



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

Everett School District No. 2

Snohomish County

For the period September 1, 2013 through August 31, 2014

Published April 2, 2015

Report No. 1013910





Washington State Auditor
Troy Kelley

April 2, 2015

Board of Directors
Everett School District No. 2
Everett, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Everett School District No. 2's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Everett School District No. 2 Snohomish County September 1, 2013 through August 31, 2014

The results of our audit of Everett School District No. 2 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.027	Special Education Cluster: Special Education – Grants to States
84.173	Special Education Cluster: Special Education – Preschool Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$395,161.

The District qualified as a low-risk auditee under OMB Circular A-133.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Everett School District No. 2
Snohomish County
September 1, 2013 through August 31, 2014**

Board of Directors
Everett School District No. 2
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Everett School District No. 2, Snohomish County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 25, 2015. Our report includes a reference to other auditors who audited the financial statements of the Everett School Employee Benefit Trust, as described in our report on the District's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Everett School Employee Benefit Trust were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Everett School Employee Benefit Trust. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 25, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Everett School District No. 2
Snohomish County
September 1, 2013 through August 31, 2014**

Board of Directors
Everett School District No. 2
Everett, Washington

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

We have audited the compliance of Everett School District No. 2, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

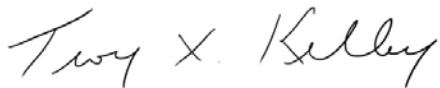
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 25, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Everett School District No. 2 Snohomish County September 1, 2013 through August 31, 2014

Board of Directors
Everett School District No. 2
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Everett School District No. 2, Snohomish County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Everett School Employee Benefit Trust, which represents 1.6 percent, 2.3 percent and 8.6 percent, respectively, of the assets, net position, and revenues of the governmental activities, as well as 98.4 percent, 98 percent, and 99.9 percent, respectively, of the assets, net position, and revenues of the aggregate remaining fund information. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Everett School Employee Benefit Trust, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are

free from material misstatement. The financial statements of the Everett School Employee Benefit Trust were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Everett School District No. 2, as of August 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 through 28, budgetary comparison information on pages 73 through 74 and information on postemployment benefits other than pensions on page 75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial

reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. 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*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015 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 internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large 'X' between the first and last names.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 25, 2015

FINANCIAL SECTION

Everett School District No. 2 Snohomish County September 1, 2013 through August 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Fund Balance Sheets – Governmental Funds – 2014

Reconciliation – Balance Sheet/Statement of Net Position – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2014

Reconciliation – Statement of Revenues, Expenditures and Changes in Fund Balance – Statement of Activities – 2014

Statement of Net Position – Proprietary Fund (Everett School Employee Benefit Trust) – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund (Everett School Employee Benefit Trust) – 2014

Statement of Cash Flows – Proprietary Fund (Everett School Employee Benefit Trust) – 2014

Statement of Fiduciary Net Position – 2014

Statement of Changes in Fiduciary Net Position – 2014

Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund – 2014

Budgetary Comparison Schedule – Special Revenue Fund (Associated Student Body Fund) – 2014

Actuarial Valuation of Post Employment Benefits Other than Pension – Schedule of Funding Progress – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

**EVERETT PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014**

The discussion and analysis of the Everett Public Schools' (Everett School District No. 2) financial performance provides an overview of the district's financial activities for the fiscal year ended August 31, 2014. The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also consider the transmittal letter, financial statements and notes to the basic financial statements to enhance their understanding of the district's financial performance.

FINANCIAL HIGHLIGHTS

- ❑ As of August 31, 2014, district net position from governmental activities was \$268.29 million.
- ❑ During the year, the district had revenues that were \$6.8 million higher than the \$236.83 million in expenses incurred for all district funds.
- ❑ The district's governmental funds reported combined ending fund balances of \$38.1 million for the fiscal year.
- ❑ The General Fund's revenues and other financing sources exceeded expenditures by \$17 thousand for the fiscal year.
- ❑ The district's total long-term debt outstanding was \$244.76 million as of August 31, 2014.
- ❑ The average student enrollment increased by approximately 490 full time equivalent (FTE) students compared to the previous year.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Everett Public Schools as a financial whole, while also providing an increasingly detailed look at specific financial activities.

The "Statement of Net Position" and the "Statement of Activities" provide information about the activities of the district as a whole and present a longer-term view of the district's finances. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statement section shows the district's operations in more detail than the "government-wide" statements by providing information about the district's most significant funds, including its governmental funds, proprietary fund (ESEBT - blended component unit) and fiduciary funds.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The analysis of the district as a whole in the *government-wide financial statement* section identifies how the district did financially as well as whether the financial position has improved or diminished. The "Statement of Net Position" and the "Statement of Activities" include all assets, deferred outflows/inflows of resources, liabilities, revenues and expenses of the district's governmental funds, as well as those of its component unit, using the accrual basis of accounting similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.

These two statements report the district's net position as well as any associated change in net position. One measure of the district's financial health is the difference between assets and deferred outflows of resources, and liabilities, which defines the net position. In addition, there are other measures which include non-financial factors such as changes in the district's student enrollment, property tax base and condition of our facilities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Governmental Funds -- The district's activities and services are reported in governmental funds. These statements provide a detailed short-term view of the most significant funds and not the district as a whole. They focus on the flow of money into and out of those funds and the balance available at the end of the year for future spending periods. The accounting method utilized is "modified accrual" which measures cash and all other financial assets that can easily be converted to cash. The governmental fund information presented allows the reader to determine whether there are more or fewer financial resources that can be utilized in the near future to finance district programs. The relationship (or differences) between governmental activities (Schedule 1 - Statement of Net Position and Schedule 2 - Statement of Activities) and governmental funds are shown in a reconciliation on Schedule 3A and Schedule 4A of the fund financial statements. Descriptions of the data listed in the columns of Schedule 3A and Schedule 4A are listed in the Notes to the Financial Statements, Note 2.

Proprietary Fund -- The Everett School Employee Benefit Trust (ESEBT) is a separate legal entity that, for financial reporting purposes, is considered a component unit of the district due to the nature and significance of the services it provides to the district and its members. For fund financial statement purposes, it has been classified as an internal service fund (Proprietary Fund) where services are provided on a cost-reimbursement basis. When looking at the district financial statements as a whole, ESEBT is reported as a blended component unit, which means its net position and activities are blended with governmental activities by appropriate activity and type. The relationship of the ESEBT to the government-wide financial statements (Schedule 1 - Statement of Net Position and Schedule 2 - Statement of Activities) is illustrated in the reconciliation on Schedule 3A and Schedule 4A of the fund financial statements.

Fiduciary Funds -- These funds consist of private purpose trust funds which the district must use for the benefit of individuals, private organizations, scholarships and other specific private purposes. The district is responsible for ensuring the assets reported in these funds are used for their intended purpose. Fiduciary Fund activities are excluded from the district's financial statements as a whole because the district is not able to use these assets to finance its operations.

THE DISTRICT AS A WHOLE

This analysis focuses on the net position per Table 1 and the changes in net position per Table 2 from the district's governmental activities. The narrative will show that the district's financial position has improved over the period, largely due to revenues outpacing expenses (as shown in Table 2) and decreases in the balance of long-term debt and other liabilities (as shown in Table 1). The combination of revenues exceeding expenses, and decreased liabilities contributes to the overall picture of improved financial health.

The district's assets and deferred outflows of resources exceeded liabilities by \$268,299,430 at the end of the 2013-2014 fiscal year. The ratio of liabilities to assets remained at 49% across 2012-2013 and 2013-2014. The value of the District's net investment in capital assets (i.e. land, buildings, equipment) net of related debt incurred to acquire those capital assets (net value of \$206.2 million) makes up the largest portion, seventy-seven percent (77%) of net position. The

substantial investment in capital assets represents the district's track record of building and modernizing its schools in accordance with its long-term mission of providing quality education in state-of-the-art and up-to-date facilities. These assets are not available for future spending and the debt associated with these assets will be paid from levied property taxes (authorized by the voters in the 2002 and 2006 capital bonds).

Total liabilities of \$250,602,211 have decreased as compared to the prior year by approximately \$6.3 million. The decline in liabilities is most significantly due to payments of bond principal debt outstanding, including two refunding bond issues this past year, effectively lowering the over-all bond liability. Declining liabilities of the Capital Projects Fund also contributed as spending on bond funded projects have drawn to a close.

Thirteen percent (13%) of net position consists of resources that are subject to external restrictions on how they may be used.

The unrestricted portion of net position consists of resources that can be considered available to finance normal district government activities without constraints established by debt practices, enabling legislation or other legal requirements. The unrestricted component of net position makes up ten percent (10%) of total net position.

Table 1 - Net Position

	2013-2014	2012-2013
Current and Other Assets	\$ 89,439,682	\$ 95,909,931
Capital Assets	415,408,436	422,459,127
Total Assets	\$ 504,848,118	\$ 518,369,058
Deferred Loss on Refunding	\$ 14,053,523	
Total Deferred Outflows of Resources	\$ 14,053,523	
Long-Term Debt Outstanding	\$ 244,763,430	\$ 248,595,743
Other Liabilities	5,838,781	8,306,507
Total Liabilities	\$ 250,602,211	\$ 256,902,250
NET POSITION		
Net Investment in Capital Assets	\$ 206,221,932	\$ 208,604,969
Restricted	35,476,827	36,639,785
Unrestricted	26,600,671	16,222,054
TOTAL NET POSITION	\$ 268,299,430	\$ 261,466,808

Governmental Activities

As Table 2 shows, revenues exceeded expenses for the 2013-2014 year resulting in a \$6.8 million increase in net position. Total revenues increased by \$16.2 million, while overall expenses increased by \$12.5 million. Revenue increases were mostly attributable to increased operating grants and capital grants. Operating grants increased by over \$3.1 million due to increased state special education apportionment, increased state funding for transportation operations, and other state operating grants for special, vocational, compensatory, and other instructional programs, where funding is driven by increased student enrollment. Capital grants increased by over \$2.7 million due to the timing of capital construction state match reimbursements. Charges for services increased \$202,518. Property tax revenue was stable, increasing by only \$19,734.

The majority of increased program expenses are evident in regular instruction (\$12.2 million increase), special education (\$1.6 million increase), and support services (\$3.7 million increase). Interest payment on long term debt decreased by \$5.1 million due to the significant premiums received upon the issuance of refunding debt. Accordingly the premiums are amortized over the life of the debt, and have the effect of decreasing interest expense.

Table 2 - Changes in Net Position

	Governmental Activities	
	2013-2014	2012-2013
REVENUES		
Program Revenues		
Charges for Services	\$7,709,018	\$7,506,500
Operating Grants and Contributions	44,611,614	41,419,914
Capital Grants and Contributions	6,766,219	4,034,492
General Revenues		
Property Taxes	77,999,229	77,979,495
Unallocated Revenue	106,489,921	96,379,816
Interest and Investments	91,577	146,800
TOTAL REVENUES	\$243,667,578	\$227,467,017
Program Expenses		
Regular Instruction	\$137,478,386	\$125,232,191
Special Education	27,429,607	25,800,597
Vocational Education	7,070,190	7,302,313
Compensatory Education	10,313,448	10,486,952
Other Instructional Programs	3,504,455	2,882,752
Community Services	456,471	402,119
Support Services	44,166,396	40,396,661
Extracurricular Activities	2,018,835	2,197,293
Interest Payment on Long Term Debt	4,397,168	9,574,976
TOTAL EXPENSES	\$236,834,956	\$224,275,854
INCREASE IN NET POSITION	6,832,622	3,191,163
NET POSITION BEGINNING (9/1)	261,466,808	258,275,645
NET POSITION ENDING (8/31)	\$268,299,430	\$261,466,808

The district's largest programs include regular instruction, special education, vocational education, compensatory education, other instructional programs, community services, support services, extracurricular activities and interest payments. Table 3 represents the total costs of these areas as well as associated financial impacts demonstrated by their net cost. A positive net cost of services might indicate the district has to fund these costs with either unallocated revenues such as property taxes, state apportionment, or investment earnings, or by use of fund balance from dollars received in a prior year. A negative net cost of services indicates that revenues shown in that program exceed the direct expenses of the program for the period. The net cost of services shown below does not take into consideration indirect costs (such as maintenance, insurance, and support services). Indirect costs are not allocated or offset against the net costs of services provided.

Table 3 - Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2013-2014	2012-2013	2013-2014	2012-2013
Regular Instruction	\$137,478,386	\$125,232,191	\$133,340,302	\$123,461,309
Special Education	27,429,607	25,800,597	6,347,956	5,900,489
Vocational Education	7,070,190	7,302,313	6,929,022	7,161,190
Compensatory Education	10,313,448	10,486,952	(419,071)	(119,225)
Other Instructional Programs	3,504,455	2,882,752	(171,761)	(270,505)
Community Services	456,471	402,119	(132,433)	(163,913)
Support Services	44,166,396	40,396,661	27,433,831	25,739,287
Extracurricular Activities	2,018,835	2,197,293	23,091	31,340
Interest Payment on Long-Term Debt	4,397,168	9,574,976	4,397,168	9,574,976
TOTALS	\$236,834,956	\$224,275,854	\$177,748,105	\$171,314,948

THE DISTRICT'S FUNDS

Information about the district's major funds begins with Financial Statements Schedule 3 and Schedule 4, which are prepared using the modified accrual basis of accounting. All governmental funds had total revenues of \$243,327,178 while expenditures totaled \$245,313,966. Expenditures were \$1,986,788 in excess of revenues for the year.

The General Fund shows an increase in fund balance of \$17,072. The fund balance remained stable while still maintaining instructional programs. The district ended the year with a total fund balance of \$9,642,864, falling \$382,451 below the board policy target of 5.0 percent of total expenditures. Subsequent to fiscal year 2014 the administration presented the board with a fund balance enhancement plan in December 2014 making adjustments during fiscal year 2015 to increase fund balance to a new target of 5.2 percent.

The ASB Fund shows a small decrease in fund balance of \$23,091. With four high schools' and five middle schools' fundraisers and activities spending around two million each year, a minor decrease or increase in the ASB fund balance is expected given the fluctuations from year to year in student group activities and student fund raising efforts to support them. For example, specific clubs, such as Band and Choral, tend to raise significant funds over a two to three year period to support a major national or international cultural trip.

The Debt Service Fund shows an increase of \$2,937,530. The increase in fund balance is attributable to two separate refunding bond issues (\$34.165 million in October 2013 and \$69.645 million in April 2014) The district took advantage of favorable market conditions which resulted in restructuring of debt service payments, and a savings to tax payers. Bond principal and interest payments continue to align with multi-year projections tracking debt service payments to cash flow from property tax collections. The debt principal and interest payment due dates are timed in order to keep tax rates level but still meet the demands of the debt repayment schedule. From year to year this results in a fluctuation of fund balance, depending on the debt schedule and tax collections. However, unique to fiscal year 2013-2014, the two refunding bond issues were responsible for the increase in fund balance.

The Capital Projects Fund had a decrease in fund balance of \$4,156,489. This is partially due to the natural progression in the cycle of receipt of state proceeds and bond proceeds in relation to the spending on construction projects. Bond proceeds are received in a lump sum in a prior fiscal year causing fund balance to increase in that fiscal year. Meanwhile, construction projects span over multiple fiscal years decreasing fund balance as the proceeds are spent. This year's

decrease in fund balance is largely owing to the fifth year since the 2009 fiscal year \$48.9 million bond issuance. Major construction projects were completed at Monroe Elementary, View Ridge Elementary, Everett High School gym modernization and energy upgrades to multiple school buildings. Completion of the Community Resource Center using state and local resources accumulated over several years, also contributes to the decrease in fund balance.

Fund balance decreased by \$122,925 in the Transportation Vehicle Fund. Revenues in this fund consist of the State's allocation designated for purchasing buses and a small amount of interest on cash and investment holdings within the fund. Although the district contracts with an outside vendor to provide buses and pupil transportation, the district also maintains a small fleet of its own buses. Replacement buses are purchased as the fleet ages and as accumulated funds designated in the Transportation Vehicle Fund allow. The district purchased four new buses in the 2013-2014 fiscal year.

Table 4 shows the trend of increase or decrease over prior years by major revenue source as well as by expenditure program. It is notable that local taxes make up approximately 36% of total revenues, while the state makes up approximately 59% of total revenues. Federal revenues and revenues from other governmental entities make up the remaining 5 to 6 % of total revenues.

