



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements and Federal Single Audit  
Report**

**Bethel School District No. 403**

**Pierce County**

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

**Published April 23, 2015**

**Report No. 1014051**





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

April 23, 2015

Board of Directors  
Bethel School District No. 403  
Spanaway, Washington

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

Please find attached our report on Bethel School District No. 403'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

**Bethel School District No. 403**  
**Pierce County**  
**September 1, 2013 through August 31, 2014**

The results of our audit of Bethel School District No. 403 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### Financial Statements

An unmodified opinion was issued on the financial statements.

#### Internal Control Over Financial Reporting:

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

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

### Federal Awards

#### Internal Control Over Major Programs:

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

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

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

## Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.553	Child Nutrition Cluster - School Breakfast Program
10.555	Child Nutrition Cluster - National School Lunch Program
10.559	Child Nutrition Cluster - Summer Food Service Program
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$365,740.

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**

**Bethel School District No. 403  
Pierce County  
September 1, 2013 through August 31, 2014**

Board of Directors  
Bethel School District No. 403  
Spanaway, 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 Bethel School District No. 403, Pierce 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 financial statements, and have issued our report thereon dated March 27, 2015. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

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

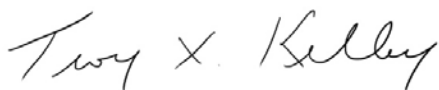
## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

March 27, 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**

**Bethel School District No. 403  
Pierce County  
September 1, 2013 through August 31, 2014**

Board of Directors  
Bethel School District No. 403  
Spanaway, Washington

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

We have audited the compliance of Bethel School District No. 403, Pierce 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.

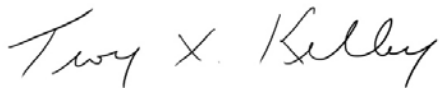
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

March 27, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Bethel School District No. 403 Pierce County September 1, 2013 through August 31, 2014**

Board of Directors  
Bethel School District No. 403  
Spanaway, Washington

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

We have audited the accompanying financial statements of Bethel School District No. 403, Pierce 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 financial statements, as listed on page 14.

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bethel School District No. 403, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### **Unmodified Opinions on the Governmental Funds Based on U.S. GAAP**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project and Transportation Vehicle funds as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Matters of Emphasis**

As discussed in Note 1 to the financial statements, 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.

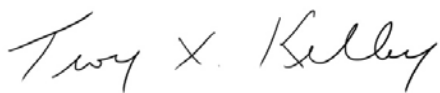
## Other Matters

### *Supplementary and Other Information*

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

March 27, 2015

## **FINANCIAL SECTION**

**Bethel School District No. 403**  
**Pierce County**  
**September 1, 2013 through August 31, 2014**

### **FINANCIAL STATEMENTS**

Balance Sheet – Governmental Funds – 2014  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2014  
Notes to Financial Statements – 2014

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedules of Long-Term Liabilities – 2014  
Schedule of Expenditures of Federal Awards and Notes – 2014

## Balance Sheet

## Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	7,171,759.58	297,134.20	131,334.06	327,392.62	1,268,621.21	0.00	9,196,241.67
Minus Warrants Outstanding	-6,640,520.14	-6,887.99	0.00	-210,876.73	0.00	0.00	-6,858,284.86
Taxes Receivable	15,968,437.92		8,462,823.34	0.00	0.00	0.00	24,431,261.26
Due From Other Funds	58,276.60	0.00	0.00	0.00	0.00	0.00	58,276.60
Due From Other Governmental Units	1,902,467.49	0.00	0.00	0.00	0.00	0.00	1,902,467.49
Accounts Receivable	105,265.67	325.00	0.00	0.00	0.00	0.00	105,590.67
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	405,397.90	0.00					405,397.90
Prepaid Items	0.00	0.00		0.00	0.00	0.00	0.00
Investments	21,120,000.00	1,368,000.00	4,500,000.00	29,560,000.00	990,000.00	0.00	57,538,000.00
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
<b>TOTAL ASSETS</b>	<b>40,091,085.02</b>	<b>1,658,571.21</b>	<b>13,094,157.40</b>	<b>29,676,515.89</b>	<b>2,258,621.21</b>	<b>0.00</b>	<b>86,778,950.73</b>
<b>LIABILITIES:</b>							
Accounts Payable	1,723,126.05	191,384.24	0.00	3,102,034.77	0.00	0.00	5,016,545.06
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	186,912.44	0.00		0.00			186,912.44
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	93,296.48	0.00		0.00			93,296.48
Due To Other Governmental Units	18,214.39	225.38		546.67	0.00	0.00	18,986.44
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	428,514.29						428,514.29
Due To Other Funds	0.00	0.00	0.00	58,276.60	0.00	0.00	58,276.60

