contract No.		Pass-Through Awards	Total	
Institute of Museum & Library Services	OSOS	Grants to States	45.310	1H47-09	LOI 5-22-2008		\$ 5,351.10	\$ 5,351.10	
				1H93-09	G-4108		\$ 4,000.60	\$ 4,000.60	
				<b>Subtotal of National Credit Union Administration</b>		\$ -	\$ 9,351.70	\$ 9,351.70	
National Science Foundation	Seattle Pacific University	Education and Human Resources	47.076	1F48-09	LOI 04/11/2008		\$ 108,966.71	\$ 108,966.71	
		Education and Human Resources	47.076	1G13-09	DRL-0554651	\$ 237,586.17		\$ 237,586.17	
		Education and Human Resources	47.076	1G44-09	PO #		\$ 35,569.68	\$ 35,569.68	
				<b>Subtotal of National Science Foundation</b>		\$ 237,586.17	\$ 144,536.39	\$ 382,122.56	
US Dept. of Education	OSPI	Title I Grants to Local Educational Agencies	84.010	1C01-08	GR0221483		\$ 76,596.02	\$ 76,596.02	
		Title I Grants to Local Educational Agencies	84.010	1C01-09	GR0221824		\$ 12,997,045.79	\$ 12,997,045.79	
		Title I Grants to Local Educational Agencies	84.010	1C03-09	GR0222308		\$ 160,403.49	\$ 160,403.49	
		Title I Grants to Local Educational Agencies	84.010	1F11-09	GR0229330		\$ 17,053.57	\$ 17,053.57	
		Title I Grants to Local Educational Agencies	84.010	1G48-08	GR0225127		\$ (938.14)	\$ (938.14)	
		Title I Grants to Local Educational Agencies	84.010	1G48-09	GR0225220		\$ 32,732.40	\$ 32,732.40	
		Title I Grants to Local Educational Agencies	84.010	1G50-09	GR0225227		\$ 50,100.75	\$ 50,100.75	
		Title I Grants to Local Educational Agencies	84.010	1H10-09	GR0225219		\$ 49,746.48	\$ 49,746.48	
		Title I Grants to Local Educational Agencies	84.010	1H73-09	GR0222920		\$ 7,801.97	\$ 7,801.97	
		Migrant Education_State Grant Program	84.011	1C02-08	GR0280477		\$ (0.81)	\$ (0.81)	
		Migrant Education_State Grant Program	84.011	1C02-09	GR0280674		\$ 108,233.07	\$ 108,233.07	
		Migrant Education_State Grant Program	84.011	1F78-09	GR0290252		\$ 4,237.21	\$ 4,237.21	
		Title I Program for Neglected and Delinquent Children	84.013	1C04-09	GR0223214		\$ 44,601.59	\$ 44,601.59	
		Title I Program for Neglected and Delinquent Children	84.013	1F99-09	GR0223213		\$ 49,338.90	\$ 49,338.90	
		Special Education_Grants to States	84.027	1A48-08	GR0302171		\$ 30,181.61	\$ 30,181.61	

SEATTLE PUBLIC SCHOOLS  
KING COUNTY  
EIN: 916001541  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR FISCAL YEAR ENDING AUGUST 31, 2009