Compared to the prior year, local revenues decreased by \$520,620, state revenues increased by \$17.3 million dollars, and federal funds decreased by \$1.2 million dollars. The instructional programs show the most substantial increases in expenditures, with the regular instruction program increasing by \$8.8 million, and special instruction increasing by \$1.3 million. These increases reflect the district's continued priority of placing resources into instructional programs. Support services (comprised of maintenance, pupil transportation, administration, nutrition services and information systems) also increased by \$1.8 million. Capital outlay spending decreased by \$19.5 million as spending of prior year bond proceeds/bond funded projects have been finalized, mostly in prior years spending. Debt Service spending decreased \$4.9 million. This was according to the planned debt service payments which also realized a decrease from the effect of the two refunding bond issues.

Table 4 - Governmental Funds

Revenue Source	2013-2014 Amount	Percent of Total	2012-2013 Amount	Increase (Decrease) Over 2012-13	Percent Increase (Decrease)
Local Taxes & Non-Tax	\$86,826,977	35.68%	\$87,347,597	(\$520,620)	-0.60%
State Revenues	142,842,688	58.70%	125,492,779	17,349,909	13.83%
Federal Revenues	13,518,221	5.56%	14,816,045	(1,297,824)	-8.76%
Other Governmental Entities	139,292	0.06%	16,076	123,216	766.46%
TOTAL	\$243,327,178	100.00%	\$227,672,497	\$15,654,681	6.88%
Expenditures					
Regular Instruction	\$115,739,305	47.18%	\$106,915,866	\$8,823,439	8.25%
Special Education	26,665,038	10.87%	25,277,485	1,387,553	5.49%
Vocational Education	6,709,718	2.74%	7,110,653	(400,935)	-5.64%
Compensatory Education	10,136,673	4.13%	10,263,394	(126,721)	-1.23%
Other Instructional Programs	3,206,654	1.31%	2,776,428	430,226	15.50%
Community Services	443,886	0.18%	395,816	48,070	12.14%
Support Services	37,101,491	15.12%	35,203,643	1,897,848	5.39%
Student Activities	2,018,835	0.82%	2,197,293	(178,458)	-8.12%
Capital Outlay	18,111,658	7.38%	37,639,893	(19,528,235)	-51.88%
Debt Service	25,180,708	10.26%	30,137,836	(4,957,128)	-16.45%
TOTAL	\$245,313,966	100.00%	\$257,918,307	(\$12,604,341)	-4.89%

Table 5 presents a condensed view of the district's General Fund alone. Major revenue sources and functions of expenditure categories are compared to prior year to illustrate the changes the district has experienced in its General Fund operations.

As summarized by the information in Table 5, state funds comprise approximately 68% of the district's General Fund revenue, making it the largest source of revenue for the district's operating funds. Local revenues consist mostly of local multi-year maintenance and operations tax levies, and represent roughly 25% of total General Fund revenues. Federal revenues and revenues from other governmental entities make up almost 7% of the General Fund operating budget. General Fund revenues have increased by 7.19%. The majority of the increased revenue is from the state in response to the 2012 Washington State Supreme Court decision on *McCleary vs. State*, finding the state in violation of its constitutional obligation to fully fund K-12 public education and requiring full funding by 2018. The legislature made an initial investment by increasing the number of high poverty schools offering full-day kindergarten, as well as reducing class size in kindergarten through grade three. Investment in student transportation, and the non-employee costs determined to be significantly underfunded, also began. These increases in state apportionment funding also drive increased expenditures in instruction. These revenues are not so much increases in funding as they are partial restorations of funding levels seen prior to the great recession, which resulted in \$17 million in major cuts since the 2009 fiscal year.

General Fund total expenditures have increased by 6.48% as compared to 2012-2013. The majority of the increase is made up of increased instructional expenditures showing a \$10,323,117 increase over prior year. Other areas that show smaller increases include maintenance/operations, administration, nutrition services and information systems. The description of "other services" on the line with information systems includes warehouse distribution, and motor pool. Washington State law, provides that school districts account for nutrition service operations (school breakfast and lunch programs) in the General Fund. During the fiscal year, the Food & Nutrition Services Department had \$6,704,878 in revenues and \$6,241,475 in direct expenditures. Expenditures by major functions of the district and changes over the preceding year are presented as follows:

Table 5 - General Fund

Revenue Source	2013-2014 Amount	Percent of Total	2012-2013 Amount	Increase (Decrease) Over 2012-13	Percent Increase (Decrease)
Local Taxes & Non-Tax	\$48,862,733	24.63%	\$48,983,215	(\$120,482)	-0.25%
State Revenues	136,144,313	68.63%	121,556,677	14,587,636	12.00%
Federal Revenues	13,220,447	6.66%	14,509,126	(1,288,679)	-8.88%
Other Governmental Entities	139,292	0.07%	16,076	123,216	766.46%
TOTAL	\$198,366,785	100.00%	\$185,065,094	\$13,301,691	7.19%
Expenditures/Functions					
Instruction	\$163,202,117	81.40%	\$152,879,000	\$10,323,117	6.75%
Maintenance/Operations	14,769,481	7.37%	13,759,962	1,009,519	7.34%
Pupil Transportation	7,405,043	3.69%	7,453,689	(48,646)	-0.65%
Administration	5,227,122	2.61%	4,813,882	413,240	8.58%
Nutrition Services	6,241,475	3.11%	6,070,294	171,181	2.82%
Information Systems/Other Services	3,661,076	1.83%	3,332,526	328,550	9.86%
TOTAL	\$200,506,314	100.00%	\$188,309,353	\$12,196,961	6.48%

General Fund Budgeting Highlights

The district's budget is prepared in accordance with State of Washington law. The district actively engages its community and staff in evaluating priorities through the strategic plan

process and the Fiscal Advisory Council. The most significant budgeted fund is the General Fund. Appropriations defined in the budget limit expenditures and may only be increased if the Board of Directors adopts a revised or supplemental budget following a defined process that includes a public hearing.

Required Supplementary Information, Schedule A-1, compares original and final budget amounts with actual amounts for revenues and expenditures. The two budget columns are identical, which indicates there were no budget amendments to the official budget for the fiscal year. Current budget practice consolidates most revenue contingencies in Local Non-Tax. Accordingly, from year to year, actual local non-tax revenues will fall \$3-4 million below that budgeted. Similarly, most expenditure contingencies are contained within Regular Instruction, facilitating the ability to respond to increased enrollment or unforeseen major program revenues. Other expenditure variations would include higher than expected enrollment in Special Education and lower than expected enrollment in Vocational Education.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The district had \$415.4 million invested in a range of capital assets at the conclusion of the 2013-2014 fiscal year, net of calculated total accumulated depreciation of \$163.5 million.

**Table 6 - Capital Assets at Year-End
(In Millions)**

	Historical Costs	Accumulated Depreciation	NET
Land	\$36.61		\$36.61
Building and Improvements	530.09	(\$157.56)	372.53
Equipment	12.22	(5.97)	6.25
Construction in Progress	0.01		0.01
TOTALS	\$578.9	(\$163.5)	\$415.4

The district reviews its capital needs annually and completes a detailed Capital Facilities Plan every two years. Over the fiscal year, the district’s capital projects program completed a major modernization of Everett High School’s gym, and completed the district’s new Community Resource Center.

From the support of our voters in February 2006, bond sales occurred in 2006, 2007, and 2009. The 2009 bond sale in the amount of \$48.9 million funding has been used for facilities projects throughout the district over the past several years. Note 6 to the financial statements shows construction in progress totaling \$10,759, which is a \$34,506,698 decrease from fiscal year 2012-2013. The total ending fund balance in the Capital Projects Fund of \$16,682,268, as well as the building repair and technology levy taxes to be collected through 2016, will continue to support miscellaneous construction and technology projects underway, designed to keep our facilities in a newer and well-maintained condition. More detailed information about capital assets can be found in Note 6 to the financial statements (Changes in Capital Assets).

Debt

Everett Public Schools has benefited from the strong support of our voters over the past 27 years. Voters approved capital bonds of \$38 million in 1986, \$96.5 million in 1990, \$68.5 million in 1996, \$74 million in 2002 and \$198.9 million in 2006. The outstanding debt as authorized by our voters is summarized below in Table 7. The table also shows debt service activity for the outstanding bonds during the period.

**Table 7 - Outstanding Debt, at Year-End
(In Millions)**

Bond	Balance 8/31/2013	Balance 8/31/2014	Increase (Decrease)
July 1, 2002	\$1.000		(\$1.000)
December 18, 2003	7.675		(7.675)
March 1, 2004 (Refunding)	2.235		(2.235)
July 2, 2006	69.860	\$15.425	(54.435)
July 24, 2007	88.430	33.365	(55.065)
September 30, 2009	6.475	6.340	(0.135)
September 30, 2009 BAB	18.465	18.465	
October 6, 2009 QSCB	17.445	17.445	
October 30, 2014 (Refunding)		33.455	33.455
April 28, 2014 (Refunding)		69.645	69.645
TOTALS	\$211.585	\$194.140	(\$17.445)

The district carries a Global Scale Rating of Aa2 affirmed by Moody's Investors Service on October 11, 2013. Also on October 11, 2013, Standard and Poor's assigned its AA+ enhanced long-term rating and AA school issuer credit rating (ICR) to the district.

Rule 15c2-12, promulgated by the Securities and Exchange Commission, imposes certain requirements upon underwriters of publicly offered securities. One of those requirements for issuers is the filing of notices of certain material events. One of the material events is a rating change with respect to a bond issue. If a bond issue is insured by a policy of municipal bond insurance, or enhanced by the Washington State School District Credit Enhancement Program, a change in the rating of the bond insurer or Washington State will change the district's bond rating even though the underlying credit rating on the district has not changed.

The following bond insurers and their associated ratings are listed alongside the district's Unlimited Tax General Obligation Bonds' along with the bond's outstanding balance:

<u>Year</u>	<u>Final Maturity</u>	<u>Balance Outstanding as of the Date of this Report</u>	<u>Insurer</u>	<u>Rating</u>
2006	12/01/2020	\$15,425,000	FGIC	Withdrawn
2007	12/01/2021	\$33,365,000	FGIC	Withdrawn
2009A	12/01/2016	\$ 6,340,000	Washington State	Aa1
2009B	12/01/2022	\$18,465,000	Washington State	Aa1
2009C	12/01/2023	\$17,445,000	Washington State	Aa1
2013	12/01/2020	\$33,455,000	Washington State	Aa1
2014	12/01/2021	\$69,645,000	Washington State	Aa1

The district participates in the Washington State School District Guarantee Program for its bond issues from 2002 through 2014. Now that the insurance companies' ratings have fallen below the district's own underlying ratings and the credit-enhanced ratings provided by participating in the Washington State School district Guarantee Program, the district's underlying ratings and the State's ratings will prevail on those insured bonds, in spite of insurance company downgrades. The bond issues from 2009, 2013, and 2014 do not carry separate municipal bond insurance, but instead benefit from the Washington State guarantee.

More detailed information about long-term liabilities can be found in Note 8 to the financial statements (Changes in Long-Term Liabilities).

ECONOMIC FACTORS FOR THE FUTURE

Everett Public Schools is located in Snohomish County, in northwestern Washington State. It encompasses most of the cities of Everett and Mill Creek, as well as portions of the unincorporated County.

The Everett/Snohomish County economy has a healthy financial history and continues to diversify with major industries including aircraft production, electronics and electrical equipment manufacturing, health care, transportation, and a variety of other industrial and commercial businesses, and several urban development projects. Economic development efforts have been successful over the past decade in creating a diversification of business and industry that is broader than our historical dependency on the aerospace industry. The county should continue to be an attractive center for growth in the years ahead due to the availability of land, office and manufacturing space.

Approximately twenty-four percent of the district's General Fund revenues are provided by local maintenance and operations levies. The Everett Public Schools voters have continued to support this funding, as demonstrated by the approval of a four-year levy passed in February of 2014. The new levy replaced the levy expiring in 2014 and allows the district to assess up to \$48 million in 2015, \$49 million in 2016, \$53 million in 2017, and \$51 million in 2018.

In the February 2010 election, the voters also approved a Building Repair and Technology tax to provide a total of \$48 million for the district's Capital Projects Fund. This authorized the district to collect \$8 million each year for six years beginning in 2011 through 2016. These funds continue to help upgrade technology and fund other small capital asset preservation projects.

On January 5, 2012, the Washington Supreme Court filed its decision in the case of *McCleary vs. State*, concluding that the state has not complied with its duty under article IX, section 1 of the Washington Constitution to make ample provisions for the education of all children in the state. The Supreme Court also retained jurisdiction over the case to help facilitate the state's progress to fully implement the reforms set forth in ESHB 2261 by 2018. This significant decision is similar to the 1978 *Seattle School Dist. No. 1 vs. State* determination which resulted in major reforms for the funding of public schools.

On January 9, 2014, the Supreme Court recognized the Legislature for making some funding progress. The court was highly critical about the legislature's pace of improvement and the lack of any detailed plan for achieving full funding by 2018. The court clearly stated that the state is "not on target to implement ESHB 2261 and SHB 2776 by the 2017-18 school year." The order observes that the \$982 million budget for education in 2013-15 represents only a 6.7 percent increase over the current constitutionally inadequate level of funding and falls well short of the needs estimated by the legislature's Joint Task Force on Education Funding. The order directs the state to provide a complete phase-in plan for meeting its goals by April 30, 2014, and indicates the court might seek more frequent reports, emphasizing "the pace of progress must quicken."

On September 11, 2014, the Supreme Court unanimously found the State in contempt. The court did rule that sanctions are postponed, providing the legislature an opportunity to purge the contempt during the 2015 session. If the contempt is not purged by adjournment, the court will reconvene and impose sanctions or other remedial measures.

On November 4, 2014, voters narrowly approved State Initiative 1351 (I-1351) calling for further reduction in class size than that imposed by *McCleary*. It further increases the allocation ratio for all school based staff in alignment with recommendations of the Quality Education Council established by the legislature under ESH2261 in 2009. The cost of I-1351 has been estimated to result in a four-year investment of \$4.5 billion.

In its 2015 session, the legislature is under significant pressure to finalize an investment strategy that responds to *McCleary* and I-1351 for the 2015-17 and 2017-19 bienniums. While the state wrestles with a shortfall exceeding \$4.5 billion, increased investments in K-12 public schools is considered eminent.

With the high level of certainty associated with increased state funding, improving economic conditions, and projected increase in student enrollment, the economic outlook for the Everett Public Schools is very favorable over the next four years.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our community, creditors, investors, and other interested parties with a general overview of the district's finances and to show the district's accountability for the financial resources it receives. If there are questions about this report or additional financial information is needed, contact the district's Department of Finance and Business Services at 3900 Broadway, Everett, Washington 98201.

**EVERETT PUBLIC SCHOOLS
STATEMENT OF NET POSITION
AUGUST 31, 2014**

	PRIMARY GOVERNMENT Governmental Activities
ASSETS	
Cash, Cash Equivalents & Investments	\$46,347,634
Due from Other Governmental Units	1,639,492
Accounts Receivable, Net	416,009
Property Taxes Receivable	38,957,220
Inventory	930,812
Prepaid Items	987,269
Investment in Joint Venture	161,246
Capital Assets, Non-depreciable:	
Land	36,617,520
Construction in Progress	10,759
Capital Assets, Net of Accumulated Depreciation:	
Building & Improvements	372,533,494
Equipment	6,246,663
TOTAL ASSETS	504,848,118
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	14,053,523
TOTAL DEFERRED OUTFLOWS OF RESOURCES	14,053,523
LIABILITIES	
Accounts Payable	2,825,736
Accrued Salaries	462,110
Payroll Deductions & Taxes Payable	76,259
Due to Other Governmental Units	7,871
Deposits	41,956
Unearned Revenue	2,424,849
Long-Term Liabilities:	
Due Within One Year	25,302,389
Due in More than One Year	219,461,041
TOTAL LIABILITIES	250,602,211
NET POSITION	
Net Investment in Capital Assets	206,221,932
Restricted for:	
Capital Projects	16,875,612
Debt Service	9,335,362
Everett School Employee Benefit Trust	6,080,610
ASB Activities	1,621,733
Carryover Restricted Revenues for Education and Operations	1,438,510
Uninsured Risks (ESEBT - IBNR, Workers Comp Required Surety)	125,000
Unrestricted	26,600,671
TOTAL NET POSITION	\$268,299,430

The Notes to the Basic Financial Statements are an integral part of this statement.