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

## Balance Sheet

## Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	9,130.00	0.00	0.00	0.00	0.00		9,130.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
<b>TOTAL LIABILITIES</b>	<b>2,459,193.65</b>	<b>191,609.62</b>	<b>0.00</b>	<b>3,160,858.04</b>	<b>0.00</b>	<b>0.00</b>	<b>5,811,661.31</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	105,265.67	325.00	0.00	0.00	0.00	0.00	105,590.67
Unavailable Revenue - Taxes Receivable	15,968,437.92		8,462,823.34	0.00	0.00		24,431,261.26
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>16,073,703.59</b>	<b>325.00</b>	<b>8,462,823.34</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>24,536,851.93</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	500,000.00	0.00	0.00	0.00	0.00	0.00	500,000.00
Restricted Fund Balance	4,462,690.00	1,466,636.59	4,631,334.06	26,515,657.85	2,258,621.21	0.00	39,334,939.71
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	11,900,000.00	0.00	0.00	0.00	0.00	0.00	11,900,000.00
Unassigned Fund Balance	4,695,497.78	0.00	0.00	0.00	0.00	0.00	4,695,497.78
<b>TOTAL FUND BALANCE</b>	<b>21,558,187.78</b>	<b>1,466,636.59</b>	<b>4,631,334.06</b>	<b>26,515,657.85</b>	<b>2,258,621.21</b>	<b>0.00</b>	<b>56,430,437.49</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>40,091,085.02</b>	<b>1,658,571.21</b>	<b>13,094,157.40</b>	<b>29,676,515.89</b>	<b>2,258,621.21</b>	<b>0.00</b>	<b>86,778,950.73</b>

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



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

## Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	35,549,197.27	1,839,766.21	16,763,259.61	1,242,061.72	1,457.73		55,395,742.54
State	129,717,745.22		0.00	4,769,126.57	1,268,017.74		135,754,889.53
Federal	12,461,119.54		225,947.84	0.00	0.00		12,687,067.38
Federal Stimulus	0.00						0.00
Other	189,501.06			0.00	0.00	0.00	189,501.06
<b>TOTAL REVENUES</b>	<b>177,917,563.09</b>	<b>1,839,766.21</b>	<b>16,989,207.45</b>	<b>6,011,188.29</b>	<b>1,269,475.47</b>	<b>0.00</b>	<b>204,027,200.51</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	92,639,571.23						92,639,571.23
Federal Stimulus	0.00						0.00
Special Education	22,659,792.67						22,659,792.67
Vocational Education	7,380,734.01						7,380,734.01
Skill Center	2,209,422.72						2,209,422.72
Compensatory Programs	7,374,146.41						7,374,146.41
Other Instructional Programs	2,019,004.38						2,019,004.38
Community Services	852,848.52						852,848.52
Support Services	38,877,486.89						38,877,486.89
Student Activities/Other	1,738,504.87					0.00	1,738,504.87
<b>CAPITAL OUTLAY:</b>							
Sites				2,773,541.16			2,773,541.16
Building				34,481,860.13			34,481,860.13
Equipment				497,203.25			497,203.25
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					982,254.34		982,254.34
Sales and Lease							
Other	1,465,866.53			5,385.00			5,385.00
<b>DEBT SERVICE:</b>							
Principal	32,539.40		8,130,000.00	0.00	0.00		8,162,539.40
Interest and Other Charges	665.52		10,144,688.95	0.00	0.00		10,145,354.47
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>175,512,078.28</b>	<b>1,738,504.87</b>	<b>18,274,688.95</b>	<b>37,757,989.54</b>	<b>982,254.34</b>	<b>0.00</b>	<b>234,265,515.98</b>

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

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

## Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	2,405,484.81		101,261.34	-1,285,481.50	-31,746,801.25	287,221.13	0.00 -30,238,315.47
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00			74,217,974.25	0.00	0.00	74,217,974.25
Long-Term Financing	0.00				0.00	0.00	0.00
Transfers In	0.00			0.00	0.00	0.00	0.00
Transfers Out (GL 536)	0.00			0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		-73,869,999.25		0.00	0.00	-73,869,999.25
Other	4,370.99			0.00	0.00	1,645.80	6,016.79
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>4,370.99</b>			<b>347,975.00</b>	<b>0.00</b>	<b>1,645.80</b>	<b>0.00 353,991.79</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	2,409,855.80		101,261.34	-937,506.50	-31,746,801.25	288,866.93	0.00 -29,884,323.68
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>19,148,331.98</b>		<b>1,365,375.25</b>	<b>5,568,840.56</b>	<b>58,262,459.10</b>	<b>1,969,754.28</b>	<b>0.00 86,314,761.17</b>
Prior Year(s) Corrections or Restatements	0.00		0.00	0.00	0.00	0.00	0.00 0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>21,558,187.78</b>		<b>1,466,636.59</b>	<b>4,631,334.06</b>	<b>26,515,657.85</b>	<b>2,258,621.21</b>	<b>0.00 56,430,437.49</b>