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA No.	Other Identification Number		Expenditures			Foot note
				Fund	Contract No.	Direct Awards	Pass-Through Awards	Total	
	OSPI	Special Education_Grants to States	84.027	1A48-09	GR0303151		\$ 9,948,136.02	\$ 9,948,136.02	
	OSPI	Special Education_Grants to States	84.027	1G28-09	GR0337089		\$ 459,223.00	\$ 459,223.00	
		Impact Aid	84.041	1000		\$ 47,930.76	\$	\$ 47,930.76	4
		Impact Aid, Sp Ed	84.041	1000		\$ 2,790.04	\$	\$ 2,790.04	4
	OSPI	Career and Technical Education - Basic Grants to States	84.048	1A03-08	GR0171189		\$ 263.33	\$ 263.33	
	OSPI	Career and Technical Education - Basic Grants to States	84.048	1A03-09	GR0171536		\$ 464,753.86	\$ 464,753.86	
	OSPI	Career and Technical Education - Basic Grants to States	84.048	1H24-08	GR0179031		\$ 4,414.15	\$ 4,414.15	
		Indian Education_Grants to Local Educational Agencies	84.060	1C27-08	S060A070393	\$ (2,073.44)	\$	\$ (2,073.44)	
		Indian Education_Grants to Local Educational Agencies	84.060	1C27-09	S060A080393	\$ 234,934.92	\$	\$ 234,934.92	
		Indian Education_Grants to Local Educational Agencies	84.060	1C27-10		\$ 930.54	\$	\$ 930.54	
	OSPI	Special Education_Preschool Grants	84.173	1A46-08	GR0365466		\$ 10.07	\$ 10.07	
	OSPI	Special Education_Preschool Grants	84.173	1A46-09	GR0365854		\$ 274,963.55	\$ 274,963.55	
		Safe and Drug-Free Schools and Communities_National Programs	84.184	1H51-09	Q184E080238	\$ 143,521.78	\$	\$ 143,521.78	
	OSPI	Safe and Drug-Free Schools and Communities_State Grants	84.186	1C24-08	GR0950429		\$ 479.51	\$ 479.51	
	OSPI	Safe and Drug-Free Schools and Communities_State Grants	84.186	1C24-09	GR0950503		\$ 251,429.06	\$ 251,429.06	
		Safe and Drug-Free Schools and Communities_State Grants	84.186	1H65-09	1H79SP014932-01	\$ 66,287.03	\$	\$ 66,287.03	
		Fund for the Improvement of Education	84.215	1G88-08	U215X070264	\$ 235,583.34	\$	\$ 235,583.34	
		Fund for the Improvement of Education	84.215	1H60-09	U2151080192	\$ 347,924.47	\$	\$ 347,924.47	
	OSPI	Twenty-First Century Community Learning Centers	84.287	1F76-09	GR0992032		\$ 242,585.71	\$ 242,585.71	
		Foreign Language Assistance	84.293	1G46-09	T293B060055	\$ 179,439.83	\$	\$ 179,439.83	
	University of Maryland	Foreign Language Assistance	84.293	1G61-08	emial		\$ 7,316.44	\$ 7,316.44	
	OSPI	State Grants for Innovative Programs	84.298	1C26-08	GR0501180		\$ 40,163.33	\$ 40,163.33	
	OSPI	State Grants for Innovative Programs	84.298	1C26-09	GR0501215		\$ 18,002.38	\$ 18,002.38	

SEATTLE PUBLIC SCHOOLS  
KING COUNTY  
EIN: 916001541  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR FISCAL YEAR ENDING AUGUST 31, 2009

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA No.	Other Identification Number		Direct Awards	Expenditures		Foot note
				Fund	Contract No.		Pass-Through Awards	Total	
	OSPI	State Grants for Innovative Programs	84.298	IH87-09	GR0501358		\$ 1,000.73	\$ 1,000.73	
	OSPI	State Grants for Innovative Programs	84.298	IK16-09	GR0501314		\$ 8,987.37	\$ 8,987.37	
	OSPI	Education Technology State Grants	84.318	IC20-08	GR0721050		\$ (0.58)	\$ (0.58)	
	OSPI	Education Technology State Grants	84.318	IC20-09	GR0721469		\$ 140,638.03	\$ 140,638.03	
	OSPI	Education Technology State Grants	84.318	IC99-09	GR0730612		\$ 5,229.55	\$ 5,229.55	
	OSPI	Education Technology State Grants	84.318	IH02-09	GR0730611		\$ 5,971.93	\$ 5,971.93	
	OSPI	Education Technology State Grants	84.318	IH03-09	GR0730610		\$ 8,479.59	\$ 8,479.59	
	OSPI	Education Technology State Grants	84.318	IH04-09	GR0730609		\$ 6,251.09	\$ 6,251.09	
	OSPI	Education Technology State Grants	84.318	IH42-09	GR0730608		\$ 8,969.69	\$ 8,969.69	
	OSPI	Education Technology State Grants	84.318	IH43-09	GR0730613		\$ 16,600.49	\$ 16,600.49	
	OSPI	Education Technology State Grants	84.318	IH44-09	GR0730614		\$ 12,893.02	\$ 12,893.02	
	OSPI	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	ID91-08	GR0887252		\$ 762.59	\$ 762.59	
	Education Development Center, Inc.	Community Technology Centers	84.341	ID92-04	SA13647		\$ 263.98	\$ 263.98	
	Education Development Center, Inc.	Community Technology Centers	84.341	ID93-04	SA13656		\$ 1,175.64	\$ 1,175.64	
	Puget Sound ESD	Arts in Education	84.351	IK13-09	06148		\$ 28,923.17	\$ 28,923.17	
	OSPI	Reading First State Grants	84.357	IF53-08	GR0920120		\$ (3,436.34)	\$ (3,436.34)	
	OSPI	Reading First State Grants	84.357	IF53-09	GR0920190		\$ 238,609.51	\$ 238,609.51	
	OSPI	Reading First State Grants	84.357	IH37-08	GR0921115		\$ 11,560.31	\$ 11,560.31	
	OSPI	Reading First State Grants	84.357	IH54-09	GR0920173		\$ 757,085.45	\$ 757,085.45	
	City of Seattle	Early Reading First	84.359	IC93-08	DA07-7674		\$ 9.41	\$ 9.41	
	City of Seattle	Early Reading First	84.359	IC93-09	email		\$ 174,256.97	\$ 174,256.97	
	OSPI	English Language Acquisition Grants	84.365	IC21-08	GR0400580		\$ 34,527.10	\$ 34,527.10	
	OSPI	English Language Acquisition Grants	84.365	IC21-09	GR0400715		\$ 778,985.96	\$ 778,985.96	