**EVERETT PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014**

PROGRAM/ACTIVITY	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICE	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES:					
Regular Instruction	\$137,478,386	\$1,049,061	\$50,578	\$3,038,445	(\$133,340,302)
Special Education	27,429,607	18	21,081,633		(6,347,956)
Vocational Education	7,070,190	9,629	131,539		(6,929,022)
Compensatory Education	10,313,448	1,000	10,731,519		419,071
Other Instruction Programs	3,504,455	1,804,645	1,871,571		171,761
Community Services	456,471	506,898	82,006		132,433
Support Services	44,166,396	2,342,023	10,662,768	3,727,774	(27,433,831)
Extracurricular Activities (ASB)	2,018,835	1,995,744			(23,091)
Interest Payment on Long-Term Debt	4,397,168				(4,397,168)
TOTAL GOVERNMENTAL ACTIVITIES	\$236,834,956	\$7,709,018	\$44,611,614	\$6,766,219	(\$177,748,105)
GENERAL REVENUES:					
Taxes:					
Property Taxes, Levies for Maintenance/Operations					\$42,681,250
Property Taxes, Levies for Debt Service					27,351,076
Property Taxes, Levies for Capital Projects					7,966,903
Unallocated State Apportionment & Others Not Restricted to Specific Activities					106,489,921
Interest and Investment Earnings					91,577
TOTAL GENERAL REVENUES					184,580,727
Changes in Net Position					6,832,622
NET POSITION - Beginning					261,466,808
NET POSITION - Ending					\$268,299,430

The Notes to the Basic Financial Statements are an integral part of this statement.

**EVERETT PUBLIC SCHOOLS
FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
AUGUST 31, 2014**

	GENERAL FUND	SPECIAL REVENUE (ASB) FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TRANSPORTATION VEHICLE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash & Cash Equivalents	\$8,130,951	\$1,934,447	\$9,967,646	\$18,089,196	\$193,344	\$38,315,584
Due from Other Funds	392,456	5,636				398,092
Due From Other Governmental Units	1,639,492					1,639,492
Accounts Receivable	373,186	17,849		9,625		400,660
Property Taxes Receivable	21,311,070		13,676,743	3,969,407		38,957,220
Inventory	867,682	63,130				930,812
Prepaid Items	965,853	18,500				984,353
TOTAL ASSETS	\$33,680,690	\$2,039,562	\$23,644,389	\$22,068,228	\$193,344	\$81,626,213
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE						
LIABILITIES						
Accounts Payable	\$1,713,879	\$59,984		\$1,027,260		\$2,801,123
Accrued Salaries	462,110					462,110
Payroll Deductions & Taxes Payable	76,259					76,259
Due to Other Governmental Units	7,871					7,871
Due to Other Funds	5,636	12,788		379,668		398,092
Deposits	39,793					39,793
Unearned Revenue	136,863	345,057				481,920
TOTAL LIABILITIES	2,442,411	417,829		1,406,928		4,267,168
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	284,345			9,625		293,970
Unavailable Revenue - Property Taxes	21,311,070		13,676,743	3,969,407		38,957,220
TOTAL DEFERRED INFLOWS OF RESOURCES	21,595,415		13,676,743	3,979,032		39,251,190
FUND BALANCES						
Nonspendable Inventories and Prepaid Items	1,833,535	81,630				1,915,165
Restricted for Associated Student Body Fund Purposes		1,540,103				1,540,103
Restricted for Debt Service Fund Purposes			9,967,646			9,967,646
Restricted for Transportation Vehicle Fund Purposes				193,344		193,344
Restricted for Carryover of Restricted Revenues	1,438,510					1,438,510
Restricted for Uninsured Risks	125,000					125,000
Restricted for State Proceeds				8,977,295		8,977,295
Restricted for Impact Fees				484,661		484,661
Committed Levy Proceeds				1,067,360		1,067,360
Committed Fund Balance	102,000			374,763		476,763
Assigned to Other Purposes	571,865					571,865
Assigned to Fund Purposes				5,778,189		5,778,189
Unassigned Fund Balance	5,571,954					5,571,954
TOTAL FUND BALANCES	9,642,864	1,621,733	9,967,646	16,682,268	193,344	38,107,855
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$33,680,690	\$2,039,562	\$23,644,389	\$22,068,228	\$193,344	\$81,626,213

The Notes to the Basic Financial Statements are an integral part of this statement.

**EVERETT PUBLIC SCHOOLS
RECONCILIATION
BALANCE SHEET/STATEMENT OF NET POSITION
AUGUST 31, 2014**

	TOTAL GOVERNMENTAL FUNDS	LONG-TERM ASSETS, LIABILITIES*	INTERNAL SERVICE FUND*	RECLASSIFICATIONS AND ELIMINATIONS*	STATEMENT OF NET POSITION TOTALS
ASSETS					
Cash & Cash Equivalents	\$38,315,584		\$8,032,050		\$46,347,634
Due From Other Funds	398,092			(\$398,092)	
Due From Other Governmental Units	1,639,492				1,639,492
Accounts Receivable	400,660		15,349		416,009
Property Taxes Receivable	38,957,220				38,957,220
Inventory	930,812				930,812
Prepaid Items	984,353		2,916		987,269
Investment in Joint Venture		\$161,246			161,246
Capital Assets, Net		415,408,436			415,408,436
TOTAL ASSETS	\$81,626,213	\$415,569,682	\$8,050,315	(\$398,092)	\$504,848,118
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Loss on Refunding		14,053,523			14,053,523
TOTAL DEFERRED OUTFLOWS OF RESOURCES		14,053,523			14,053,523
LIABILITIES					
Accounts Payable	\$2,801,123		\$24,613		\$2,825,736
Accrued Salaries	462,110				462,110
Payroll Deductions & Taxes Payable	76,259				76,259
Due to Other Governmental Units	7,871				7,871
Due to Other Funds	398,092			(\$398,092)	
Deposits	39,793		2,163		41,956
Unearned Revenue	481,920		1,942,929		2,424,849
Long-Term Liabilities		244,763,430			244,763,430
TOTAL LIABILITIES	4,267,168	244,763,430	1,969,705	(398,092)	250,602,211
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	293,970	(293,970)			
Unavailable Revenue - Property Taxes	38,957,220	(38,957,220)			
TOTAL DEFERRED INFLOWS OF RESOURCES	39,251,190	(39,251,190)			
FUND BALANCES/NET POSITION					
Fund Balances/Position	38,107,855	224,110,965	6,080,610		268,299,430
TOTAL FUND BALANCES/NET POSITION	38,107,855	224,110,965	6,080,610		268,299,430
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION	\$81,626,213	\$429,623,205	\$8,050,315	(\$398,092)	\$518,901,641

The Notes to the Basic Financial Statements are an integral part of this statement.

*See Note 2A.

EVERETT PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	GENERAL FUND	SPECIAL REVENUE (ASB) FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TRANSPORTATION VEHICLE FUND	TOTALS GOVERNMENTAL FUNDS
REVENUES						
Local	\$48,862,733	\$1,995,744	\$27,182,060	\$8,786,117	\$323	\$86,826,977
State	136,144,313			6,605,316	93,059	142,842,688
Federal	13,220,447		297,774			13,518,221
Other Entities	139,292					139,292
TOTAL REVENUES	198,366,785	1,995,744	27,479,834	15,391,433	93,382	243,327,178
EXPENDITURES						
Current:						
Regular Instruction	115,739,305					115,739,305
Special Education	26,665,038					26,665,038
Vocational Education	6,709,718					6,709,718
Compensatory Education	10,136,673					10,136,673
Other Instruction Programs	3,206,654					3,206,654
Community Services	443,886					443,886
Support Services	37,101,491					37,101,491
Student Activities		2,018,835				2,018,835
Capital Outlay:						
Sites				190,503		190,503
Buildings				10,463,500		10,463,500
Equipment	503,549			4,442,532	216,307	5,162,388
Instructional Technology				2,290,600		2,290,600
Sales and Lease				4,667		4,667
Debt Service:						
Bond Principal			17,325,000			17,325,000
Bond Interest and Other Charges			7,849,588	6,120		7,855,708
TOTAL EXPENDITURES	200,506,314	2,018,835	25,174,588	17,397,922	216,307	245,313,966
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,139,529)	(23,091)	2,305,246	(2,006,489)	(122,925)	(1,986,788)
OTHER FINANCING SOURCES (USES):						
Refunding Bond Sales			103,810,000			103,810,000
Refunding Bond Sales Premium			16,136,682			16,136,682
Refunded Bonds, Payment to Escrow Agent			(119,314,398)			(119,314,398)
Sale of Surplus Equipment	6,601					6,601
Transfers	2,150,000			(2,150,000)		
TOTAL OTHER FINANCING SOURCES (USES)	2,156,601		632,284	(2,150,000)		638,885
NET CHANGE IN FUND BALANCE	17,072	(23,091)	2,937,530	(4,156,489)	(122,925)	(1,347,903)
FUND BALANCE -- September 1, 2013	9,625,792	1,644,824	7,030,116	20,838,757	316,269	39,455,758
FUND BALANCE -- August 31, 2014	\$9,642,864	\$1,621,733	\$9,967,646	\$16,682,268	\$193,344	\$38,107,855

The Notes to the Basic Financial Statements are an integral part of this statement.

**EVERETT PUBLIC SCHOOLS
RECONCILIATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014**

REVENUES & OTHER SOURCES	TOTAL GOVERNMENTAL FUNDS	LONG-TERM REVENUE, EXPENSES*	CAPITAL RELATED ITEMS*	INTERNAL SERVICE FUND*	LONG-TERM DEBT TRANSACTIONS*	STATEMENT OF ACTIVITIES TOTAL
Revenues:						
Local	\$86,826,977	\$281,475				\$87,108,452
State	142,842,688					142,842,688
Federal	13,518,221					13,518,221
Other Entities	139,292	3,748		\$53,625		196,665
Other Sources:						
Refunding Bond Sales	103,810,000				(\$103,810,000)	
Refunding Bond Sales Premium	16,136,682				(\$16,136,682)	
Sale of Surplus Equipment	6,601		(\$5,049)			1,552
TOTAL REVENUES & OTHER SOURCES	363,280,461	285,223	(5,049)	53,625	(119,946,682)	243,667,578
EXPENDITURES & OTHER USES						
Current:						
Regular Instruction	115,739,305	2,320,217	18,186,721	1,232,143		137,478,386
Special Education	26,665,038	473,975	15,075	275,519		27,429,607
Vocational Education	6,709,718	177,490	110,066	72,916		7,070,190
Compensatory Education	10,136,673	60,015	12,686	104,074		10,313,448
Other Instruction Programs	3,206,654	85,459	180,003	32,339		3,504,455
Community Services	443,886	8,695		3,890		456,471
Support Services	37,101,491	198,258	6,652,749	213,898		44,166,396
Student Activities	2,018,835					2,018,835
Capital Outlay:						
Sites	190,503		(190,503)			
Buildings	10,463,500		(10,463,500)			
Equipment	5,162,388		(5,162,388)			
Instructional Technology	2,290,600		(2,290,600)			
Sales and Lease	4,667		(4,667)			
Debt Service:						
Bond Principal	17,325,000				(\$17,325,000)	
Bond Interest and Other Charges	7,855,708				(3,458,540)	4,397,168
Other Uses:						
Refunded Bonds, Payment to Escrow Agent	119,314,398				(119,314,398)	
TOTAL EXPENDITURES & OTHER USES	364,628,364	3,324,109	7,045,642	1,934,779	(140,097,938)	236,834,956
NET CHANGE FOR THE YEAR	(\$1,347,903)	(\$3,038,886)	(\$7,050,691)	(\$1,881,154)	\$20,151,256	\$6,832,622

The Notes to the Basic Financial Statements are an integral part of this statement.

*See Note 2B.

EVERETT PUBLIC SCHOOLS
STATEMENT OF NET POSITION
PROPRIETARY FUND (Everett School Employee Benefit Trust)
AUGUST 31, 2014

GOVERNMENTAL ACTIVITIES
INTERNAL SERVICE FUND

ASSETS

Current Assets

Cash & Cash Equivalents	\$3,042,435
Prepaid Expenses	2,916
Accounts Receivable	15,349
Investments at Fair Value:	
Certificates of Deposit	3,554,800
U.S. Government Securities	1,434,815
	8,050,315

TOTAL ASSETS**8,050,315****LIABILITIES**

Current Liabilities

Accounts Payable	24,613
COBRA Premium Deposits	2,163
Unearned Revenue - Premiums	1,942,929
	1,969,705

TOTAL LIABILITIES**1,969,705****NET POSITION**

Unrestricted	6,080,610
	6,080,610

TOTAL NET POSITION**\$6,080,610**

The Notes to the Basic Financial Statements are an integral part of this statement.

EVERETT PUBLIC SCHOOLS
PROPRIETARY FUND (Everett School Employee Benefit Trust)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	GOVERNMENTAL ACTIVITIES
	INTERNAL SERVICE FUND
OPERATING REVENUES	
Employer Contributions	\$16,039,057
Participant Contributions	4,886,314
	<hr/>
TOTAL OPERATING REVENUES	20,925,371
	<hr/>
OPERATING EXPENSES	
Benefits Claims	(2,304)
Insurance Premiums	22,510,186
Administrative Expenses	339,239
	<hr/>
TOTAL OPERATING EXPENSES	22,847,121
	<hr/>
OPERATING LOSS	(1,921,750)
	<hr/>
NONOPERATING REVENUES	
Investment Earnings	53,625
Net Depreciation in Fair Value of Investments	(13,029)
	<hr/>
TOTAL NONOPERATING REVENUES	40,596
	<hr/>
CHANGE IN NET POSITION	(1,881,154)
	<hr/>
NET POSITION - Beginning	7,961,764
	<hr/>
NET POSITION - Ending	\$6,080,610
	<hr/> <hr/>

The Notes to the Basic Financial Statements are an integral part of this statement.

EVERETT PUBLIC SCHOOLS
PROPRIETARY FUND (Everett School Employee Benefit Trust)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	GOVERNMENTAL ACTIVITIES
	INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Employer Contributions	\$17,516,000
Participant Contributions	5,344,830
Benefits Payments	2,304
Insurance Premium Payments	(22,535,186)
Administrative	(323,258)
	4,690
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases and Sales of Investments	(72,200)
Interest and Dividends	53,625
	(18,575)
	(13,885)
BALANCES - BEGINNING OF THE YEAR	3,056,320
BALANCES - END OF THE YEAR	\$3,042,435
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Loss	(\$1,921,750)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Decrease in Cash Due to Increase in Accounts Receivable	(15,349)
Decrease in Cash Due to Increase in Prepaid Expenses	(2,916)
Increase in Cash Due to Increase in Liabilities	1,944,705
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	\$4,690

The Notes to the Basic Financial Statements are an integral part of this statement.

**EVERETT PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
AUGUST 31, 2014**

	PRIVATE PURPOSE TRUST
ASSETS	
Cash & Cash Equivalents	\$131,081
	131,081
LIABILITIES	
Accounts Payable	5,500
	5,500
NET POSITION	
Trust Principal	25,500
Held in Trust for Scholarships and Private Beneficiaries	100,081
	\$125,581

The Notes to the Basic Financial Statements are an integral part of this statement.

EVERETT PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2014

	PRIVATE PURPOSE TRUST
ADDITIONS	
Donations	\$63,042
Investment Earnings	52
	63,094
DEDUCTIONS	
Scholarships	38,258
	38,258
CHANGE IN NET POSITION	24,836
NET POSITION -- September 1, 2013	100,745
NET POSITION -- August 31, 2014	\$125,581

The Notes to the Basic Financial Statements are an integral part of this statement.

EVERETT PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Everett Public Schools (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. Effective for fiscal year 2007-2008, the District implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*. This requires the District to disclose information about other postemployment benefits including plan description, accounting policies, contributions and reserves, funded status and funding progress (refer to Note 7 and the Required Supplementary Information). The District is required to report the cost of OPEB and outstanding obligations related to OPEB. The district implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* for the 2012-2013 year. Under the new statement, 'net assets' are now reported as 'net position'. For the 2013-2014 year, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The following is a summary of the District's significant accounting policies:

A. REPORTING ENTITY

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

The Everett Public Schools financial statements include all funds and organizations for which the District is financially accountable, organizations that are controlled by or dependent on the District's Board of Directors or administrative staff, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. Control by or dependence on Everett Public Schools was determined on the basis of budget adoption, taxing authority, outstanding debt secured by the general obligation of the District, obligation of the District to finance any deficits that may occur, receipt of significant subsidies from the District, and consideration of other significant operational and financial relationships with the District.