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

**BETHEL SCHOOL DISTRICT NO. 403**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 1, 2013 through August 31, 2014**

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

The Bethel School District is a municipal corporation organized pursuant to the Title 28A of the *Revised Code of Washington* (RCW) for the purpose of providing public school services to students in grade 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 Bethel School District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- a. Districtwide statements, as defined in GAAP, are not presented.
- b. A Schedule of Long-Term Liabilities is presented as supplementary information.
- c. Supplementary information required by GAAP is not presented.

**Fund Accounting**

Financial transactions of Bethel School District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. All funds are considered major funds. The various funds in the report are grouped into governmental funds as follows:

**Governmental Funds**

General Fund

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

Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund. This fund is used to account for resources set aside for the acquisition and construction of major capital assets such as land and buildings.

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

#### Debt Service Fund

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

#### Special Revenue Fund

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the district. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the district.

#### Permanent Funds

These funds are used to report resources that are legally restricted such that only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the district's programs and may not be used to the benefit of any individual. The district does not have any permanent funds.

### **Measurement Focus, Basis of Accounting and Fund Financial Statement Presentation**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The district implemented provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. As a result, deferred property taxes were reclassified from liabilities to deferred inflows of resources.

Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Bethel School District considers revenue to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

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

## **Budget**

Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the district enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

## **Policy on the Use of Restricted or Unrestricted Resources**

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

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

## **Fund Balance Classifications**

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

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

**Restricted Fund Balance.** Amounts that are reported as Restricted are those resources of the district that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

**Committed Fund Balance.** Amounts that are reported as Committed are those resources of the district that have had a limitation placed upon their usage by formal action of the district's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

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

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

The Chief Financial Officer, Director of Budget and Finance, and Director of Accounting and Purchasing are the persons who have the authority to create Assignments of fund balance.

**Unassigned Fund Balance.** In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the district that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund.

In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned fund balance means that the legal restrictions and formal commitments of the district exceed its currently available resources.

### **Cash and Cash Equivalents**

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

### **Inventory**

Inventory is valued at cost using the average cost method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

## **NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

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

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

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

<b>Type of Security</b>	<b>Number of Securities</b>	<b>Carrying Amount</b>	<b>Market Amount</b>
Local Government Investment Pool*	8	\$57,538,000	\$57,538,000
<b>Totals</b>	<b>8</b>	<b>\$57,538,000</b>	<b>\$57,538,000</b>

\*Local Government Investment Pool is operated by the State Treasurer.

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

### **Litigation**

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

### **Arbitrage Rebate**

The Tax Reform Act of 1986 requires the district to rebate the earnings on the investment of bond proceeds, in excess of their yield, to the federal government. This requirement is effective for the district's bond issue(s) after September 1, 1986, currently totaling \$203,880,000 as of August 31, 2014. Of the rebate, 90 percent is due and payable five years from the date bonds were issued and at five-year intervals thereafter. The remaining 10 percent is payable 60 days after they are retired. Because positive arbitrage can be offset against negative arbitrage, the rebatable amount fluctuates each year and may or may not be owed at the payment intervals. The district currently has no liability for arbitrage rebate as of August 31, 2014.

## **NOTE 4: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS**

### **General Information**

Substantially all Bethel School District full-time and qualifying part-time employees participate in one of the following statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Membership by retirement system program as of June 30, 2013:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	65,935	9,823	44,220
PERS	150,706	31,047	85,328
SERS	52,295	11,588	9,079

*Data is as of the last actuarial valuation date of June 30, 2013.*

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



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

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

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

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

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

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

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

## **Contributions**

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

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.69%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS: 5.00%, minimum; 15.00%, maximum			

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



Employer contribution rates effective September 1, 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 contribution. Employer required contributions in dollars (participant information for all plans is as of August 31):

<u>Plan</u>	<u>FY 13-14</u>	<u>FY 12-13</u>	<u>FY 11-12</u>
Plan 1 TRS	\$ 202,685.37	\$ 187,532.36	\$ 229,015.76
Plan 2 TRS	1,405,950.50	914,740.82	854,507.90
Plan 3 TRS	5,996,483.56	4,449,396.89	4,436,037.22
Plan 1 PERS	27,202.91	23,903.66	25,157.89
Plan 2 SERS	842,888.96	610,330.07	606,656.55
Plan 3 SERS	1,767,128.48	1,345,224.96	1,342,909.76

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 comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

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

## **NOTE 5: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS**

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

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K-12 school districts and educational service districts (ESDs), and 206 political subdivisions and tribal governments.