SEATTLE PUBLIC SCHOOLS  
KING COUNTY  
EIN: 916001541  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR FISCAL YEAR ENDING AUGUST 31, 2009

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA No.	Other Identification Number		Expenditures			Foot note
				Fund	Contract No.	Direct Awards	Pass-Through Awards	Total	
	OSPI	Mathematics and Science Partnerships	84.366	1G78-07	GR0555013		\$ 922.25	\$ 922.25	
	OSPI	Mathematics and Science Partnerships	84.366	1G78-08	GR0555023		\$ 15,902.66	\$ 15,902.66	
	OSPI	Mathematics and Science Partnerships	84.366	1G78-09	GR0555041		\$ 215,991.60	\$ 215,991.60	
	OSPI	Improving Teacher Quality State Grants	84.367	1C17-08	GR0521193		\$ 577.67	\$ 577.67	
	OSPI	Improving Teacher Quality State Grants	84.367	1C17-09	GR0521371		\$ 3,509,822.85	\$ 3,509,822.85	
	OSPI	ARRA-Special Education Grants to States, Recovery Act	84.391	1K03-10	GR		\$ 31,856.39	\$ 31,856.39	
	OSPI	ARRA-State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	1K09-09	GR0995089		\$ 19,786,731.80	\$ 19,786,731.80	
			<b>Subtotal of Department of Education</b>			<b>\$ 1,257,269.27</b>	<b>\$ 51,138,424.19</b>	<b>\$ 52,395,693.46</b>	
US Dept. of Health and Human Services	DSHS	Substance Abuse and Mental Health Services, Projects of Regional and National Significance	93.243	1G11-08	0665-94326		\$ 33,671.05	\$ 33,671.05	
	DSHS	Substance Abuse and Mental Health Services, Projects of Regional and National Significance	93.243	1G11-09	0665-94326		\$ 300,220.14	\$ 300,220.14	
	Seattle KC - Public Health	Centers for Disease Control and Prevention, Investigations and Technical Assistance	93.283	1D48-08	D35155D		\$ 60,165.53	\$ 60,165.53	
		Improving Health & Educational Outcomes of Young People	93.293	1H31-08	1U87DP001257-01		\$ 202,089.51	\$ 202,089.51	
		Improving Health & Educational Outcomes of Young People	93.293	1H31-09	1U87DP001257-02		\$ 127,021.16	\$ 127,021.16	
	YWCA (School Out of WA)	Refugee and Entrant Assistance, Discretionary Grants	93.576	1D76-08	Amend #3		\$ 286,134.39	\$ 286,134.39	
		Head Start	93.600	1B60-08	10CH0166/11		\$ 819,026.06	\$ 819,026.06	
		Head Start	93.600	1B60-09	10CH0166/12		\$ 3,187,979.28	\$ 3,187,979.28	
	City of Seattle	Medical Assistance Program	93.778	1A16-08	DA07FE003		\$ (28,243.16)	\$ (28,243.16)	
	City of Seattle	Medical Assistance Program	93.778	1A16			\$ 1,265.26	\$ 1,265.26	

SEATTLE PUBLIC SCHOOLS  
 KING COUNTY  
 EIN: 916001541  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR FISCAL YEAR ENDING AUGUST 31, 2009

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA No.	Other Identification Number		Direct Awards	Expenditures		Foot note
				Fund	Contract No.		Pass-Through Awards	Total	
		Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	1C89-Y5	U87/CCU022662-05	\$ 11,765.58	\$	11,765.58	
	OSPFI	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	1F35-09	GR0930022	\$	\$ 16,364.36	\$ 16,364.36	
	OSPFI	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1A79-09	GR0998075	\$	\$ 291,041.52	\$ 291,041.52	
		<b>Subtotal of Department of Health and Human Services</b>				\$ 4,347,881.59	\$	\$ 5,308,500.68	
Corporation for National Service	OSPFI	Learn and Serve America_School and Community Based Programs	94.004	1G73-09	GR0972102	\$	\$ 28,377.16	\$ 28,377.16	
	Coalition of Essential Schools Northwest	Learn and Serve America_School and Community Based Programs	94.004	1H20-09	MOU 11/14/2008	\$	\$ 24,026.82	\$ 24,026.82	
		<b>Subtotal of Corporation for National Service</b>				\$ -	\$	\$ 52,403.98	
Department of Homeland Security		Flood Mitigation Assistance	97.029	1000		\$ 29,874.37	\$	\$ 29,874.37	
		<b>Subtotal of Department of Homeland Security</b>				\$ 29,874.37	\$ -	\$ 29,874.37	
		<b>TOTAL FEDERAL AWARDS EXPENDED</b>				\$ 5,896,370.85	\$ 61,106,746.56	\$ 67,003,117.41	

## Notes to the Schedule of Expenditures of Federal Awards

### Note 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the 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 - FOOD COMMODITIES

The amount of food commodities reported on the schedule is the market value of commodities distributed by the School District during the current year. The value is determined by the USDA.