Blended Component Unit -- Everett Public Schools' financial statements include those of the District as the primary government, and its component unit (a separate legal entity) the Everett School Employee Benefit Trust (ESEBT). The ESEBT is a local governmental employee health benefit program as defined by Title 48.62 of the Revised Code of Washington (RCW). It provides comprehensive medical, vision, dental, life, accidental death and dismemberment, long-term disability, and short-term disability coverage to qualified District employees and their covered dependents. The ESEBT has also incorporated a comprehensive wellness program to promote healthy lifestyles and reduce medical plan costs. The ESEBT is governed and administered by a

board of three management and three labor trustees. Everett Public Schools retains governing control (appoints Board of Trustees, and is accountable for financial matters) over the ESEBT.

The determination to include the ESEBT as a blended component unit of the District is made per the criteria specified in GASB Statement No. 39, but is most specifically due to the significance of the ESEBT's operational and financial relationships with the District. The ESEBT is reported as an Internal Service Fund in accordance with GASB Statement No. 10 (Risk Financing) and its funds are blended into those of the District's by appropriate activity type to compose the primary government's presentation. The ESEBT uses a fiscal year-end which is different from the District's. A reconciliation between the different reporting periods has not been performed. The ESEBT has produced its own financial report for the year ended June 30, 2014, which can be obtained from: Everett School Employee Benefit Trust, P.O. Box 2098, Everett, WA 98213

Related Organizations -- The Everett Public Schools Foundation is a community based, separate legal entity organized under IRS provision as a 501(c) (3) non-profit organization. The Foundation is governed by a Board of Directors of approximately twenty-five members comprised of a diverse balance of community members as well as District employees. The Foundation's activities are supported by private donations. Their mission is to develop and provide community support to strengthen achievement in the Everett Public Schools.

The District recognizes various parent/teacher associations, organizations and/or groups (PTAs, Boosters), which are separate legal entities, and/or whose members are involved according to their own private capacities, that have been organized for the purpose of increasing the opportunities for parents and community members to be involved in the educational activities of the children in our community.

The boards of directors, and/or officers for the above listed groups (Foundation and various parent or community associations) are not appointed by the Everett Public Schools. Everett Public Schools is not financially responsible for the Foundation, or the parent/teacher associations, organizations, and/or other community groups. Contributions from the above noted related parties, while an important and viable source of support for the District, are not a material source as related to the District's overall financial position and presentation of the financial statements. Contributions received from these groups have been recorded as revenue in the District's financial statements, but the financial information for said groups themselves are not presented in the District's financial statements.

The District has no other component units, or related organizations for which the District is considered to be financially accountable, and no entities for which the nature and significance of their relationship with the primary government are such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

B. PRESENTATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The District's basic financial statements consist of:

1. Government-Wide Financial Statements -- Government-wide financial statements display governmental activities of the District as a whole, without displaying individual funds or fund types. They include the primary government (and its component unit the ESEBT) however, they do not contain fiduciary activities or funds. The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. The government-wide financial statements consist of the following:

a. *Statement of Net Position* -- The Statement of Net Position reports all financial and capital resources. Land is reported at historical cost. Other depreciable capital assets, such as buildings, building improvements, vehicles and equipment, are reported at historical cost, net of accumulated depreciation.

b. *Statement of Activities* -- The Statement of Activities demonstrates the operations of the District presented as net (expense) revenue of its individual function/program, and the degree to which the direct expenses of specific programs or functions are offset by program revenues. General revenues are divided into property taxes, unallocated state apportionment, interest, and investment earnings. The expenses and revenues are reported as follows:

Expenses -- Direct expenses are those that are clearly identifiable with a specific program or function. Depreciation expenses are allocated to direct expenses if they can be specifically identified with a program or function.

Revenues -- Revenues are divided into program revenues and general revenues. Program revenues are derived directly from the program itself or from parties outside the District's taxpayers, as a whole. Program specific revenues include 1) charges to individuals or groups who purchase, use, or directly benefit from goods, services, or privileges provided by a program or function, and 2) grants and contributions arising from mandatory and voluntary non-exchange transactions with federal, state governments, organizations, or individuals that are restricted to meeting the operational or capital requirements of a particular program or function. General revenues include property taxes, interest and investment earnings, and other unallocated revenues that are not required to be reported as program revenues, or are not specifically identifiable with a specific program or function.

2. *Fund Financial Statements* -- The accounts of the District are organized on the basis of funds in the fund financial statements, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The fund financial statements consist of the Fund Balance Sheet, Reconciliation of Balance Sheet/Statement of Net Position, Statement of Revenues, Expenditures and Changes in Fund Balance, and Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities, Proprietary Fund Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, and Statement of Cash Flows, Fiduciary Fund - Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position. The various funds are grouped into three classifications: Governmental, Proprietary, and Fiduciary.

Governmental Funds -- The reporting of governmental funds focuses primarily on sources, uses, and balances of current financial resources and often has a budgetary orientation. Governmental funds use the modified accrual basis of accounting. The District reports the following major governmental funds:

General Fund

This fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. In keeping with the principle of as few funds as necessary, food services, maintenance, information systems, printing, and transportation activities are included in the fund. Major sources of revenue include local taxes, state funds, and federal funds.

Special Revenue Fund (Associated Student Body Fund)

This fund is used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. The Associated Student Body Fund (ASB Fund) is the only fund of this type. This fund is used to account for the extracurricular fees and resources collected in fundraising events for students. Disbursements require the joint approval of the appropriate student body organization and the District's Board of Directors. This fund is accounted for as a special revenue fund since the financial resources legally belong to the District.

Debt Service Fund

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

Capital Projects Fund

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

Transportation Vehicle Fund

This fund is a capital projects fund specifically used to account for the capital outlay involved with purchase, major repair, rebuilding, and debt service expenditures related to pupil transportation equipment (buses) used to transport students to and from school. The primary source of revenue in this fund is the state reimbursement for pupil transportation equipment.

Proprietary Funds -- The Everett School Employee Benefit Trust (ESEBT), a blended component unit of the District, is reported as an internal service fund, using the accrual basis of accounting.

The Internal Service Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing and delivering services (health, dental, vision, disability, etc.) to Everett Public Schools' employees. The effect of internal activity has been eliminated from the government-wide financial statements.

Fiduciary Funds -- Fiduciary fund reporting focuses on net position and changes in net position. Trust funds are used to account for assets held for individuals, private organization, other districts, or other funds in its fiduciary capacity as trustee or agent. The only fund the District has of this nature is the Private Purpose Trust Fund. The Private Purpose Trust Fund is used to account for resources legally held in trust to benefit private beneficiaries, individuals or private organizations for scholarships and student aid. The Private Purpose Trust Fund's resources are not available to support District operations. Funds are segregated by account code to differentiate between donors' intended use of funds for different purposes. Generally, all of the Trust Fund resources, including any earnings on invested resources, may be used to support the trust arrangements. However, there are some resources within the Private Purpose Trust Fund that contain a special requirement designating that the trust principal donations be reserved, and only the interest earnings used to support private beneficiaries or private organizations. The Private Purpose Trust Fund uses the accrual basis of accounting.

Major and Non-Major Funds -- All governmental funds are considered "major funds".

C. *MEASUREMENT FOCUS AND BASIS OF ACCOUNTING*

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This means only current assets and current liabilities are included on the balance sheets. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when assets are consumed and/or as liability is incurred just as under accrual accounting. However, debt service expenditures, for unmatured principal and interest on long-term debt as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes receivable at year-end are measurable but not available and are, therefore, recorded as deferred inflows of resources – unavailable revenue rather than accrued. Categorical program claims, including grant revenues from cost reimbursement grants, and inter-District billings are measurable and available and are, therefore, accrued.

Eliminations and Reclassifications -- In the process of consolidating internal activities for the government-wide Statement of Net Position and Statement of Activities, the interfund receivables and payables between the governmental funds, except those, if any, with fiduciary funds, were eliminated. The District's primary type of interfund activity consists of a 'reimbursement of expenditure' type transaction. This occurs when one fund (usually the General Fund as the operating fund) pays the expenditures belonging to or attributable to another fund, which are subsequently reimbursed to the loaning fund by the other fund. The loaning fund treats the pay-back of funds as 'reimbursements of expenditure' while the benefiting fund accounts for the transaction as a direct expense. Accordingly, the direct expenses are included only once (not eliminated) from government-wide presentation. These expenses happen primarily between the General, ASB, and Capital Projects Funds involving payroll transactions.

D. *ASSETS, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, LIABILITIES AND NET POSITION OR EQUITY*

1. *Cash on Hand, Investments and Deposits*

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

State of Washington statutes authorize the District to invest in 1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States, and 2) deposits in any state

bank or trust company, national banking association, stock saving bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300, if the institution has been approved by the Public Deposit Protection Commission to hold public deposits, and has segregated eligible collateral having a value of not less than its maximum liability.

The Snohomish County Treasurer is the ex-officio treasurer for the District. In this capacity, the county treasurer receives deposits and transacts investments on the District's behalf. Temporary investments are stated at cost plus accrued interest, which approximates market. Other investments of the District are reported at fair value.

2. Receivables and Payables

Due From Other Funds and Due To Other Funds -- Interfund receivables and payables and the associated expenditures and/or reimbursement of expenditures, are recorded in the respective funds in the governmental fund financial statements. The interfund balances represent short-term loans between the governmental funds, made for the purposes of streamlining the issuance of warrants for payroll and other occasional miscellaneous purchases of goods and services. The interfund balances are temporary and are cleared regularly by issuance of a warrant from one fund to the other. In the process of aggregating data for the Statement of Net Position and the Statement of Activities, any interfund receivables and payables that may exist at fiscal year-end are eliminated in government-wide financial statements, except those (if any) with fiduciary funds, which are reclassified as a third party receivable.

Due from Other Governmental Units -- This account represents receivables for grants from federal, state and local governmental entities. Grant revenues are recorded in the year in which the expenditures are incurred and/or applicable eligibility requirements imposed by the grantor have been met.

Accounts Receivable -- This account represents amounts due for services rendered by the District in the current year, net of allowance for doubtful accounts. The District considers receivables collected within 60 days after year-end to have been available and recognizes them as revenues of the current year.

Property Taxes Receivable -- Property tax revenues are collected by the Snohomish County Treasurer as the result of special levies passed by voters in the District. In accordance with RCW 84.60.020, the tax assessment date is January 1 of the calendar year of collection. The tax lien date is January 1 of the year of collection and taxes receivable are recognized as of that date. Current year taxes are due in full as of April 30, and are delinquent after that date. However, without incurring penalty, the taxpayer may elect to pay one-half of the taxes due by April 30, with the remaining one-half of the taxes due October 31 and delinquent after that date. Typically, slightly more than half of the collections are made by the April 30 date. The October 31 collection is measurable but 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 in the governmental fund financial statements. Instead, the taxes due on October 31 are recorded as taxes receivable and deferred inflow of resources – unavailable revenue in the fund financial statements. In the government-wide financial statements, property tax revenue, net of estimated uncollectible, is accrued at year-end. Property is subject to foreclosure if property taxes are delinquent for three years.

3. Inventory and Prepaid Items

Inventory -- With the exception of some of the food items purchased for use in the food services program, the District uses the periodic inventory method for the goods and supplies purchased for

use in its programs. The District records expenditures throughout the year as the goods and supplies are purchased. Near year end, goods or supplies ordered and received that have been purchased primarily for consumption and use in the coming new school year are recognized as inventory of the current fiscal year, and expenditures during the year in which they are used. Physical inventory counts are conducted annually near fiscal year-end. In addition, the District operates a very limited service warehouse for the sole purpose of the food services program. The District uses the consumption method for its warehouse and food service program purchases. Under the consumption method, expenditures for food are recognized as the food is used. Food inventory is tracked using the perpetual method with an annual physical count taken near year-end to verify and adjust the inventory value. The inventories are valued at cost using the first-in-first-out (FIFO) method.

The United States Department of Agriculture (USDA) commodity inventory, is included in the General Fund inventory total and consists of food donated by the USDA for use in the District's nutrition services program. The commodities are valued at the prices paid by the USDA for commodities.

Prepaid Items -- Prepaid items refer to payments made to vendors for services which will be consumed in a future fiscal period but for which payment has been made in the current fiscal period. Expenditures for these items are pro-rated or matched to the period during which the services will be consumed. The prepaid items asset account is used when the timing of the expenditure is relevant to the proper recognition of the expenditures. These amounts are recorded as prepaid items in both the government-wide and fund financial statements.

4. Capital Assets

Capital assets consist of land, buildings, improvements, vehicles, machinery and other equipment having an estimated useful life of more than one year. Capital assets of the District are reported in the government-wide financial statements in the Statement of Net Position. Land, buildings, and major improvements funded by the capital projects fund, are capitalized at cost with no minimum threshold. Equipment is capitalized when the unit cost of an individual item is \$5,000 or more. Assets are valued at actual historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but are charged to expenditures in the current period.

In governmental fund financial statements, there is no depreciation for capital assets. However, depreciation is charged to expense and allocated to various programs/functions in the government-wide statement of activities in compliance with GASB statement No. 34 (see Note 6). Capital assets are reflected at historical cost (or estimated historical cost where applicable) net of accumulated depreciation in the government-wide statement of net position. Land and construction work in progress (CIP) are not depreciated. All other capital assets are depreciated using the straight line method over the following ranges of estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & Building Improvements	20-50
Vehicles	8-13
Equipment	5-15

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures as incurred upon acquisition.

5. Deferred Outflows/Inflows of Resources

Deferred Outflows: In governmental fund financial statements, there are no deferred outflows of resources. In government-wide statements, deferred outflows of resources consists of deferred loss on bond refunding resulting in a defeasance of debt. The resulting loss or gain on refunding is recognized on the Statement of Net Position and as a component of interest expense amortized over the life of the old debt or the life of the new debt whichever is shorter.

Deferred Inflows: Deferred inflows of resources on the governmental fund financial statements consist of amounts collected before revenue recognition criteria have been met, and receivables, which under the modified accrual basis of accounting, are measurable but not yet available (i.e. unavailable property tax revenues, unavailable revenues from federal, state, and local grants and unavailable revenues on long-term receivables). In government-wide financial statements, property taxes, less estimated uncollectible, are accrued as revenue, therefore, there are no deferred inflows of resource balances in the government-wide financial statements. Any unearned revenue on the government-wide statement is classified as such because the amounts have been collected but the earnings process is not yet complete.

6. Long-Term Obligations

Long-Term Debt -- In the government-wide financial statements, long-term debt is reported as a liability on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Deferred amount on refunding is deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount, and deferred amount on refunding. Bond issuance costs, prior to the implementation of GASB 65, were reported as an asset on the Statement of Net Position (an offset to the long term debt liability), amortized over the term of the related debt, and charged to expense accounts as appropriate. However, under the new standard, bond issuance costs, except any portion related to prepaid insurance costs, are considered an expense in the period incurred.

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

Compensated Absences -- The District is required to report a long-term debt liability on the government-wide financial statement, Statement of Net Position, for vacation and sick leave earned by employees when the leave is related to employee services already rendered and eventual payment to the employee is considered probable. Payment means salary related compensation through paid time off, or some other means such as cash payments at termination or retirement. The sick and vacation liabilities reported by the District include all salary related payments to employees (i.e. employer obligations for FICA, Medicare and Retirement).

Sick Leave

Employees earn sick leave at a rate of 12 days per year and may accumulate such leave up to a maximum of one contract year. Under the provisions of RCW 28A.400.210, sick leave accumulated by District employees is reimbursed at death, retirement, or in certain circumstances, upon separation, at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This statute also provides for an annual buy-out of an amount up to the maximum annual accumulation of 12 days. For buy-out purposes, employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year. Sick leave expenditures are recorded in the governmental fund financial statements, when paid, except termination sick leave that is accrued upon death or retirement.

Vested sick leave for employees eligible for retirement is recorded as a long-term debt liability. Vested sick leave is computed using the vesting method.