Additionally, the PEBB plan is available to the retirees of the remaining 247 K-12 school districts and ESDs. The district's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the

state Health Care Authority. For the fiscal year 2013-14, the district was required to pay the HCA \$64.40 per month per full-time equivalent employee to support the program, for a total payment of \$1,396,421.14. This assessment to the district is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

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

## **NOTE 6: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES**

For the fiscal year ended August 31, 2014, the district had incurred additional long-term debt in the form of lease agreements district wide as follows:

### **Operating Leases**

<u>Lessor</u>	<u>Contract Amount</u>	<u>Annual Installments</u>	<u>Date of Final Installment</u>	<u>Balance</u>
Sharp Electronics Corp (US Bank Corp)(Copiers)	101,065.80	20,213.16	01/31/15	6,737.72
Sharp Electronics Corp (US Bank Corp)(Copiers)	101,065.80	20,213.16	08/15/15	16,844.30
Sharp Electronics Corp (US Bank Corp)(Copiers)	148,222.80	29,644.56	04/25/16	46,937.22
Sharp Electronics Corp (Wells Fargo) (Copiers)	147,886.80	29,577.36	06/30/17	78,872.96
Sharp Electronics Corp (c/o KCDA)	17,294.40	3,458.88	11/30/17	11,020.37
Pitney Bowes (Postage Machine)	50,580.00	10,116.00	02/28/16	13,488.00

The district entered into an agreement with Canyon Road Property to lease the premises at 5410 184<sup>th</sup> Street East, Building C for the purpose of renting office and warehouse space for an initial period of ten (10) years which commenced on November 1, 2002 with the option to renew the lease for two (2) additional ten (10) year periods. The Board approved extending the lease for an additional three years commencing on November 1, 2012.

## **NOTE 7: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES**

Construction in progress is composed of:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended as of 08/31/14</u>
Transportation/Central Kitchen	\$ 25,000,000.00	\$ 28,826,070.51
Clover Creek Elementary	20,000,000.00	17,376,654.62
Pierce County Skills Center	25,000,000.00	25,294,254.78
Shining Mountain Elementary	10,000,000.00	14,925,804.15
Miscellaneous Projects	<u>30,000,000.00</u>	<u>22,894,642.00</u>
Total	<u>\$110,000,000.00</u>	<u>\$109,317,426.06</u>

### **Encumbrances**

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. Encumbrances in the following amounts, by fund, were re-encumbered on September 1, 2014:

General Fund	\$ 5,128.33
Capital Projects Fund	18,510,070.00
Associated Student Body Fund	100.00

## **NOTE 8: DISCLOSURES ABOUT CAPITAL ASSETS**

The district's capital assets are insured in the amount of \$760,604,542. In the opinion of the district's insurance consultant, the amount is sufficient to adequately fund replacement of the district's assets.

## **NOTE 9: DISCLOSURES ABOUT LONG-TERM LIABILITIES**

### **Long-Term Debt**

Bonds payable at August 31, 2014 are comprised of the following individual issues:

Issue		Amount Authorized	Annual Installments	Final Maturity	Interest Rates	Amount Outstanding
2006	REF	37,255,000	70,000 – 2,655,000	12/01/20	3.500% - 5.000%	27,115,000
2006	GO	90,000,000	1,500,000 – 16,600,000	12/01/15	4.000% - 5.000%	5,165,000
2008	GO	30,000,000	1,000,000 – 6,600,000	12/01/14	4.250% - 5.500%	1,365,000
2009B	GO	12,555,000	3,400,000 – 9,155,000	12//01/27	5.395% - 5.595%	12,555,000
2009C	GO	17,445,000	17,445,000 – 17,445,000	12//01/26	1.615% - 1.615%+	17,445,000*
2010	REF	37,025,000	780,000 – 9,340,000	12/01/22	2.000% - 4.000%	34,135,000
2010B	REF	15,840,000	50,000 – 6,035,000	12/01/27	2.000% - 4.000%	15,590,000
2011	GO	25,000,000	250,000 – 7,195,000	12/01/28	3.000% - 5.000%	24,250,000
2014	REF	66,260,000	395,000 - 8,020,000	12/01/25	1.250% - 5.000%	66,260,000
<b>TOTAL</b>						<b><u>\$203,880,000</u></b>

\*One payment due at maturity.