### Note 3 - SCHOOLWIDE PROGRAMS

The district operates a "schoolwide program" in 31 elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the District in its schoolwide programs:

Title I Grants to Local Educational Agencies	84.010	\$ 6,962,212.43
<b>Total</b>		<b>\$ 6,962,212.43</b>

### Note 4 - UNIT COST CONTRACTS

Under certain programs, the district receives a fixed amount for the activity, regardless of the district's expenditures. Expenditures for these programs are listed as the amount received from the grantor.

### Note 5 - FEDERAL INDIRECT RATE

Seattle School District use Federal Restricted 4.57% rate.

**SEATTLE SCHOOL DISTRICT NO. 1**  
**Schedule of Families and Education Levy**  
**For the Fiscal Year Ended August 31, 2009**

<b>Fund Code</b>	<b>Rev Acct No.</b>	<b>St. PG</b>	<b>Program Names</b>	<b>Other Identification Number</b>	<b>Total Award Amount</b>	<b>Expenditures</b>
<b>King County</b>						
<b>Seattle-King County Department of Public Health</b>						
1F52-09	R8100	79	School Nurses - FEL	D38468D	716,830.00	770,178.84
<b>Total of Seattle-King County Department of Public Health</b>					<b>716,830.00</b>	<b>770,178.84</b>
<b>YMCA</b>						
<b>YMCA Community Learning Centers</b>						
1F87-09	R8100	79	YMCA Middle School Community Learning Centers	Agreement	64,250.00	85,047.04
<b>Total of YMCA</b>					<b>64,250.00</b>	<b>85,047.04</b>
<b>City of Seattle</b>						
<b>Department of Parks and Recreation</b>						
1F69-09	R8100	79	MS After School Activities	004M	652,000.00	627,525.80
<b>Total of Department of Parks and Recreation</b>					<b>652,000.00</b>	<b>627,525.80</b>
<b>City of Seattle</b>						
<b>Department of Human Services</b>						
1G37-09	R8100	79	Step Ahead Preschool @ T. T. Minor	DA08-1698	123,663.00	113,743.14
1G38-09	R8100	79	Step Ahead Preschool @ The New School	DA08-1402	150,500.00	160,411.97
1G38-08	R8100	79	Step Ahead Preschool @ The New School	DA07-1402	151,000.00	22,694.89
1G40-09	R8100	79	Seattle Early Learning Network Kindergarten Transition	DA08-1693	76,411.00	56,098.12
<b>Total of Department of Parks and Recreation</b>					<b>501,574.00</b>	<b>352,948.12</b>
<b>City of Seattle</b>						
<b>Department of Neighborhoods</b>						
1F61-09	R8100	79	Family Support Worker -FEL	DA08FE003	2,407,057.00	2,398,861.11
1F61-08	R8100	79	Family Support Worker -FEL	DA07FE003	2,371,687.00	176,424.96
1F66-09	R8100	79	Family and Community Involvement in Education	DA08FE003	516,609.00	520,803.30
1F66-08	R8100	79	Family and Community Involvement in Education	DA07FE003	508,974.00	22,808.36
1F68-09	R8100	79	Middle School Support Program	DA08FE004	1,237,775.00	1,146,216.98
1F68-08	R8100	79	Middle School Support Program	DA07FE004	1,196,856.00	728.94
1H48-09	R8100	79	High School Achievement Program	DA08FE005	1,257,920.00	938,962.98
<b>Total of Department of Neighborhoods</b>					<b>9,496,878.00</b>	<b>5,204,806.63</b>
<b>TOTAL FAMILIES AND EDUCATION LEVY FUNDS</b>					<b>11,431,532.00</b>	<b>7,040,506.43</b>

The accompanying notes to the Schedule of Families and Education are an integral part of this schedule



## **SEATTLE SCHOOL DISTRICT NO. 1**

### **Notes to Schedule of Families and Education Levy For the Fiscal Year Ended August 31, 2009**

#### Note A. Basis of Accounting

The Schedule of Families and Education Levy is prepared on the same basis of accounting as the school district's financial statements. Program expenditures are presented according to amounts paid the district under the city award. Since many awards do not fully fund programs, program expenditures disclosed on this schedule are incomplete. District records should be consulted to determine total program expenditures.



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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

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**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
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