Vacation Leave

Employees earn vacation leave at various rates based on the number of years employed. A maximum of 30 days unused vacation leave is paid upon termination or retirement. Vacation pay is recorded as an expenditure at the time of payment, which occurs upon usage or upon employee separation. The amount accrued for vacation leave payable is reported under long-term liabilities in the government-wide financial statements, Statement of Net Position.

7. Net Position -- Government-Wide Financial Statement

Net Investment in Capital Assets -- This component of net position in the government-wide financial statements consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted Net Position -- This component of net position in the government-wide financial statements reports assets where constraints have been placed on the assets by external laws, regulations, or legislation. Therefore, they are available for disbursement only for specific purposes (i.e. debt service, capital projects and others).

Unrestricted Net Position -- This component of net position in the government-wide financial statements shows assets that may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

Flow Assumptions for Restricted or Unrestricted Net Position --The District utilizes different flow assumptions when calculating restricted net position, where there are both restricted and unrestricted resources available for a certain purpose. The assumption used varies depending on the program and the specific restricted or unrestricted resource, but is applied consistently from year to year. In some cases, unrestricted resources are used first, or a pro-rata approach is used. In other cases however, the restricted resources are considered to be used first before the unrestricted resources.

8. Fund Equity -- Restrictions, Commitments, Assignments -- Governmental Funds

The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Governmental funds, fund financial statements display fund balance in five classifications depicting the relative strength of spending constraints under which resources may be used.

Nonspendable Fund Balance-- Amounts reported as nonspendable are non-liquid resources of the District such as prepaid assets or inventory.

Restricted Fund Balance -- Amounts that are reported as restricted are those resources of the District that are constrained to specific purposes by their providers (such as grantors, bond holders, and higher levels of government) through legal restrictions such as constitutional provisions, enabling legislation, or other externally imposed laws and contractual obligations beyond the control of the board of directors.

Committed Fund Balance --Amounts that are reported as committed are those resources of the District that have a limitation placed upon their usage by formal action (board resolution) of the District's board of directors. Commitments may only be changed when the resources are used for

the intended purpose or the limitation is removed by a subsequent formal action (board resolution) of the board of directors. General Fund shows committed fund balance for authorized imprest accounts, per Board resolution. Capital Projects Fund committed fund balance consists of two components, 'building repair and technology' tax levy proceeds (authority for such levy as per Board resolution) the source of which dictates their representation as committed per the State Accounting Manual for School Districts in the State of Washington, and funds previously set-aside by Board resolution for improvements to the Everett Memorial Baseball Stadium.

Assigned Fund Balance – The superintendent, as designated by the board (board policy), is the individual responsible for authorizing or changing assignments of fund balance. In the General Fund, assigned resources are constrained through budget allocation decisions made by the superintendent for funds which are neither restricted nor committed. For General Fund assignments primarily include individual schools carry-over of discretionary budget allotments, and privately donated funds for individual schools special programs, field trips or other enrichment activities which while not legally restricted, would be publicly sensitive if funds were not ear-marked for use as the donor intended. In the Capital Projects Fund, assigned resources are constrained at the superintendent's authorization, but, are based on the nature of the legal classification of residual funds (neither restricted, or committed) in the Capital Fund in the State of Washington and as prescribed by the State Accounting Manual for School Districts in the State of Washington. Assignments are changed when the resources are used for the intended purpose, or, for General Fund, if the funds are not utilized as designed within the next current period, could be rescinded by the superintendent through the budget allocation process and through agreements with the original donors. For the Capital Fund, the 'Assigned- Capital Project Fund Purposes' can not be changed, unless the funds are used for the intended purpose of the Capital Projects Fund, or if the Capital Projects fund were to be dissolved as a whole, through state legally defined processes and at the direction of the board. Assignments reduce the amount of unassigned fund balance, but may not reduce that balance below zero. Authority for making additional or more specific assignments within any of the funds rests with the superintendent.

Unassigned Fund Balances -- In the General Fund, amounts that are reported as unassigned are those net spendable resources of the District that are not otherwise restricted, committed, or assigned and may be used for any purpose within the General Fund.

In other governmental funds, unassigned fund balance, if any, would represent a deficit ending spendable fund balance once all restrictions and commitments are considered. The District does not have any unassigned fund balance in funds other than the General Fund. A negative unassigned fund balance would mean that the legal restrictions and formal commitments of the District exceed its currently available resources. The District does not have negative unassigned fund balances in any of its governmental funds.

Flow Assumptions for Restricted, Committed, Assigned or Unassigned Fund Balances -- The order in which the District assumes restricted, committed, assigned, and unassigned amounts are spent when amounts in more than one classification are available for a particular purpose, depends on the program and the resource, but is applied consistently from year to year. In some cases, unrestricted resources are used first, or a pro-rata approach is used. In other cases, the restricted resources are considered used first before the unrestricted resources.

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

Additionally the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is

available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

Minimum Fund Balance Policy - The District has established a Board policy providing a goal for management of fund balance. The goal embodies what was previously an informal practice of maintaining a minimum total ending fund balance in the General Fund of five percent (5%) and a minimum unassigned fund balance of two-and-a-half percent (2.5%). The authority for approval of the budget rests with the Board, which may adopt an annual expenditure plan with an estimated total ending fund balance that departs from this minimum target when it determines this is appropriate for a particular fiscal year.

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE FUND BALANCE SHEET FOR GOVERNMENTAL FUNDS AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

1. Investment in Joint Venture -- The District's equity interest of \$161,246 in King County Director's Association (KCDA) purchasing cooperative is included in the Statement of Net Position.

2. Capital Assets, Net -- When capital assets (land, buildings, equipment) used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in the governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole.

Cost of Capital Assets	\$	578,950,245
Less Accumulated Depreciation		(163,541,809)
Capital Assets, Net	\$	<u>415,408,436</u>

3. Deferred Outflows of Resources – Deferred Loss on Refunding –The difference between the carrying amount of refunded debt and the cost of new debt to retire the old resulted in a loss on refunding. The governmental funds recognize the flow of resources as current other financing sources and uses of funds. However, the Deferred Loss on Refunding of \$14,053,523 is added to the Statement of Net Position as a Deferred Outflow of Resources.

4. Long-Term Liabilities -- Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as liabilities in the fund balance sheet. However, all liabilities, both current and long-term, are reported in the Statement of Net Position. Accordingly, \$244,763,430 in long-term liabilities is added to the Statement of Net Position. See Long-Term Debt Note 8 for a schedule comprising the total below.

Due Within One Year	\$	25,302,389
Due in More than One Year		219,461,041
Total	\$	<u>244,763,430</u>

5. Deferred Inflows of Resources – Unavailable Revenue-- Property tax levies and other similar receivables that will not be collected for several months after year-end are not considered available. They are reported as deferred inflows of resources in governmental funds. However, unavailable revenue from property taxes (\$38,957,220) and unavailable revenue for other miscellaneous entitlements (293,970) are removed from the Statement of Net Position.

6. Internal Service Fund -- The Everett School Employee Benefit Trust (ESEBT) provides health benefits for the District's employees. The assets and liabilities of the internal service fund are included in the governmental activities of the District as a whole in the Statement of Net Position.

7. Due From Other Funds and Due To Other Funds -- In the governmental fund financial statements, interfund payables and receivables and the associated expenditures and/or reimbursement of expenditures are recorded in the respective funds as a result of general operations. In the conversion of fund financial statements to government-wide financial statements, all the governmental funds are consolidated and presented as a total. Accordingly, interfund receivable/payable balances of \$398,092 were eliminated.

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE DISTRICT FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

1. Long-Term Revenues -- Property tax levies, and other miscellaneous entitlements, less estimated uncollectible accounts that do not provide current financial resources, are reported as deferred inflows of resources in the governmental funds, but as revenues in the government-wide financial statements. Accordingly, \$281,475 in revenue has been added to the Statement of Activities.

2. Long-Term Revenues, Other Entities -- The value of the district's investment in joint venture (see also Note 12-Other Disclosures, KCDA) increased by \$3,748 from the prior year. The increase in the value of this asset results in an adjustment of general revenue in the Statement of Activities. The value of the investment in joint venture is not reported in the governmental funds.

3. Long-Term Expenses -- The net amount of \$3,324,109 represents the current year decrease in compensated absences liability (\$427,887), the increase in other post-employment benefits liability (\$3,751,996). These liabilities are not reported in governmental funds. The net increase in liabilities results in an adjustment to the Statement of Activities as expenses to appropriate programs.

4. Capital Related Items, Other Sources -- When surplus equipment is disposed of, the proceeds from the sale or the disposal is recognized as other financing sources in the governmental funds. However, in the government-wide financial statements, Statement of Activities, a net loss or gain on the disposal of the assets is recognized. Accordingly, the book value of the assets is offset against the proceeds (if any) from the sale or disposal to calculate, a net gain or loss.

Equipment Historical Cost	\$ 3,553,266
Less Accumulated Depreciation	(3,548,217)
Book Value of Assets	\$ 5,049
Proceeds from Sale of Equipment	6,601
Less Book Value of Equipment	(5,049)
Net (Loss) from Surplus Equipment	\$ 1,552

5. Capital Related Items, Expenses -- When capital assets (land, buildings, equipment) are purchased or constructed to be used in governmental activities, the cost of those assets are reported as capital outlay expenditures in the governmental funds. However, the Statement of Net Position includes capital assets among the assets of the District as a whole. Thus, governmental fund financial statements report capital outlay as expenditures (\$18,111,658), while government-wide financial statements report depreciation expense (\$16,685,104) for capital assets which are allocated to various applicable programs. Expenditures for equipment costing less than \$5,000 that are reported as capital outlay expenditures in the governmental fund financial statements have been re-allocated as expenses to governmental activities in the Statement of Activities as follows:

	<u>Non-Capitalized</u>	<u>Depreciation</u>	<u>Total</u>
Regular Instruction	\$ 4,096,040	\$ 14,090,681	\$ 18,186,721
Special Education	11,280	3,795	15,075
Vocational Education	95,375	14,691	110,066
Compensatory Education	11,733	953	12,686
Other Instructional Programs	175,918	4,085	180,003
Support Services	4,081,850	2,570,899	6,652,749
	<u>4,081,850</u>	<u>2,570,899</u>	<u>6,652,749</u>
Total	<u>\$ 8,472,196</u>	<u>\$ 16,685,104</u>	<u>\$ 25,157,300</u>

Reconciliation Summary:

Non-Capitalized, Building & Equipment Costs	\$ 8,472,196
Depreciation Expense	16,685,104
Capital Outlay (Sites, Buildings, Equipment)	(18,111,658)
Difference	<u>\$ 7,045,642</u>

6. **Internal Service Fund** -- The Everett School Employee Benefit Trust (ESEBT), a blended component unit of the District, provides health benefits and insurances for District employees. The ESEBT's decrease in net position (\$1,881,154) is included on the Statement of Activities.

7. **Long-Term Debt Transactions, Bond Principal** -- Repayment of bond principal in the amount of \$17,325,000 was reported as an expenditure in the governmental funds and, thus, has the effect of reducing fund balance. For the District as a whole, the principal payments reduce the liabilities in the Statement of Net Position. (See Long-Term Debt Note 8.)

8. **Long-Term Debt Transactions, Bond Interest & Other Charges, Bond Issuance Fees & Services** - In governmental fund financial statements, interest, transfer fee payments, and refunding bond issuance fees of \$7,855,708 on general obligation bonds were charged to expenditures. However, in the government-wide financial statements, interest expenditures are adjusted to reflect amortization of deferred amount on refunding (which has the effect of increasing interest expense), amortization of bond premium (which has the effect of decreasing interest expense) and expense of unamortized bond issuance costs charge off from prior years (which has the effect of increasing interest expense). Accordingly, a net adjustment of \$3,458,540 is made to decrease bond interest expense in the Statement of Activities and is calculated as follows:

Amortization of Deferred Amount on Refunding	\$ 1,434,268
Amortization of Bond Premium	(5,951,497)
Unamortized Bond Issuance Costs (Charge-off)	<u>1,058,689</u>
Net Adjustment to Bond Interest & Other Charges	<u>\$ (3,458,540)</u>

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

General Budgetary Policies -- The Everett Public Schools budgets its funds in accordance with the Revised Code of Washington Chapter 28A.505 and Chapter 392-123 of the Washington Administrative Code (WAC). The Board of Directors adopts annual appropriation budgets at the fund level for all governmental type funds after a public hearing. 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 a modified accrual basis as prescribed by law for all governmental funds. Fund balance is budgeted as available resources and, pursuant to law, cannot be negative.

Budget Controls and Revisions -- Each governmental fund's total expenditures cannot, by law, exceed its formal fund appropriation. The Finance Office reviews requests from management to modify specific accounts within the overall fund appropriation and implements those under the authority granted by approval from the Executive Director of Finance and Operations. However, only the Board has the authority to increase or decrease a given fund's annual budget. The Board may adopt a revised or supplemental budget after a public hearing anytime during the fiscal year.

For the 2013-2014 fiscal year, total expenditures were within total final budgeted expenditures for each fund and there were no revisions necessary at the fund level.

NOTE 4. CASH AND INVESTMENTS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Snohomish County Treasurer is the *ex-officio* treasurer for the District. In this capacity, the Snohomish County Treasurer receives deposits and transacts investment activity on the District's behalf.

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

Statutes authorize the District to: (1) invest in securities, certificates, notes, bonds, short-term securities, or other obligations of the United States, in bankers' acceptances and commercial paper purchased on the secondary market, and in the Washington State Investment Pool, and (2) make deposits in financial institutions in accordance with RCW 30.04.300, which have been designated as qualified public depositories by the Washington State Public Deposit Protection Commission (WSPDPC).

To qualify as public depositories in the State of Washington, financial institutions must provide collateral to the WSPDPC in an amount equal to not less than 10% of all public deposits by municipalities up to the net worth of the qualified institution. WSPDPC guidelines basically provide that in the event of default of a qualified public depository, all other qualified public depositories will collectively assure that no loss of funds will be suffered by any public entity.

Investments are stated at fair value on the balance sheet. Changes in fair value are included as revenue in the financial statements. The fair value of securities was based on quoted market prices.

Investments in the State Investment Pool (Local Government Investment Pool – LGIP) as held by the County Treasurer on behalf of the District, have fair values that are the same as the value of the pool shares. The information was provided by the County Treasurer in their capacity as *ex-officio* treasurer for the District.

Government-wide cash, cash equivalents, and investments at year-end totaled \$46,347,634, which consisted of the following:

Description	Governmental Funds	Proprietary Fund (ESEBT)	Total Government Wide
Investments at Fair Value	\$37,315,261	\$4,989,615	\$42,304,876
Cash with County Treasurer, Net of Outstanding Warrants	102,530		102,530
Cash Bank Deposits Used as Imprest Revolving Funds	145,900		145,900
Cash	751,893	3,042,435	3,794,328
Total Cash, Cash Equivalents and Investments	\$38,315,584	\$8,032,050	\$46,347,634

Fiduciary Fund, cash, cash equivalents, and investments at year-end totaled \$131,081, and consisted of the following:

Investments at Fair Value	\$ 130,916
Cash with County Treasurer, Net of Outstanding Warrants	165
	<hr/>
Total Cash, Cash Equivalents and Investments	<u>\$ 131,081</u>

The District's deposits are covered entirely by federal depository insurance (FDIC) or by collateral held in the multiple financial institution collateral pool administered by the WSPDPC. All of the District's investments during the year and at year-end were held by the District or by the Snohomish County Treasurer on behalf of the District. The investments in the Everett Schools Employee Benefit Trust (ESEBT) of \$4,989,615 are held in the Trust's name as certificates of deposit (\$3,554,800) and US Government issues such as mortgage backed instruments (FNMA, GNMA) and US Treasury notes (\$1,434,815). Investments held at August 31, 2014 are as follows:

Investment Type	Cost	Fair Value	Investment Maturities (In Years)			
			Less Than 1 Year	1-5	6-10	More Than 10 Years
<i>Government-Wide</i>						
Certificate of Deposits	\$ 3,545,000	\$ 3,554,800	\$ 1,950,728	\$ 1,604,072		
US Gov't Obligations:						
Government Bonds	627,635	626,346		626,346		
Mortgage Backed Securities	816,330	808,469	250,457	514,953	\$ 5,384	\$ 37,675
State Investment Pool (LGIP)	37,315,261	37,315,261	37,315,261			
Government-Wide Investments	42,304,226	42,304,876	39,516,446	2,745,371	5,384	37,675
<i>Fiduciary Funds</i>						
State Investment Pool (LGIP)	130,916	130,916	130,916			
Total Investments	<u>\$42,435,142</u>	<u>\$42,435,792</u>	<u>\$39,647,362</u>	<u>\$ 2,745,371</u>	<u>\$ 5,384</u>	<u>\$ 37,675</u>

Interest Rate Risk -- The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from raising interest rates. However, Snohomish County, as a means of limiting its exposure to raising interest rates, invests in securities that have a final maturity of no longer than five years. More than 85% of our investments are with Snohomish County which invests almost 100% of the funds with the Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participant's balances in the LGIP are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days.