Following is a summary of general obligation long-term debt transactions of the district for the year ended August 31, 2014:

Long-Term Debt Payable at 09/01/13	\$ 214,980,000
Plus: New Issues	66,260,000
Less: Debt Retired	( 77,360,000)
Long-Term Debt Payable at 08/31/14	<u>\$ 203,880,000</u>

At August 31, 2014, the district had \$4,631,334.06 available in the Debt Service Fund to service the general obligation bonds.

Following is a schedule of annual requirements to amortize long-term debt at August 31, 2014:

<u>Years Ending August 31, __</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	6755000	7,887,507	17,362,507
2016	11,230,000	7,511,546	18,741,546
2017	7915000	7,106,052	16,441,052
2018	9,435,000	6,795,052	16,230,052
2019	11,225,000	6,364,440	17,589,440
2020	11,485,000	5,853,758	17,338,758
2021	9,955,000	5,344,077	15,339,077
2022	13,715,000	4,865,414	18,580,414
2023	19,455,000	4,284,501	23,739,501

<u>Years Ending August 31, __</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	15,975,000	3,528,514	19,503,514
2025	17,250,000	2,873,602	20,123,602
2026	12,550,000	2,096,887	14,646,887
2027	23,565,000	1,558,903	25,123,903
2028	22,385,000	783,917	23,168,917
2029	6,805,000	136,100	6,941,100
<b>TOTALS</b>	<b><u>\$ 203,880,000</u></b>	<b><u>\$66,990,270</u></b>	<b><u>\$270,870,270</u></b>

### **Build America Bonds (BAB) Federal Subsidy**

The American Recovery and Reinvestment Act of 2009 created a new category of municipal bonds that provide tax benefits to issuers and investors that differs from the tax benefits provided by conventional tax-exempt bonds. On December 17, 2009 the district sold \$12,555,000 in bonds that were designated as Build American Bonds (Direct Payment). As such, the district received payments from the U.S. Treasury Department equal to 35 percent of the interest payment (\$121,739.15) on the bonds every six months. However, due to sequestration, the interest payment was reduced by 8.7% (\$111,147.83) which was applicable to payments made between March 1 and September 30, 2013. Effective October 1, 2013, the amount of the original refundable credit was reduced by 7.2% (\$112,973.92). On October 16, 2014 the IRS announced the increase in the sequestration rate for refundable credit for qualified bonds to 7.3% (\$112,852.18). This reduction was effective on October 1, 2014.

## Refunded Debt

On June 3, 2014, the district issued \$66,260,000 in general obligation bonds with an average interest rate of 3.63 percent to advance refund \$69,230,000 of the district's callable, outstanding 2006 Unlimited Tax General Obligation Bonds with an average interest rate of 4.62 percent. The net proceeds of \$73,869,999.25 after payment of \$347,975 in underwriting fees and other issuance costs were used to purchase U.S. Government securities. A net present value savings of \$5,224,820.87 was realized from this refunding. Those securities were deposited in an irrevocable trust with an escrow agent to prove all future debt service payments on the 2006 series bonds. As a result, the 2006 series bonds are considered defeased.

## Defeasance of Debt

The district defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the district's financial statements. At August 31, 2014, \$69,230,000 of bonds outstanding were considered defeased.

## **NOTE 10: ENTITY RISK MANAGEMENT ACTIVITIES**

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

The Bethel School District is a member of the Schools Insurance Association of Washington (SIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1995, when seven mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently the SIAW program has 37 member districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: property, earthquake, general liability, automotive liability, equipment breakdown, crime, and wrongful acts liability.

The program acquires liability insurance through their administrator, Canfield, which is subject to a per-occurrence deductible of \$100,000. Members are responsible for a standard deductible of \$2,500 for each claim, while the program is responsible for the \$100,000 self-insured retention (SIR). Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a Stop Loss Policy with an attachment point of \$3,400,000, which it fully funds in its annual budget.

Property insurance is subject to a per-occurrence SIR of \$250,000. Members are responsible for a \$10,000 deductible amount for each claim while the program is responsible for the \$250,000 SIR. Insurance carriers cover insured losses over \$260,000 to the limits of each policy. Equipment breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

Members contract to remain in the program for one year and must give notice before December 31 to terminate participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program is fully funded by its member participants. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2014 were \$2,956,785.70.

