

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

Kent School District No. 415
King County

Audit Period
September 1, 2012 through August 31, 2013

Report No. 1011825

Issue Date
May 12, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



**Washington State Auditor
Troy Kelley**

May 12, 2014

Board of Directors
Kent School District No. 415
Kent, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Kent School District No. 415'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

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King County
September 1, 2012 through August 31, 2013

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Federal Summary

Kent School District No. 415 King County September 1, 2012 through August 31, 2013

The results of our audit of Kent School District No. 415 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 identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified 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 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>
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$629,349.

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

Schedule of Federal Audit Findings and Questioned Costs

Kent School District No. 415
King County
September 1, 2012 through August 31, 2013

1. **Kent School District's internal controls were inadequate to ensure it maintained appropriate time and effort records to support payroll costs charged to the Special Education and Title I programs.**

CFDA Number and Title:	84.027 Special Education IDEA Part B 84.173 Special Education Preschool Grants 84.010 Title I Part A
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	Special Education: 0304045, 0337439, 0364044 Title I: S060A111032
Questioned Cost Amount:	\$0

Background

During fiscal year 2013, the District spent \$5,493,907 and \$4,736,836 in Special Education and Title I program funds, respectively.

The objective of the Special Education program is to provide special education and related services to children with disabilities.

The Title I program is designed to improve skills of children in subjects such as reading and math who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

Description of Condition

We reviewed the District's internal controls over payroll to determine whether salaries and benefits charged to the grants were supported by time and effort documentation as required by federal regulations. If an employee works on more than one activity, then time studies are required in order to comply with the District's substitute time and effort system. The studies are to be completed in October, January and May. Otherwise, employees that work on one federal activity may complete the time and effort certification on a semi-annual basis.

The Grant Program Administrator is responsible for ensuring the proper time and effort documentation is obtained and prepares the list of programs that are part of school-wide.

Programs that are part of the school-wide program are treated as one federal activity and; therefore, only require semi-annual time and effort certifications. The list was communicated to the Program Directors.

The Special Education program was erroneously included on the list. Historically, it has not been part of the school-wide plan and was not identified as such in the annual grant application.

We reviewed the time and effort documentation for the employees whose salaries and benefits were charged to the Special Education program and other activities. We found the District did not obtain time studies as required for 10 employees whose salaries and benefits were charged to the program. Of the 10 employees, eight also worked on the Title I program and time studies were also not performed as required.

Cause of Condition

District management did not monitor the Grant Program Administrator to make sure the processes were designed to ensure compliance with federal time and effort requirements. The error was not identified by District staff, resulting in the wrong time and effort documentation for employees that worked in the Special Education and Title I programs.

Effect of Condition and Questioned Costs

The District charged salaries and benefits totaling \$130,132 to the Special Education grant and \$74,630 to the Title I grant without obtaining adequate time and effort documentation under its substitute system. Without effective processes, the District cannot ensure payroll costs charged to the two grants is accurate. However, we reviewed alternate documentation that supported the costs charged to the grants, as a result, we are not questioning these costs.

Recommendation

We recommend the District strengthen its internal controls to ensure the appropriate time and effort documentation is obtained within the federal requirements

District's Response

During fiscal year 2012-2013 there was a lack of communication between the Inclusive Education (Special Education), Student and Family Support Services and Fiscal Services Departments concerning school-wide programs that include Special Education and as a result school-wide program budgets were completed in isolation. A lack of communication systems resulted in a breakdown of the internal controls concerning time and effort reporting.

Although Special Education may be included in school-wide programs in certain cases, it should not have been included in the District's 2012-2013 school-wide plans. Consequently, the 10 employees who were charged to both Special Education and Title I should have reported three times (October, January and May), or taken advantage of the

Department of Education (ED) substitute system for time and effort reporting for individuals who work multiple cost objectives with a fixed schedule. With the substitute system the employees would have reported semi-annually with the fixed schedules attached to the time and effort certification.

The District demonstrated to the auditors that the employees were charged to their respective programs correctly and thus the auditors did not question the costs. What is being questioned is how the employees reported their time and effort.

If communication between the three departments was sufficient, Special Education would not have been included in the school-wide programs thus a substitute system allowing certain employees to use alternative documentation for supporting salaries and wages, such as a class schedule, would have been employed. The employee would then need to certify semi-annually that the schedule reflected actual time worked in each program for the period being certified.

The District did discover this error in reporting time and effort during a review of the 2013-2014 fiscal year and implemented the substitute time and effort reporting system for individuals who work in multiple cost objectives with a fixed schedule. This system meets the guideline as published by the ED and approved by Office of Superintendent of Public Instruction.