Credit Risk -- State law prohibits investments in commercial paper, corporate bonds, and mutual bond funds. The District has no investment policy that would further limit its investment choices. As of August 31, 2014, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). Credit risk is limited because the majority of the District's investments are either obligations of the US government, government sponsored enterprises, or insured demand deposits accounts and certificates of deposit. The ESEBT's investments in Mortgage Backed Securities are made up of Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) obligations explicitly guaranteed by the US government. The ESEBT's investments in Government Bonds are made up

of US Treasury Notes. The ESEBT's investment policies authorize investments in US Government Agency Fixed Income, mortgage backed securities with a benchmark market index of ML Agencies AAA.

Concentration of Risk -- The District places no limit on the amount the District may invest in any one investment facilitator. Approximately eighty-eight percent (88%) of the District's investments are invested in the Washington State Treasurer's Local Government Investment Pool and U.S. Government Obligations. In compliance with State of Washington statutes, Pool policies authorize investments in US securities, US agency securities, and mortgaged-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements and the Local Government Investment Pool managed by the Washington State Treasurer's Office.

The LGIP is a voluntary investment vehicle operated by the State Treasurer. Over 530 governments have participated in the pool since it was started in 1986 to provide safe, liquid, and competitive investment options for local governments pursuant to RCW 43.250. The LGIP lets local governments use the State Treasurer's resources to safely invest their funds while enjoying the economies of scale available from a \$7-11 billion pooled fund investment portfolio. The LGIP's investment objectives are, 1) safety of principal, 2) maintaining adequate liquidity to meet cash flows, and 3) providing a competitive interest rate relative to other comparable investment alternatives. LGIP offers 100% liquidity to its participants. The LGIP portfolio is managed in a manner generally consistent with SEC regulated Rule 2a-7 money market funds.

Oversight of the LGIP is provided by the LGIP Advisory Committee. The LGIP Advisory Committee was created in 1995 to advise the State Treasurer on the operation of the Pool. The committee is comprised of twelve appointed members; four are appointed by the State Treasurer and the other eight are appointed by state associations including the Washington Finance Officers Association (WFOA), and the Washington Municipal Treasurers Association (WMTA) among others. Each member serves a three year term and is eligible for two total terms. The LGIP Advisory Committee meets quarterly to advise the Treasurer on LGIP operational issues, budget, and oversight of the Statewide Custody Program.

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Balances -- (Amounts Due to Other Funds/Amounts Due From Other Funds) Interfund balances between the District's governmental funds are transactions that have occurred in one fund that are later reclassified to the appropriate fund. Payroll transactions are streamlined and paid wholly through the General Fund. The costs are then reclassified as an expenditure to the appropriate fund, and a reimbursement of expenditure to the General Fund. Interfund receivables/payables are liquidated monthly. As of August 31, 2014, short-term interfund receivables/payables in governmental funds resulting from operating transactions (mostly attributable to salaries, with a minor amount attributable to purchases of supplies or equipment) in governmental fund financial statements were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 392,456	\$ 5,636
Special Revenue Fund	5,636	12,788
Capital Projects Fund	_____	379,668
Total	<u>\$ 398,092</u>	<u>\$ 398,092</u>

Interfund receivables and payables between governmental funds are eliminated in the government-wide financial statements. Interfund receivables and payables from the private-purpose trust fund have been reclassified as third party receivables/payables in the government-wide financial statements.

Interfund Transfers -- Planned transfers between funds are included in the budgeting process. In 2013-2014 there was a transfer from the Capital Projects Fund to the General Fund in the amount of \$1,350,000, in connection with certain eligible maintenance and technology related projects. In addition, there was a transfer from the Capital Projects Fund to the General Fund in accordance with RCW 28A.320.320 in the amount of \$800,000 in connection with the purchase of instructional supplies. Total transfers from the Capital Projects Fund to the General Fund amounted to \$2,150,000.

Interfund Loans -- There are no interfund loans outstanding as of August 31, 2014.

NOTE 6. CHANGES IN CAPITAL ASSETS

Purchases of equipment with a unit cost of \$5,000 or more, are capitalized and depreciated in government-wide financial statements. Equipment costing less than \$5,000 is not included in capital asset cost values or depreciation totals in the District's financial statements. The District's capital assets are insured up to the cost of replacement, subject to a \$1,000 deductible per occurrence. Course of construction insurance is carried on projects under construction. There have been no significant reductions to insurance coverage. Changes in capital assets for the year are as follows:

Primary Government			
Beginning Balance	Additions	Deletions	Ending Balance

Government Activities:

Non-depreciable Capital Assets

Land	\$ 36,617,520			\$ 36,617,520
Construction in Progress	<u>34,517,457</u>	\$ 9,207,744	\$ (43,714,442)	<u>10,759</u>
Total Non-Depreciable Capital Assets	<u>71,134,977</u>	<u>9,207,744</u>	<u>(43,714,442)</u>	<u>36,628,279</u>

Depreciable Capital Assets

Building & Improvements	493,714,625	43,538,734	(7,153,691)	530,099,668
Equipment	<u>15,168,138</u>	<u>607,426</u>	<u>(3,553,266)</u>	<u>12,222,298</u>
Total Depreciable Capital Assets	<u>508,882,763</u>	<u>44,146,160</u>	<u>(10,706,957)</u>	<u>542,321,966</u>

Less Accumulated Depreciation

Building & Improvements	(149,841,687)	(14,878,178)	7,153,691	(157,566,174)
Equipment	<u>(7,716,926)</u>	<u>(1,806,926)</u>	<u>3,548,217</u>	<u>(5,975,635)</u>
Total Accumulated Depreciation	<u>(157,558,613)</u>	<u>(16,685,104)</u>	<u>10,701,908</u>	<u>(163,541,809)</u>

Total Depreciable Capital Assets, Net of Depreciation

	<u>351,324,150</u>	<u>27,461,056</u>	<u>(5,049)</u>	<u>378,780,157</u>
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Governmental Activities

Capital Assets, Net

	<u>\$ 422,459,127</u>	<u>\$ 36,668,800</u>	<u>\$ (43,719,491)</u>	<u>\$ 415,408,436</u>
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Depreciation expense was charged to governmental activities as follows:

Regular Instruction	\$ 14,090,681
Special Education	3,795
Vocational Instruction	14,691
Compensatory Education	953
Other Instruction Programs	4,085
Support Services	<u>2,570,899</u>
Total:	<u>\$ 16,685,104</u>

Construction in Progress

Projects	Project Authority Dollars	Accumulated Expenditures to 08/31/14
Evergreen Middle School HVAC	<u>\$123,000</u>	<u>\$10,759</u>
	<u>\$123,000</u>	<u>\$10,759</u>

NOTE 7. PENSIONS & OTHER POST EMPLOYMENT BENEFITS

A. PENSIONS GENERAL INFORMATION

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

TRS includes certificated staff of 296 public school district employers and other public employers. As of June 30, 2013, it includes 119,978 active (includes non-vested), inactive vested, and retired members.

PERS includes non-certificated staff of 296 public school district employers and other public employers. As of June 30, 2013, it includes 267,081 active (includes non-vested), inactive vested, and retired members.

SERS includes non-certificated staff of 296 public school district employers. As of June 30, 2013, it includes 72,962 active (includes non-vested), inactive vested, and retired members.

Certificated public employees are members of TRS. Non-certificated public employees are members of PERS, if Plan 1, otherwise they are members of SERS.

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

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

Plan 3 under TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least ten service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

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

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of credited 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 TRS, PERS, and SERS (Plans 1, 2 and 3) and 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 and as set by the Legislature. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. TRS and SERS Plan 3 employee contribution rate choices are set by the Employee Retirement Benefits Board (ERBB). These rates fund the defined contribution portion of the TRS and SERS Plan 3. The employer rate is the same for all plans in a system. The authority for establishing and amending benefits and the funding policy, including methods used to determine the contribution requirements, are embodied in RCW chapters 41.45 Actuarial Funding of State Retirement Systems, 41.40, 41.32 and 41.35 for PERS, TRS, and SERS, respectively.

Employee contribution rates for Plans 1 and 2 of each system have been set at rates reflective of amounts that have been appropriated by the State legislature. The District's contribution

represents its full liability under each system, except that future rates may be adjusted to meet the system needs.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR can be accessed from the DRS website at www.drs.wa.gov or may be obtained by writing to:

Department of Retirement Systems
 Communications Unit
 P.O. Box 48380
 Olympia, WA 98504-8380

B. PENSION CONTRIBUTIONS

Employee contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS 5% (minimum), 15% (maximum)			

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

Employer contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	10.39%	Plan 1 PERS	9.21%
Plan 2 TRS	10.39%	Plan 2 SERS	9.82%
Plan 3 TRS	10.39%	Plan 3 SERS	9.82%

Under current law the employer must contribute 100 percent of the employer required contributions. Employer required contributions in dollars (September 1 through August 31):

<u>Plan</u>	<u>FY13-14</u>	<u>FY12-13</u>	<u>FY11-12</u>
Plan 1 TRS	\$ 303,267	\$ 321,777	\$ 428,926
Plan 2 TRS	1,477,248	1,049,906	923,663
Plan 3 TRS	8,325,295	6,163,188	5,863,438
Plan 1 PERS	56,476	51,688	62,352
Plan 2 SERS	1,031,332	745,412	711,635
Plan 3 SERS	1,539,974	1,143,988	1,122,670

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, 2014, audited GAAP basis comprehensive annual financial report. Refer to said report for detailed trend information. The State of Washington's CAFR is available at <http://www.ofm.wa.gov/CAFR> or may be obtained by writing to:

State of Washington
 Office of Financial Management
 300 Insurance Building
 P.O. Box 43113
 Olympia, WA 98504-3113

C. *OTHER POST EMPLOYMENT BENEFITS (OPEB)*

OPEB refers to post-employment benefits provided to employees other than pension benefits. These benefits include but are not limited to healthcare coverage, life insurance and long term care. The Governmental Accounting Standards Board (GASB) has issued guidance for the recognition of OPEB liabilities and expenditures.

Plan Description -- Washington State, through the Health Care Authority (HCA), administers a cost-sharing agent multiple-employer other post-employment benefit plan (OPEB). Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB) created within the HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability. Employers participating in the plan include the state (which includes general governmental agencies and higher education institutions), 57 of the state's K-12 schools and educational service districts (ESDs), and 206 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 244 K-12 school districts and ESDs.

Everett Public Schools is deemed to provide to its retirees employer-provided subsidies associated with post-employment medical and life insurance benefits provided through the PEBB. According to state law, the Washington State Treasurer collects a fee from all school district entities who are not active members of the State Health Care Authority but participate in the state retirement system. As outlined by the state's operating budget, school districts were mandated to pay the state HCA \$64.40 per month per full-time equivalent employee in the 2013-2014 fiscal year, in support of this program. This assessment to the District is subject to change annually. Because the District is self-insured, it does not participate in PEBB for provision of medical and life insurance benefits to its active employees. Participation in PEBB is limited to only its retirees.

Everett Public Schools' members, for the purposes of determining actuarial numbers relative to the subsidies and liabilities for the District's OPEB as of August 31, 2014, were as follows:

<u>Total Membership</u>	
Active Members	2,008
<u>Members Currently Receiving Benefits</u>	
Retired Members and Surviving Spouses	520
Spouses of Retired Members	272

The funds paid in the assessment, are deposited to a custodial account of the Washington State Treasurer and are withdrawn by the Health Care Authority for subsidizing all school district retirees' health insurance premiums. Statutory assessments paid to the State Treasurer for the years ended August 31, 2014, 2013, 2012, 2011, 2010, 2009 and 2008 were \$1,399,154, \$1,392,674, \$1,390,378, \$1,349,193, \$1,305,024, \$1,362,790 and \$1,273,717 respectively.

Eligibility -- District members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under TRS Plan 2 and 3. Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical and life insurance benefits after pension benefit commencement. Survivors of covered members who die are eligible for medical benefits.

Medical and Life Benefits -- Upon retirement, members are permitted to receive medical benefits. Retirees pay the following monthly rates for pre-65 medical coverage for 2014:

Descriptions	Type of Coverage		
	Employee	Employee & Spouse	Full Family
Group Health Classic	\$ 589.19	\$ 1,172.16	\$ 1,609.39
Group Health CHDP	500.69	992.20	1,317.09
Group Health Value	537.04	1,067.86	1,465.98
Kaiser Permanente Classic	588.43	1,170.64	1,607.30
Uniform Medical Plan Classic	551.03	1,095.84	1,504.45
Uniform Medical Plan CDHP	504.56	999.94	1,327.73

For calendar year 2014, after age 65 retired members receive a subsidy of 50 percent of their monthly medical premiums up to \$150.00 per Medicare covered person. For 2014, retirees also receive an explicit subsidy of \$7.78 per month toward life insurance premiums.

Funding Policy -- The funding policy is based upon the pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation -- The District's annual OPEB cost is calculated based upon the annual required contribution (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB Statement 45. This calculation is required to be performed every second year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of September 1, 2008. The following table shows the components of the District's annual OPEB cost for the year, an estimate of the amount actually contributed to the plan, and changes in the District's net OPEB.

	August 31, 2014	August 31, 2013	August 31, 2012
Determination of ARC			
Normal Cost at year end	\$ 2,850,772	\$ 2,596,985	\$ 2,596,985
Amortization of UAAL	2,601,339	2,227,391	2,227,391
Annual Required Contribution (ARC)	5,452,111	4,824,376	4,824,376
Determination of Net OPEB Obligation			
Annual Required Contribution	5,452,111	4,824,376	4,824,376
Interest on prior year Net OPEB Obligation	948,711	825,774	609,914
Adjustment to ARC	1,054,124	880,826	730,322
Annual OPEB Cost	5,346,698	4,769,324	4,703,968
Contribution made*	1,594,702	1,491,009	1,474,022
Increase in Net OPEB Obligation	3,751,996	3,278,315	3,229,946
Net OPEB Obligation - end of year	\$ 29,050,963	\$ 25,298,967	\$ 22,020,652

*Estimated based on retiree benefit amounts

The District's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
8/31/2008	\$ 5,667,749	25.71%	\$ 4,210,294
8/31/2009	5,712,029	28.07%	8,319,123
8/31/2010	7,092,309	25.26%	13,619,929
8/31/2011	7,123,515	27.41%	18,790,706
8/31/2012	4,703,968	31.34%	22,020,652
8/31/2013	4,769,324	31.26%	25,298,967
8/31/2014	5,346,698	29.83%	29,050,964

Funded Status and Funding Progress -- As of August 31, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$62.4 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$62.4 million. The annual covered payroll for 2013-2014 fiscal year was \$124.06 million. UAAL as a percentage of covered payroll was 50.32%. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents results of the OPEB valuation across five fiscal years, providing multi-year trend information about the actuarial value of plan assets and its increase or decrease over time relative to the actuarial accrued liabilities for benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions -- Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The health costs and life insurance trend rates used for the actuarial study are as follows:

Year Ending August 31	Pre-65 Retiree Premiums and Claims	Post-65 Retiree Premiums and Claims	Year Ending August 31	Life Insurance
2015	5.60%	0.00%	2015+	3.50%
2016	6.10%	0.00%		
2017	6.30%	0.00%		
2018	6.20%	6.00%		
2019	6.00%	5.50%		
2020	6.00%	5.70%		
2030	6.10%	5.80%		
2040	6.30%	5.50%		
2050	5.90%	5.70%		
2091+	4.90%	5.00%		

In the August 31, 2014 actuarial valuation, the Projected Unit Credit actuarial cost method was

used. The actuarial assumptions used included: 3.75% discount rate based upon the long-term investment yield on the investments that are expected to be used to finance payment of benefits, 2.5% inflation and 3.75% projected annual payroll increase for amortization of UAAL. The UAAL is being amortized as a level percentage of expected payroll over thirty years, on a closed basis at the assumed discount rate. The remaining amortization period at August 31, 2014 is 24 years.