A Board of Directors of eight members is selected by the membership from the east and west side of the state and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Canfield to perform day-to-day administration of the program. This program has no employees.

## **Unemployment**

The district self-insures for unemployment compensation and contracts with a third party to administer its unemployment claims. Actual employee claims are paid by the State of Washington, Department of Employment Security and reimbursed by the district. Funds are designated in the General Fund for payment of loss claims resulting from work stoppage, layoffs, or other emergencies resulting in benefit claims.

At August 31, 2014, the amount of liabilities was \$553,083.48. This liability is the district's best estimate based on available information. Changes in the reported liability since September 1, 2010 resulted in the following:

School Year	September 1 Liability	Current Year Claims and Changes in Estimates	Claim Payments	August 31 Balance
2010-11	399,215.76	155,887.34	236,314.19	318,788.91
2011-12	318,788.91	530,136.80	315,842.23	533,083.48
2012-13	533,083.48	104,154.19	222,831.30	414,409.37
2013-14	414,409.37	150,958.12	136,853.20	428,514.29

## **Worker's Compensation**

The district contracts with the Puget Sound Worker's Compensation Trust which is a self-insured pool providing insurance for on-the-job injuries for school districts. The Trust helps injured workers return to the workplace and assists the district in assessing workplace safety and implementation of loss control programs. Participating school districts own the Trust with all premiums building equity to help offset the ultimate costs. Bethel School District's total 2013-14 contributions to the Trust were \$1,481,899.48. A copy of the Puget Sound Worker's Compensation Trust report can be obtained by writing:

Puget Sound Workers' Compensation Trust  
800 Oakesdale Avenue SW  
Renton WA 98057

## **NOTE 11: FUND BALANCE CLASSIFICATION DETAILS**

The district's financial statements include the following amounts presented in the aggregate:

	General Fund	Capital Projects Fund	Debt Service Fund	Associated Student Body Fund	Transportation Vehicle Fund
<b>Nonspendable Fund Balance</b>					
Inventory and Prepaid Items	500,000.00				
<b>Restricted Fund Balance</b>					
Carryover of Restricted Revenues	1,150,325.00				
Debt Service	2,102,365.00		4,631,334.06		
Fund Purposes				1,466,636.59	2,258,621.21
State Proceeds		20,386,046.76			
Other Proceeds		354,874.59			
Impact Fees		5,478,907.75			
Mitigation Fees		295,828.75			
Other Items	1,210,000.00				
<b>Assigned Fund Balance</b>					
Fund Purposes					
Contingencies					
Other Purposes	11,900,000.00				
<b>Unassigned Fund Balance</b>	4,695,497.78				

## **NOTE 12: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

The district is a member of the King County Director's Association (KCDA), a purchasing cooperative designed to pool the member district's purchasing power. The board authorized joining the association by passing Resolution No. 1 dated September 6, 1960 and has remained in the joint venture ever since. The district's equity in this cooperative totaled \$183,784.27 as of December 31, 2013. The equity is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. The district may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.



## **NOTE 13: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS – BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS**

### **457 Plan – Deferred Compensation Plan**

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

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

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

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

## **NOTE 14: TERMINATION BENEFITS**

### **Compensated Absences**

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

Under the provisions of RCW 28A.400.210, sick leave accumulated by district employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buyout purposes, employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the termination payment method. The district's estimated sick leave payable as of August 31, 2014 is \$252,196.19.

Vacation leave is earned at an increasing rate beginning with 12 days per year in accordance with district bargaining agreements for employees qualifying for vacation benefits. Employees may accrue up to 30 days of annual leave. As of August 31, 2014, the district's estimated vacation payable is \$1,771,295.79.

## **NOTE 15: OTHER DISCLOSURES**

The Bethel School District is the host district for the Pierce County Skills Center (PCSC), a regional program designed to provide career and technical education opportunities to students in participating districts. The purpose of a Skills Center is to enhance the career and technical education course offerings among districts by avoiding unnecessary duplication of courses.

The PCSC officially opened Wednesday, September 8, 2010. The PCSC was created through an agreement of the seven member districts. The PCSC is governed by an Administrative Council, comprised of the superintendents, or their appointed representatives, of each member district. The PCSC administration is handled through a director, employed by the Bethel School District.

As host district, the Bethel School District has the following responsibilities:

- a. Employ staff of the PCSC.
- b. Act as fiscal agent for the PCSC and maintains separate accounts and fund balances for each fund.
- c. Review and adopt the PCSC budget as a part of the district's overall budget.
- d. Provide such services as may be mutually agreed upon by the district and the PCSC.