The District also implemented an internal reporting system to identify those individuals who meet the qualifications for the substitute system.

The District is confident with the new system and improved controls in place, time and effort reporting for those employees who work multiple funding sources will be reported correctly.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and acknowledge its commitment to improvements. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

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

The auditee shall:

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

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

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (2 CFR Part 225), Appendix B, Section 8(h), states:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,

- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent and

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*

**Kent School District No. 415
King County
September 1, 2012 through August 31, 2013**

Board of Directors
Kent School District No. 415
Kent, 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 Kent School District No. 415, King County, Washington, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 21, 2014. As discussed in Note 1J to the financial statements, during the year ended August 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and 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 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.

In addition, we noted certain additional matters that we have reported to the management of the District in a separate letter dated March 21, 2014.

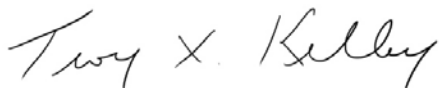
COMPLIANCE AND OTHER MATTERS

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

March 21, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Kent School District No. 415
King County
September 1, 2012 through August 31, 2013**

Board of Directors
Kent School District No. 415
Kent, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Kent School District No. 415, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013. 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, 2013.

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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 that we consider to be significant deficiencies.

District's Response to Findings

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

March 21, 2014

Independent Auditor's Report on Financial Statements

Kent School District No. 415 King County September 1, 2012 through August 31, 2013

Board of Directors
Kent School District No. 415
Kent, 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 Kent School District No. 415, King County, Washington, as of and for the year ended August 31, 2013, 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 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 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, 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 Kent School District No. 415, as of August 31, 2013, and the respective 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 1J to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and 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 17 through 24, budgetary comparison schedules on pages 62 through 63 and actuarial valuation of post employment benefits other than pension, schedule of funding progress on page 64 are 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.

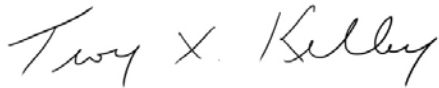
Supplementary and Other Information

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 March 21, 2014 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.



TROY KELLEY
STATE AUDITOR

March 21, 2014

Financial Section

Kent School District No. 415
King County
September 1, 2012 through August 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

FINANCIAL STATEMENTS

Statement of Net Position – 2013
Statement of Activities – 2013
Fund Balance Sheets – Governmental Funds – 2013
Reconciliation Balance Sheet/Statement of Net Position – 2013
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2013
Reconciliation Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities – 2013
Statement of Fiduciary Net Position – Fiduciary Funds – 2013
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013
Notes to Basic Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund – 2013
Budgetary Comparison Schedule – Special Revenue Fund (Associated Student Body Fund) – 2013
Actuarial Valuation of Post Employment Benefits Other Than Pension – Schedule of Funding Progress – 2013
Notes to Required Supplementary Information – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Kent School District's financial performance provides an overview of the district's financial activities for the fiscal year ended August 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-7 of this report.

FINANCIAL HIGHLIGHTS

- The district's total net position of governmental activities as of August 31, 2013, was \$324.084 million, an increase of \$9.276 million. The total assets were increased by \$10.887 million because of the current assets which were \$13.135 million higher than last year and capital assets decreased by \$2.248 million.
- During the year, the district had revenues of \$298.236 million and expenses of \$288.960 million incurred for all governmental activities, resulting in a corresponding increase in the district's net position by \$9.276 million.
- As of the close of the current fiscal year, the Kent School District's governmental funds reported combined ending fund balances of \$61.949 million, an increase of \$10.264 million in comparison with the prior year. The total governmental fund balances are as follows:

- Non-spendable	\$ 0.690 million
- Restricted for	32.395
- Committed to	13.881
- Assigned to	8.785
- Unassigned	6.198
- At the end of the current fiscal year, committed to 5% fund balance board policy and unassigned fund balance was \$18.662 million or 7.5% of the general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Kent School District's financial statements consist of three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements (*statement of net position* and *statement of activities*) are *district-wide financial statements* that provide both short-term and long-term information about the district's *overall* financial status as a *whole*.
- The *governmental fund financial statements* that focus on *individual* parts of the district, report the district's operations in more detail than the district-wide statements. These *governmental fund statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- The remaining statements provide financial information about activities for which the district acts solely as a trustee for the benefit of those outside of the district.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of fund activity to the district's budget for the year.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Kent School District's finances, in a manner similar to private-sector business.

The *Statement of Net Position* presents information about the district as a whole and about its assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating. This statement uses the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

The *Statement of Activities* presents information showing how the district's net position changed during the current fiscal year. All of the current year's revenues and expenses are reported, *regardless of the timing of related cash flows*.