Further information about the state's PEBB plan as it pertains to OPEB is presented in a separate report, the State of Washington's June 30, 2014 comprehensive annual financial report. Refer to this audited GAAP basis report for detailed trend information. It is available from:

State of Washington
Office of Financial Management
300 Insurance Building
P.O. Box 43113
Olympia, WA 98504-3113

The state's PEBB OPEB plan does not issue a publicly available financial report. However, the results of an actuarial valuation of Washington State's employer provided subsidies associated with the PEBB plan, including more detailed trend information can be found at:

http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm

NOTE 8. LONG-TERM DEBT

CHANGES IN LONG-TERM LIABILITIES

During the year, the following changes occurred in liabilities reported in the government-wide financial statements:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds Payable					
2002 Unlimited Tax GO Bonds	\$ 1,000,000		\$ 1,000,000		
2003 Unlimited Tax GO Bonds	7,675,000		7,675,000		
2004 Unlimited Tax GO Refunding Bonds	2,235,000		2,235,000		
2006 Unlimited Tax GO Bonds	69,860,000		54,435,000	\$ 15,425,000	\$ 9,275,000
2007 Unlimited Tax GO and Refunding Bonds	88,430,000		55,065,000	33,365,000	8,970,000
2009A Unlimited Tax Go Bonds	6,475,000		135,000	6,340,000	
2009B UTGO Taxable Build America Bonds (BAB)	18,465,000			18,465,000	
2009C UTGO Qualified School Construction Bonds*	17,445,000			17,445,000	
*(QSCB) Tax Credit Bonds					
2013 Unlimited Tax GO Refunding Bonds		\$ 34,165,000	710,000	33,455,000	
2014 Unlimited Tax GO Refunding Bonds		69,645,000		69,645,000	1,295,000
Total Bonds Payable	211,585,000	103,810,000	121,255,000	194,140,000	19,540,000
Other Liabilities					
Unamortized Bond Premium	4,861,319	16,136,682	5,951,497	15,046,504	2,870,632
Compensated Absences	6,953,850	2,891,757	3,319,644	6,525,963	2,891,757
Net OPEB Liabilities	25,298,967	5,346,698	1,594,702	29,050,963	
Total Other Liabilities	37,114,136	24,375,137	10,865,843	50,623,430	5,762,389
GRAND TOTAL	\$ 248,699,136	\$ 128,185,137	\$ 132,120,843	\$ 244,763,430	\$ 25,302,389

Debt service requirements for bonds are funded out of the Debt Service Fund with the revenue sources being property taxes, investment income, and refunding bonds. The General Fund typically bears the cost of liquidating long-term liabilities associated with compensated absences and OPEB obligations.

BONDS OUTSTANDING

General obligation bonds payable at August 31, 2014, are comprised of the following individual issues:

Purpose - Governmental Activities	Interest Rate	Issue date	Maturity Date	Amount Issued	Amount Outstanding
2006 Unlimited Tax GO Bonds	4.13 - 5.00	07/06/06	12/01/20	\$ 75,000,000	\$ 15,425,000
2007 Unlimited Tax GO and Refunding Bonds	4.25 - 5.63	07/24/07	12/01/21	99,520,000	33,365,000
2009A Unlimited Tax GO Bonds	3.00 - 4.00	09/30/09	12/01/16	7,740,000	6,340,000
2009B UTGO Taxable Build America Bonds	.85 - 4.98	09/30/09	12/01/22	23,715,000	18,465,000
2009C UTGO Qualified School Construction Bonds* *(QSCB) Tax Credit Bonds	1.14 - 6.11	10/06/09	12/01/23	17,445,000	17,445,000
2013 Unlimited Tax GO Refunding Bonds	1.50 - 5.00	10/30/13	12/01/20	34,165,000	33,455,000
2014 Unlimited Tax GO Refunding Bonds	1.00 - 5.00	04/28/14	12/01/21	69,645,000	69,645,000
Total Bonds Payable				<u>\$ 327,230,000</u>	<u>\$ 194,140,000</u>

UNAMORTIZED DEFERRED AMOUNT ON REFUNDING

Descriptions	Beginning Balance	Additions	Reductions	Ending Balance
1997 Unlimited Tax GO Bonds (Mar 2004)	\$ 103,393		\$ 103,393	
2003B Unlimited Tax GO Bonds (Oct 2013)		\$ 55,000	13,750	\$ 41,250
2006 Unlimited Tax GO Bonds (Oct 2013)		4,856,290	647,505	4,208,785
2006 Unlimited Tax GO Bonds (April 2014)		1,685,732	120,409	1,565,323
2007 Unlimited Tax GO Bonds (April 2014)		8,787,376	549,211	8,238,165
Total Unamortized Deferred Amount on Refunding	<u>\$ 103,393</u>	<u>\$ 15,384,398</u>	<u>\$ 1,434,268</u>	<u>\$ 14,053,523</u>

AMORTIZATION OF BOND PREMIUM/DISCOUNT

Below is a schedule of amortization of bond premiums/discounts on all applicable general obligation bond issues. The effective interest method was used in calculating the amortization schedule.

Unamortized Bond Premium/Discount: Descriptions	Premium/ (Discount) Beginning Balance	Net Bond Issue Premium	(Premium)/ Discount Amortization	Ending Balance
2002 Unlimited Tax GO Bonds	\$ 228,780		\$ (228,780)	
2003 Unlimited Tax GO Bonds	109,756		(109,756)	
2006 Unlimited Tax GO Bonds	1,164,420		(1,058,327)	\$ 106,093
2007 Unlimited Tax GO & Refunding Bonds	3,084,028		(2,733,003)	351,025
2009A Unlimited Tax GO Bonds	274,335		(78,382)	195,953
2013 Unlimited Tax GO Refunding Bonds		\$ 5,609,178	(910,142)	4,699,036
2014 Unlimited Tax GO Refunding Bonds		10,527,504	(833,107)	9,694,397
Total Unamortized Bond Premium	<u>\$ 4,861,319</u>	<u>\$ 16,136,682</u>	<u>\$ (5,951,497)</u>	<u>\$ 15,046,504</u>

The District has pledged its full faith and credit to the payment of principal and interest on the bonds. The bonds are secured by ad valorem taxes to be levied without limitation as to rate or amount. The taxes, when collected, are required to be applied solely for the payments of principal and interest on the bonds.

The following is a schedule of annual requirements to amortize debt at August 31, 2014:

Annual Requirements to Amortize Long-Term Debt

Year Ending August 31	Principal	Interest	Premium Amortized	Carrying Amount of Bonds
2014				\$ 209,186,504
2015	\$ 19,540,000	\$ 8,176,977	\$ 2,870,632	186,775,872
2016	16,055,000	7,387,458	2,792,418	167,928,454
2017	14,915,000	6,609,565	2,680,385	150,333,069
2018	17,885,000	5,855,114	2,427,738	130,020,331
2019	20,060,000	4,969,839	1,967,555	107,992,776
2020-2024	88,240,000	8,912,022	2,307,776	17,445,000
2025-2029	<u>17,445,000</u>	<u>99,437</u>		
Total Long-Term Bonded Debt	<u>\$ 194,140,000</u>	<u>\$ 42,010,412</u>	<u>\$ 15,046,504</u>	

As of August 31, 2014, the District had \$9,967,646 available in the Debt Service Fund to service the general obligation bonds.

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year ended August 31, 2014:

Long-Term Debt Payable at 9/01/2013	\$211,585,000
Debt Retired	121,255,000
Refunding Debt Issued	<u>103,810,000</u>
Long-Term Debt Payable at 8/31/2014	<u>\$194,140,000</u>

General Obligation Refunding Bond Issues-- In October 2013, and April 2014, the District issued \$34.165 million in refunding bonds and \$69.645 in refunding bonds respectively, to refund certain unlimited tax general obligation bonds at an economic gain to the District's taxpayers.

On October 30, 2013, the District issued \$34,165,000 in general obligation bonds with an average interest rate of 1.82% to current refund \$2.2 million of outstanding 2003 series bonds with an average interest rate of 5.00% and a final maturity of June 1, 2017 and advance refund \$32.42 million of the outstanding 2006 series bonds with an average interest rate of 5.00% and a final maturity of December 1, 2020. The net proceeds of \$39,531,290 (including a bond premium of \$5,609,178) after payment of \$236,729 in underwriting fees and other issuance costs were used to provide cash for the escrow and purchase US Government securities. Those securities and cash were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payments on the refunded 2003 and 2006 series bonds. The District refunded the 2003 and 2006 series bonds to reduce its total debt service payments over the next 7 years by \$1,714,183 and to obtain an economic gain (difference between the present values (PV) of the debt service payments on the old and new debt) of \$1,571,088.

On April 28, 2014, the District issued \$69,645,000 in general obligation bonds with an average interest rate of 1.98% to advance refund \$14.245 million of outstanding 2006 series bonds with an average interest rate of 5.00% and a final maturity of December 1, 2020 and advance refund 55.065 million of

outstanding 2007 series bonds with an average interest rate of 5.11% and a final maturity of December 1, 2021. The net proceeds of \$79,783,107 (including a bond premium of \$10,527,504) after payment of \$385,719 in underwriting fees and other issuance costs were used to purchase US Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 2006 and 2007 refunded bonds to reduce its total debt service payments over the next 8 years by \$3,205,897 and to obtain an economic gain (difference between the present values (PV) of the debt service payments on the old and new debt) of \$2,973,516.

Calculation of the Difference in Cash Flow Requirements and Economic Gain:

	2013	2014
Cash Flows Difference	Refunding Bonds	Refunding Bonds
Old Debt Service Cash Flows	\$ 45,328,750	\$ 92,440,900
New Debt Service Cash Flows	43,614,567	89,235,003
Total Cash Flows Difference	<u>\$ 1,714,183</u>	<u>\$ 3,205,897</u>
Economic Gain		
PV of Old Debt Service Cash Flows	\$ 41,342,547	\$ 83,142,342
PV of New Debt Service Cash Flows	39,771,459	80,168,826
Total Economic Gain/Net PV Savings	<u>\$ 1,571,088</u>	<u>\$ 2,973,516</u>

Defeasance of Debt -- The refunded bonds satisfy the criteria for in-substance defeasance and are considered no longer outstanding. Accordingly, the district does not budget or report any refunded (old) debt. The irrevocable trust account assets and the liability for the defeased bonds are not included in the District's financial statements. Notice has been given that the bonds are defeased and will be called for redemption at 100% of par. Defeased bonds of \$46,665,000 are scheduled for redemption on December 1, 2016 and \$55,065,000 are scheduled for redemption on December 1, 2017. The balance of defeased bonds as of August 31, 2014 is \$101.73 million.

Arbitrage Regulations -- The Tax Reform Act of 1986, Internal Revenue Service Code Section 148, requires the District to rebate to the federal government, earnings on investment of bond proceeds which are in excess of the debt yield. This requirement is effective for the District's bonds issued after September 1, 1986. Rebates are due and payable five years from the date tax-exempt debt is issued and at five-year intervals thereafter while the debt is outstanding. The final rebate is due and payable sixty days after retirement of the debt. Positive arbitrage can be offset against negative arbitrage, therefore, the potential liability fluctuates from year to year and potentially may not be owing at the payment intervals. Calculations monitoring the applicability of federal arbitrage regulations are provided by Arbitrage Compliance Specialists, Inc. Current calculations performed by Arbitrage Compliance Specialists indicate the District's outstanding bonds subject to arbitrage are not in a position of positive arbitrage liability. Accordingly, no contingent liability has been estimated and a reserve in the Capital Projects Fund is not deemed necessary for the 2013-2014 reporting period. The District will continue to monitor for arbitrage liability with the consult and technical assistance from its consultants, Arbitrage Compliance Specialists. Future reserves may be established if appropriate.

NOTE 9. FUND EQUITY (GOVERNMENTAL FUNDS)

GASB 54 pertaining to fund balance classifications dictates that if restricted, committed or assigned fund balances are displayed in the aggregate on the balance sheet, specific purposes information should be disclosed in the notes to the financial statements. The District displays the specific purpose details for some classifications on the face of the balance sheet, and discloses the details for other classifications in the notes to the financial statements. Accordingly, the following fund balances list all the fund balance classifications, including the special purposes information for any of the fund balance classifications that were listed in the aggregate on the balance sheet:

<u>General Fund</u>	<u>August 31, 2014</u>
Non-spendable Inventories	\$ 867,682
Non-spendable Prepaid Items	965,853
Total Non-spendable Fund Balance	<u>1,833,535</u>
Restricted - Carryover of Restricted Revenues	1,438,510
Restricted - Uninsured Risk	125,000
Total Restricted Fund Balance	<u>1,563,510</u>
Committed - Imprest Accounts	102,000
Assigned - School Budget Carryover	369,798
Assigned Local Grants	202,067
Total Assigned Fund Balance	<u>571,865</u>
Unassigned Fund Balance	5,571,954
Total Fund Balance	<u><u>\$ 9,642,864</u></u>

<u>Special Revenue (ASB) Fund</u>	<u>August 31, 2014</u>
Non-spendable Inventories	\$ 63,130
Non-spendable Prepaid Items	18,500
Total Non-spendable Fund Balance	<u>81,630</u>
Restricted for Associated Student Body Fund Pur	1,540,103
Total Fund Balance	<u><u>\$ 1,621,733</u></u>

<u>Debt Service Fund</u>	<u>August 31, 2014</u>
Restricted - Debt Service Fund Purposes	\$ 9,967,646
Total Fund Balance	<u><u>\$ 9,967,646</u></u>

<u>Capital Projects Fund</u>	<u>August 31, 2014</u>
Restricted - State Proceeds	8,977,295
Restricted - Impact Fees	484,661
Total Restricted Fund Balance	<u>9,461,956</u>
Committed - Levy Proceeds	1,067,360
Committed - Memorial Stadium	374,763
Total Committed Fund Balance	<u>1,442,123</u>
Assigned - Capital Projects Fund Purposes	5,778,189
Total Fund Balance	<u><u>\$ 16,682,268</u></u>

<u>Transportation Vehicle Fund</u>	<u>August 31, 2014</u>
Restricted - Transportation Vehicle Fund Purposes	\$ 193,344
Total Fund Balance	<u><u>\$ 193,344</u></u>

NOTE 10. RISK MANAGEMENT

Risk Management Pool -- The District is exposed to various risks of loss related to its property and liability exposures. The District is one of over 80 school district and educational service district members of the Washington Schools Risk Management Pool (Pool) which was formed on August 30, 1986, pursuant to Chapter 48.62 of the Revised Code of Washington. The purpose of the Pool is to join together in a cooperative manner to provide its members the capability and authority to jointly purchase property and liability insurance, establish and maintain a reserve to pay for self-insurance coverage, provide a plan of self-insurance, and provide related services, including a cooperative program of risk management.

The District made net premium payments totaling \$1,017,469 to the Pool for its 2013-2014 coverage. This premium includes a loss control incentive discount credit of \$68,267 in recognition of the District's risk management practices. The Pool provides liability limits of \$20 million per occurrence and property limits of \$500 million per occurrence (for covered claims). The Pool purchases excess insurance to provide for property claims in excess of \$1 million per occurrence and reinsurance for liability claims in excess of \$2 million per occurrence on a 50% quota share basis.

Pool underwriting and rate-setting policies have been established by the Pool Executive Board after consultation with actuaries. Pool members are subject to supplemental assessment in the event of deficiencies. There is no limit on the amount of annual premium contribution increases.

If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. The allocation of the liabilities would be determined by the Executive Board. If the Pool were dissolved, the members would receive the net assets. The allocation would be in proportion to each member's contribution less obligations (including incurred but not reported claims).

The District did not have any significant reductions in insurance coverage as compared to the prior year, nor did the District have any insurance settlements that exceeded insurance coverage over the last three fiscal years.