## **Sources of Funding**

The PCSC is primarily funded by state apportionment, based on the number of students who attend the PCSC. Other sources of income may include federal grants from the Carl D. Perkins program, tuition and fees, and payments from member districts.

## **Capital Improvements**

The district collects an annual fee from all participating districts for the Capital Maintenance Fund. These funds are used for the maintenance and related capital improvements of the PCSC facilities. Fees are collected from each member district in accordance with the interlocal agreement signed by all member districts. Any amounts collected that have not been expended for capital purposes are recorded as a restriction of the district's General Fund balance. As of August 31, 2014, the Capital Maintenance Fund had a balance of \$84,250.

## **Unspent Funds**

Any funds remaining at the end of the year from the PCSC operations are recorded as a restriction of the district's General Fund balance, and are to be used for financing future operations of the PCSC. Member districts do not have claim to any unspent funds of the PCSC. As of August 31, 2014, the PCSC had an unrestricted carryover of \$218,720.95 and a restricted carryover of federal funds of \$4,945.38. (This does not include the carryover of Capital Maintenance funds.)

In addition to the Bethel School District, the host district, the following districts are member districts of the PCSC:

- Eatonville School District
- Franklin Pierce School District
- Orting School District
- Sumner School District
- Steilacoom School District
- Tacoma School District
- White River School District

## Schedule of Long-Term Liabilities: GENERAL FUND

For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Non-Voted Debt and Liabilities</b>					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	108,450.32	0.00	29,577.36	78,872.96	29,577.36
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	1,600,733.76	466,967.68	44,209.46	2,023,491.98	60,094.44
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	1,709,184.08	466,967.68	73,786.82	2,102,364.94	89,671.80

## Schedule of Long-Term Liabilities: DEBT SERVICE FUND

For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased		Amount Redeemed / Decreased		Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Voted Debt</b>							
Voted Bonds	213,350,000.00	66,260,000.00		75,730,000.00	203,880,000.00	9,475,000.00	
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00		0.00	0.00	0.00	0.00
<b>Non-Voted Debt</b>							
Non-Voted Bonds	1,630,000.00	0.00		1,630,000.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00		0.00	0.00	0.00	0.00
Total Long-Term Liabilities	214,980,000.00	66,260,000.00		77,360,000.00	203,880,000.00	9,475,000.00	

## Schedule of Long-Term Liabilities: CAPITAL PROJECTS FUND

For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Non-Voted Debt and Liabilities</b>					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	0.00	0.00	0.00	0.00	0.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	0.00	0.00	0.00	0.00	0.00

## Schedule of Long-Term Liabilities: TRANSPORTATION VEHICLE FUND

For the Year Ended August 31, 2014

Due Description Year	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Within One
<b>Non-Voted Debt and Liabilities</b>					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	0.00	0.00	0.00	0.00	0.00