In the *Statement of Net Position* and *Statement of Activities*, most of the district's basic services are reported in governmental activities, including general fund, associated student body, debt service, capital projects, transportation vehicle, and permanent funds.

Governmental Fund Financial Statements. Governmental fund financial statements provide detailed information about the most significant funds - not the district as a whole. These funds are required to be established by Washington State law. These statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the district's general education and support operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. We describe the relationship (or differences) between governmental activities (reported in the *Statement of Net Position* and the *Statement of Activities*) and governmental funds in two reconciliations (Schedules 3A and 4A) in the basic financial statements, and in Note 9 to Financial Statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

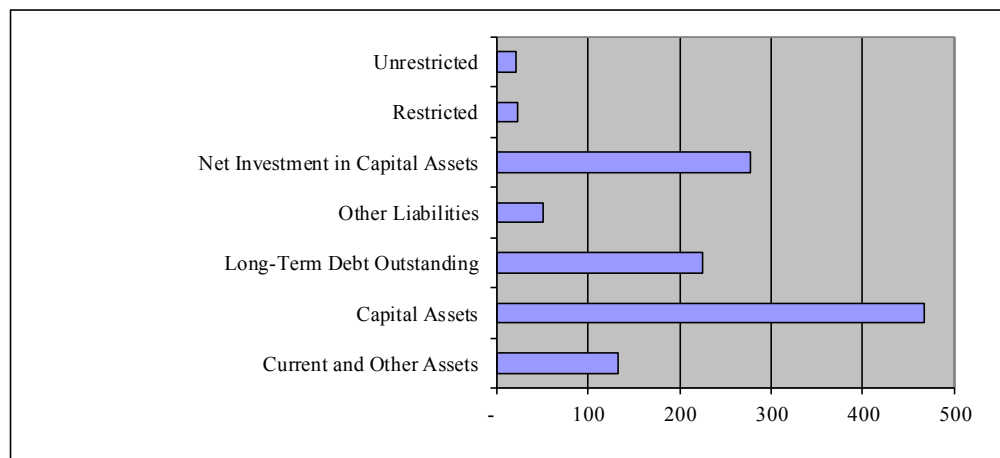
Net position may serve as a useful indicator of a government's financial position. The Kent School District's assets exceeded liabilities by \$324.084 million at the end of the 2012-13 fiscal year.

The largest portion of net position is invested in capital assets. The investment in capital assets (e.g., land, building, and equipment), less any related outstanding debt used to acquire those assets, is currently \$278.153 million. The remainder consists of amounts restricted for capital projects, debt service, and other purposes, with \$22.374 million unrestricted. The district's investment in its capital assets is reported net investment of capital assets, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

NET POSITION

	Primary Government		
	Governmental Activities		
	Aug 31, 2013	Aug 31, 2012	Changes
ASSETS			
Current and Other Assets	\$ 132,092,680	\$ 118,853,516	\$ 13,239,164
Capital Assets	467,704,599	468,553,050	(848,451)
Total Assets	599,797,279	587,406,566	12,390,713
Deferred Outflow of Resources	1,643,655	1,244,151	399,504
LIABILITIES			
Long-Term Debt Outstanding	225,849,875	224,721,573	1,128,302
Other Liabilities	46,661,896	44,895,805	1,766,091
Total Liabilities	272,511,771	269,617,378	2,894,393
Deferred Inflow of Resources	4,845,587	4,226,091	619,496
NET POSITION			
Net Investment in Capital Assets	278,153,226	270,761,288	7,391,938
Restricted	23,556,003	26,137,976	(2,581,973)
Unrestricted	22,374,347	17,907,984	4,466,363
TOTAL NET POSITION	\$ 324,083,576	\$ 314,807,248	\$ 9,276,328

Net Position Chart (in Millions)



The restricted net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted *net position* may be used to meet the district's ongoing obligations to citizens and creditors.