The Washington Schools Risk Management Pool has produced its own financial report for the year ended August 31, 2013, which can be obtained from:

Washington Schools Risk Management Pool
P.O. Box 88700
Tukwila, WA 98138-2700

Employee Benefits -- Qualified employees of the District receive comprehensive medical, dental, life, accidental death and dismemberment and long-term disability coverage through the Everett School Employee Benefit Trust (the Trust). The Trust is a separate legal entity that is governed by a board of three management and three labor trustees. The District’s monthly contributions to the Trust are based on the State’s “full time equivalent” funding allocation. Optional coverage may be purchased by District employees through payroll deductions which are remitted to the Trust monthly. The Trust is required to purchase fiduciary liability insurance and any other insurance as deemed prudent to cover potential losses. There were no settlements resulting from losses that would exceed the insurance coverage. Medical benefit claims by participants are covered by the contracted insurance provider, either Washington Education Association or Premera Blue Cross.

Unemployment Insurance -- The District joined together with school districts in Island, San Juan, Skagit, Snohomish and Whatcom Counties on July 1, 1978, to form the Northwest Educational Service District 189 Unemployment Compensation Pool (Pool), a public entity risk pool for unemployment insurance. The District made \$155,942 in payments to the Pool in fiscal year 2013-2014. Claims against the District are paid by the Washington State Department of Employment Security (WSDDES). The WSDDES is reimbursed by the Pool for all claims paid. Unemployment claims of \$49,404 were made by the Pool on behalf of the District for fiscal year 2013-2014. The following is a summary of activity:

Unemployment Insurance				
Fiscal Year	Beginning Balance	Additions	Reductions	Ending Balance
2012-2013	\$468,597	\$143,147	\$72,813	\$538,931
2013-2014	\$538,931	\$158,134	\$55,276	\$641,789

Workers' Compensation -- In December 2000, the Board of Directors adopted Resolution No. 718 which authorized the District to become a member of the Puget Sound Workers' Compensation Trust (PSWCT), a cooperative that was formed to provide workers' compensation coverage for its members. The District joins 30 other school districts or educational service districts in the PSWCT, which is administered by the Puget Sound Educational Service District. For fiscal year 2013-2014, the District made premium payments totaling \$1,561,940 to the PSWCT in lieu of premium payments to the State of Washington for industrial insurance. This practice enables the PSWCT to pay industrial insurance beneficiaries as they become eligible and minimizes the District’s costs for the program.

NOTE 11. SUMMARY OF SIGNIFICANT CONTINGENCIES

Litigation -- The District is party to several legal actions arising from its normal educational activities. It is the opinion of the administration that these actions will be resolved without material impact on the financial position of the District.

NOTE 12. OTHER DISCLOSURES

A. KING COUNTY DIRECTORS' ASSOCIATION

Investment in Joint Venture -- Everett Public Schools has been a member of the King County Directors' Association (KCDA) for many years. KCDA is a purchasing cooperative that serves 294 school districts throughout the State of Washington. In 2011, Everett Public Schools purchased \$1,078,377 through KCDA contracts, including direct billings by vendors. Everett Public Schools' equity in KCDA as of December 31, 2013, was \$161,246.

Because of the purchasing power of KCDA, it is the intent of the District to remain a member. Should the District decide to terminate its membership in KCDA, the following options are available in regard to withdrawing the ownership amount, if the District so chooses:

1. The District may withdraw inventory at a maximum rate of ten percent (10%) per year for a ten (10) year period or;
2. The District may withdraw cash equally over a fifteen (15) year period.

KCDA has published its own financial report for the year ended December 31, 2013, which can be obtained from:

King County Directors' Association
P.O. Box 5550
Kent, WA 98064-5550

B. NORTHWEST EDUCATIONAL SERVICE DISTRICT

Investment in Joint Venture -- The District is served by Northwest Educational Service District No. 189 (ESD). The ESD is a regional service entity organized to serve the educational needs of all school districts in Island, San Juan, Skagit, Snohomish and Whatcom Counties. All school districts in the ESD's service area collectively elect nine directors to the ESD. Participating school districts have neither an ongoing financial interest nor responsibility. The ESD's relationship to the school district is one of a jointly governed organization.

C. SNO-ISLE VOCATIONAL SKILLS CENTER

In 1978, the District participated in the establishment of the Sno-Isle Skills Center (Skills Center), a vocational education facility operated by host district, Mukilteo School District. The Skills Center was established to broaden the vocational curriculum for participating districts and avoid unnecessary duplication of courses which involve expensive training equipment. The participating districts continue to operate local vocational programs separate from the Skills Center.

The Skills Center is administered by the host district but is jointly governed by an Administrative Council consisting of a representative from each participating district. There are currently 13 participating districts including the host district.

The host district retains ownership of all facilities and equipment purchased by the Skills Center or donated to the Skills Center. The participating districts share in the annual operating costs of the Skills Center, but have no ownership equity in the facilities or equipment.

In fiscal year 2013-2014, the Skills Center received \$370,491 in state apportionment funding for providing service to Everett Public Schools' students.

D. LEVIES

Replacement Educational Programs and Operations Levy -- In a special election held on February 11, 2014, voters approved excess taxes to be levied in calendar years 2015 (\$48 million), 2016 (\$49 million), 2017 (\$53 million), and 2018 (\$51 million). This levy covers a four year period and replaces the levies expiring in calendar years 2011 (\$40 million), 2012 (\$41.5 million), 2013 (\$43 million) and 2014 (\$45 million). Educational programs and operations levy dollars help the district provide continued funding for textbooks, curriculum materials, salaries and other programs that support student graduation success and academic rigor.

Building Repair and Technology Levy -- In a special election held on February 9, 2010, voters authorized the District to levy an additional tax providing a total of \$48 million for the District's Capital Projects Fund. The levy allows the District to assess \$8 million each year for six years beginning 2011 through 2016. Building repair and technology levies help fund renovation and improvement of existing District facilities and for technology improvements, equipment, and training to meet the current and future educational programs for its students.

Supplemental Educational Programs and Operations Levy -- Voters for our District passed a Supplemental Educational Programs and Operations Levy in August 2010. This authorizes the District to levy additional tax over the course of four years, from 2011 through 2014, for up to \$4 million each year. The funds will be used for programs to increase the graduation rate, textbooks and classroom materials, funding for more challenging courses for students and competitive salaries for educational staff.

E. BOND MEASURES AND BOND ISSUES

School Renovation and Technology General Obligation Bonds -- On February 7, 2006, the voters of the District approved a school renovation and technology general obligation bonds measure in the amount of \$198.9 million with proceeds of bond sales to be used to pay costs of renovations and upgrades to school buildings, including heating systems, classroom computers, safety and security systems, and other capital improvements to educational facilities of the District. The approval of this measure allowed the District to issue \$198.9 million of general obligation bonds and to levy annual excess property tax levies to pay and retire the bonds.

2006 General Obligation Bond Issue -- In July 2006, the District issued \$75 million in general obligation bonds out of the above mentioned 2006 voter approved bond measure. The District has expended the \$75 million in bond proceeds on school building renovations and projects as described in the bond measure.

2007 General Obligation & Refunding Bond Issue -- In July 2007, the District issued another \$75 million in general obligation bonds for the purpose of providing funds to construct, equip, acquire and make capital improvements to the facilities of the District. The District has expended the \$75 million in bond proceeds on school building renovations and projects as described in the bond measure.

Bond Issues -- In August 2009, the Board passed Resolution 967 authorizing the sale of the remaining \$48.9 million of voter-approved bonds (initially approved by voters in February 2006), including some traditional tax-exempt bonds, taxable Build America Bonds (BAB) and Qualified School Construction Bonds (QSCB). The bond proceeds were for the purpose of providing funds to construct, equip, acquire and make capital improvements to facilities, renovations and upgrades of school buildings, including heating systems, classroom computers, safety and security systems, and other capital improvements to educational facilities of the District. Accordingly, the following three bond sales were issued:

Unlimited Tax General Obligation Bond Series 2009A -- On September 30, 2009, the District issued \$7.740 million in tax exempt bonds. The District has expended the full amount of the bond proceeds on school building renovations and projects as described in the bond measure.

Unlimited Tax General Obligation Bonds Series 2009B -- On September 30, 2009, the District issued \$23.715 million in Taxable Build America Bonds (BAB). The District has completed expending these bond proceeds on school building renovations and other projects as described in the bond measure.

Unlimited Tax General Obligation Bonds Series 2009C -- On October 6, 2009, the District issued \$17.445 million in Qualified School Construction Bonds - Tax Credit Bonds. The District has completed expending these bond proceeds on school building renovations and other projects as described in the bond measure.

NOTE 13. SUBSEQUENT EVENTS

There are no subsequent events that would warrant disclosure in the Districts financial statements whether due to the materiality of the event or due to its nature or significance.

**EVERETT PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014**

	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES				
Local Taxes	\$43,009,495	\$43,009,495	\$42,857,748	(\$151,747)
Local Non-Tax	10,286,818	10,286,818	6,004,985	(4,281,833)
State, General Purpose	106,570,939	106,570,939	108,037,147	1,466,208
State, Special Purpose	28,481,272	28,481,272	28,107,166	(374,106)
Federal, General Purpose	130,000	130,000	57,349	(72,651)
Federal, Special Purpose	13,407,092	13,407,092	13,163,098	(243,994)
Other			139,292	139,292
TOTAL REVENUES	201,885,616	201,885,616	198,366,785	(3,518,831)
EXPENDITURES				
Current:				
Regular Instruction	118,227,170	118,227,170	115,739,305	2,487,865
Special Education	25,177,195	25,177,195	26,665,038	(1,487,843)
Vocational Education	7,424,742	7,424,742	6,709,718	715,024
Compensatory Education	10,908,982	10,908,982	10,136,673	772,309
Other Instruction Programs	2,725,119	2,725,119	3,206,654	(481,535)
Community Services	298,365	298,365	443,886	(145,521)
Support Services	37,736,209	37,736,209	37,101,491	634,718
Capital Outlay:				
Equipment	131,957	131,957	503,549	(371,592)
TOTAL EXPENDITURES	202,629,739	202,629,739	200,506,314	2,123,425
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(744,123)	(744,123)	(2,139,529)	(1,395,406)
OTHER FINANCING SOURCES (USES)				
Sale of Surplus Equipment			6,601	6,601
Transfers	1,350,000	1,350,000	2,150,000	800,000
TOTAL OTHER FINANCING SOURCES (USES)	1,350,000	1,350,000	2,156,601	806,601
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	\$605,877	\$605,877	17,072	(\$588,805)
FUND BALANCE -- September 1, 2013			9,625,792	
FUND BALANCE -- August 31, 2014			\$9,642,864	

The basis of budgeting is the same as GAAP.

**EVERETT PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND (ASSOCIATED STUDENT BODY FUND)
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014**

	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES				
General	\$1,237,800	\$1,237,800	\$851,432	(\$386,368)
Athletics	545,404	545,404	442,412	(102,992)
Classes	84,960	84,960	83,575	(1,385)
Clubs	1,076,259	1,076,259	552,382	(523,877)
Private Monies	91,100	91,100	65,943	(25,157)
TOTAL REVENUES	<u>3,035,523</u>	<u>3,035,523</u>	<u>1,995,744</u>	<u>(1,039,779)</u>
EXPENDITURES				
General	1,185,489	1,185,489	651,627	533,862
Athletics	528,304	528,304	504,450	23,854
Classes	89,960	89,960	85,918	4,042
Clubs	1,214,682	1,214,682	675,657	539,025
Private Monies	95,850	95,850	101,183	(5,333)
TOTAL EXPENDITURES	<u>3,114,285</u>	<u>3,114,285</u>	<u>2,018,835</u>	<u>1,095,450</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(\$78,762)</u>	<u>(\$78,762)</u>	<u>(23,091)</u>	<u>\$55,671</u>
FUND BALANCE -- September 1, 2013			1,644,824	
FUND BALANCE -- August 31, 2014			<u>\$1,621,733</u>	

The basis of budgeting is the same as GAAP.

EVERETT PUBLIC SCHOOLS
ACTUARIAL VALUATION OF POST EMPLOYMENT BENEFITS
OTHER THAN PENSION
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

FISCAL YEAR ENDED AUGUST 31	ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
2008	August 31, 2008	\$0	\$70,836,818	\$70,836,818	0.00%	\$105,480,532	67.16%
2009	August 31, 2008	0	70,836,818	70,836,818	0.00%	113,777,089	62.26%
2010	August 31, 2010	0	80,845,024	80,845,024	0.00%	114,222,807	70.78%
2011	August 31, 2010	0	80,845,024	80,845,024	0.00%	123,923,501	65.24%
2012	August 31, 2012	0	57,912,168	57,912,168	0.00%	114,798,280	50.45%
2013	August 31, 2012	0	57,912,168	57,912,168	0.00%	119,185,315	48.59%
2014	August 31, 2014	0	62,432,128	62,432,128	0.00%	124,062,358	50.32%

GASBS 45 was implemented for the fiscal year ended August 31, 2008. No information prior to August 31, 2008 is available. The actuarial study is performed biennially.

The basis of budgeting is the same as GAAP.

Everett School District No. 2
 Snohomish County No. 31
 Schedule of Expenditure of Federal Awards
 For Fiscal Year Ending August 31, 2014

Federal Agency Name	Pass Through Agency	Federal Program Title	Federal CFDA Number	Other Identification Number	Expenditures		Foot Note
					From Direct Awards	From Pass Through Awards	
			Total				
US Dept of Agriculture	WA OSPI	School Breakfast Program	10.553	N/A	858,273	858,273	5
	WA OSPI	National School Lunch Cash Assistance		N/A	3,195,465		5
	WA OSPI	National School Lunch Non-Cash Assistance (Commodities)		N/A	390,753		2
	WA OSPI	National School Lunch Program	10.555	N/A	3,586,218		
	WA OSPI	Summer Food Service Program for Children	10.559	N/A	63,495	63,495	5
		Subtotal Child Nutrition Cluster			4,507,986		
	WA OSPI	Fresh Fruit and Vegetable Program	10.582	N/A	45,502	45,502	4
	Office of State Treasurer	Schools and Roads -- Grants to States	10.665	N/A	57,349	57,349	
		Subtotal US Dept of Agriculture			4,610,837	4,610,837	
US Dept of Defense		Navy Junior Reserve Officers Training Corps	12.N39735	N39735	66,035	66,035	5
		Subtotal US Dept of Defense			66,035	66,035	
US Dept of Education	WA OSPI			201365	2,714,526		3,4
	WA OSPI			201724	33,757		4
	WA OSPI			224432	49,307		4
	WA OSPI			228648	19,964		4
	WA OSPI			229542	2,500		4
		Title 1 Grants to Local Education Agencies	84.010			2,820,054	
		Subtotal Title I, Part A Cluster			3,397,177	2,820,054	4,5
	WA OSPI			304796			5
	WA OSPI			337622	569,383		
		Special Education -- Grants to States	84.027			3,966,560	
		Special Education -- Preschool Grants	84.173		152,217	152,217	4,5
		Subtotal Special Ed Cluster				4,118,777	
	WA OSPI	Career & Technical Educ -- Basic Grants to States	84.048	173050	131,539	131,539	4,5
	WA OSPI	Education for Homeless Children and Youth	84.196	456149	27,751	27,751	4,5
	WSAC			15-IA005	278,750		4,5
	WSAC			15-IA006	218,645		4,5
		Gaining Early Awareness and Readiness for Undergraduate Programs	84.334			497,395	4,5
	WA OSPI	English Language Acquisition State Grants	84.365	401684	291,854	291,854	5,6
	WA OSPI	Improving Teacher Quality State Grants	84.367	523029	606,900	606,900	4
		Subtotal US Dept of Education			8,494,270	8,494,270	
US Dept of Health & Human Services	WA OSPI	Graduation Reality and Dual Role Skills	93.500	179015	884	884	4,5
		Subtotal US Dept of Health and Human Services			884	884	
		Total Federal Awards Expended			66,035	13,105,991	13,172,026

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Everett School District No. 2
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending August 31, 2014

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 – Commodities

The amount of commodities reported on the schedule is the value of commodities received by Everett Public Schools during the fiscal year and priced as prescribed by the United States Department of Agriculture (USDA).

Note 3 – Schoolwide Programs

Everett Public Schools operates a “schoolwide program” in six 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 Everett Public Schools in its schoolwide program. Title I (84.010) \$2,015,786.

Note 4 – Federal Indirect Rate

Everett Public Schools claimed indirect costs under this grant using the federal restricted rate of 3.12 percent or the federal unrestricted rate of 13.96 percent where applicable.

Note 5 – Program Costs/Matching Contributions

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

Note 6 – Other Indirect Rate

Everett Public Schools claimed restricted indirect costs of two percent as allowed by the grant.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
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