**BETHEL SCHOOL DISTRICT #403**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ending August 31, 2014

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Grant No.	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
<b>US DEPARTMENT OF AGRICULTURE</b>	OSPI	National School Lunch Program (Cash Assistance)	10.555		9800-6198	-	\$3,209,054.55	3,209,054.55	Note 1
	OSPI	National School Lunch Prog (Non Cash Assistance-Commodities)	10.555		9800-6998	-	\$488,139.43	488,139.43	Note 2
	OSPI	<b>TOTAL CFDA 10.555</b>				-	<b>\$3,697,193.98</b>	<b>3,697,193.98</b>	
	OSPI	School Breakfast Program	10.553		9800-6198	-	\$1,097,780.78	\$1,097,780.78	
	OSPI	<b>TOTAL CFDA 10.553</b>				-	<b>\$1,097,780.78</b>	<b>\$1,097,780.78</b>	
	OSPI	Summer Food Svc Program for Children	10.559		9873-6189	-	\$32,054.65	32,054.65	Note 1
		<b>TOTAL CFDA 10.559</b>				-	<b>\$32,054.65</b>	<b>32,054.65</b>	
		<b>SUBTOTAL US DEPARTMENT OF AGRICULTURE</b>				-	<b>\$4,827,029.41</b>	<b>4,827,029.41</b>	
		Promoting K-12 Student Achievement at Military Connected Schools	12.556		6905-6300-040	130,127.13		130,127.13	
		Promoting K-12 Student Achievement at Military Connected Schools	12.556		6998-6300-040	178,127.82		178,127.82	
<b>US DEPARTMENT OF DEFENSE</b>		<b>TOTAL CFDA 12.556</b>				<b>308,254.95</b>	-	<b>308,254.95</b>	
		NIJOTC Program	12. UNKNOWN		3900/3905-6200-458	\$81,507.81		81,507.81	
		ARJOTC Program	12. UNKNOWN		3900/3905-6200-428	60,498.46		60,498.46	
		AFJOTC Program	12. UNKNOWN		3900/3905-6200-407	58,381.65		58,381.65	
	Ofc of State Treasurer	Military Forest Yield (Federal In-Lieu-of Taxes)	12. UNKNOWN		9700-5500	-	\$15,058.42	15,058.42	
		<b>TOTAL CFDA 12.999</b>				<b>\$200,387.92</b>	<b>\$15,058.42</b>	<b>215,446.34</b>	
		<b>SUBTOTAL US DEPARTMENT OF DEFENSE</b>				<b>508,642.87</b>	<b>\$15,058.42</b>	<b>523,701.29</b>	
		Impact Aid	84.041		0100-5300-090	148,928.65		148,928.65	
		Impact Aid (Special Education)	84.041		2900-5329-030	110,708.89		110,708.89	
		<b>TOTAL CFDA 84.041</b>				<b>259,637.54</b>		<b>259,637.54</b>	
<b>US DEPARTMENT OF EDUCATION</b>	OSPI	Title 1, Grants to Local Ed Agency	84.010		5100/5157/5158/5159/2285055175-6151-030	-	\$2,213,061.55	2,213,061.55	Note 3, 4A
		<b>TOTAL CFDA 84.010</b>				-	<b>\$2,213,061.55</b>	<b>2,213,061.55</b>	
	OSPI	Special Ed Grants to State	84.027	304393	2400-6124-030	-	\$3,076,757.00	3,076,757.00	Note 4A
	OSPI	Special Education, Grants to States (A) (Safety Net)	84.027	337408	2440-6124-030	-	\$280,306.00	280,306.00	
		<b>TOTAL CFDA 84.027</b>				-	<b>\$3,357,063.00</b>	<b>3,357,063.00</b>	
	OSPI	Career and Technical Education, Basic Grants to State	84.048	172654	3800-6138-031	-	\$107,497.00	107,497.00	
		Career and Technical Education, Basic Grants to State	84.048	172580	4600-6146-460	-	\$41,812.01	41,812.01	Note 4A
		<b>TOTAL CFDA 84.048</b>				-	<b>\$149,309.01</b>	<b>149,309.01</b>	
	OSPI	Special Education, Preschool Grants	84.173	364393	2436-6124-030	-	\$105,032.49	105,032.49	Note 4A
		<b>TOTAL CFDA 84.173</b>				-	<b>\$105,032.49</b>	<b>105,032.49</b>	
<b>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>	OSPI	English Language Acquisition	84.365	401621	6400-6164-030	-	\$53,542.75	53,542.75	
		<b>TOTAL CFDA 84.365</b>				-	<b>\$53,542.75</b>	<b>53,542.75</b>	
	OSPI	Improving Teacher Quality State Grants	84.367	523046	5200-6152-042	-	\$521,693.34	521,693.34	Note 4A
		<b>TOTAL CFDA 84.367</b>				-	<b>\$521,693.34</b>	<b>521,693.34</b>	
<b>HEALTH AND HUMAN</b>		<b>SUBTOTAL US DEPARTMENT OF EDUCATION</b>				<b>\$259,637.54</b>	<b>\$6,399,702.14</b>	<b>\$6,659,339.68</b>	
	Puget Sound ESD	Head Start	93.600		6100/6105-6361-030	-	\$181,259.91	181,259.91	
		<b>SUBTOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				-	<b>\$181,259.91</b>	<b>181,259.91</b>	
		<b>TOTAL FEDERAL AWARDS EXPENDED</b>				<b>\$768,280.41</b>	<b>\$11,423,049.88</b>	<b>\$12,191,330.29</b>	

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as Bethel's financial statements. The district uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2 - NONCASH AWARDS - FOOD COMMODITIES

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

NOTE 3 - SCHOOLWIDE PROGRAMS

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

Title 1 (84.010): \$2,213,061.55

NOTE 4 - FEDERAL INDIRECT RATES

4A - Federal restricted rate of .0465.

NOTE 5 - FEDERAL INDIRECT RATES

Military funds were issued to the District, contracted funds, not a grant. \$100,000 for AYPN, after school funds and \$25,500 for the Get Fit Be Strong Program.

4B - Federal unrestricted rate of .1614 .

4C Rate of 151

## 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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Contact information for the State Auditor's Office	
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