Governmental Activities. Governmental activities increased the district's net position by \$9.276 million. Key elements of this increase are as follows:

Changes in Net Position			
Primary Government			
Governmental Activities			
	2012-13	2011-12	Changes
REVENUES			
Program Revenues:			
Charges for Services	\$ 29,911,017	\$ 3,287,293	\$ 26,623,724
Operating Grants and Contributions	28,928,838	10,582,385	18,346,453
Capital Grants and Contributions	203,675	186,086	17,589
General Revenues:			
Property Taxes	92,781,331	92,838,827	(57,496)
Interest and Investment Earnings	1,171,720	495,438	676,282
Unallocated Revenues	145,239,639	183,471,001	(38,231,362)
TOTAL REVENUES	298,236,220	290,861,030	7,375,190
PROGRAM EXPENSES:			
Regular Instruction	167,719,935	155,945,966	11,773,969
Special Instruction	36,648,724	35,232,562	1,416,162
Vocational & Skill Center Instruction	7,320,239	7,293,976	26,263
Compensatory Instruction	16,427,797	13,720,101	2,707,696
Other Instr. & Community Services	1,221,829	1,018,311	203,518
Support Services	54,627,893	52,631,594	1,996,299
Extracurricular Activities	2,644,026	2,679,080	(35,054)
Debt Interest Payment	2,349,449	3,196,295	(846,846)
TOTAL EXPENSES	288,959,892	271,717,885	17,242,007
INCREASE (DECREASE) IN NET POSITION	9,276,328	19,143,145	
BEGINNING NET POSITION	314,807,248	295,664,103	19,143,145
ENDING NET POSITION	\$ 324,083,576	\$ 314,807,247	9,276,329

The following table presents the cost of each of the district's largest programs – regular instruction, special instruction, vocational instruction, compensatory instruction, other instructional programs, and support services – as well as each program's net costs (total cost less revenues generated by the activities). The net cost column shows the financial impact by each of these functions.

Governmental Activities				
	Total Costs of Services		Net Costs of Services	
	2011-12	2012-13	2011-12	2012-13
Regular Instruction	\$ 155,945,966	\$ 167,719,935	\$ (155,323,653)	\$ (164,891,518)
Special Instruction	35,232,562	36,648,724	(29,193,817)	(11,527,574)
Vocational Instruction	7,293,976	7,320,239	(7,102,450)	(7,116,564)
Compensatory Instruction	13,720,101	16,427,797	(9,341,343)	(1,291,977)
Other Instructional Programs	1,018,311	1,221,829	(849,439)	(841,300)
Support Services	52,631,594	54,627,893	(52,631,594)	(42,023,072)
Extracurricular Activities	2,679,080	2,644,026	(23,530)	125,091
Debt Payments	3,196,295	2,349,449	(3,196,295)	(2,349,449)
TOTALS	\$ 271,717,885	\$ 288,959,892	\$ (257,662,121)	\$ (229,916,362)

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The focus of the district's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Thus, unreserved fund balance may serve as a useful measure of the district's net resources available for spending at the end of the fiscal year.

As the district completed the fiscal year, its governmental funds (as presented in the balance sheets in the Governmental Fund Financial Statement section) reported a combined fund balance of \$61.949 million, which is \$10.264 million or 19.86% higher than last year. This change is the result of the following factors:

- The fund balance in the General Fund increased by \$2.868 million, because the district's total revenues exceeded total expenditures.
- The fund balance in the Special Revenue (ASB) Fund increased by \$.223 million.
- The fund balance in the Debt Service Fund decreased by \$0.038 million. The district traditionally sets the property tax levy to closely match scheduled bond payments in order to moderate the impact of local property taxes.
- The fund balance in the Capital Projects Fund increased by \$6.429 million due the sale of new bonds and to the costs of new capital projects.
- The fund balance in the Transportation Vehicle Fund increased by \$0.781 million, because the district's total revenues exceeded total expenditures.
- The Permanent Fund (Reeploeg Trust) had no significant change in fund balance.

The following table presents a summary of the governmental funds' revenues and expenditures for 2012-13, and the amounts and percentages of increases and decreases in relation to the prior year.

Changes in Revenues and Expenditures				
Governmental Funds				
Revenue Source	2012-13 Amount	Percent of Total	Increase (Decrease) From 2010-11	Percent Increase (Decrease)
Local Taxes & Non-Tax	\$ 100,795,652	34.5%	\$ (71,359)	-0.07%
State Revenues	166,559,458	57.0%	672,684	0.41%
Federal Revenues	21,956,270	7.5%	988,937	4.72%
Other Revenues	2,986,079	1.0%	275,054	10.15%
Total Revenues	292,297,459	100.0%	1,865,316	0.64%
Expenditures				
Regular Instruction	141,097,476	46.9%	3,842,555	2.80%
Special Instruction	33,500,313	11.1%	638,357	1.94%
Vocational Instruction	6,922,724	2.3%	(90,072)	-1.28%
Compensatory Instruction	15,828,079	5.3%	2,514,149	18.88%
Other Instruction Programs	772,428	0.3%	223,462	40.71%
Community Services	380,529	0.1%	(38,667)	-9.22%
Support Services and Misc.	49,887,295	16.6%	769,047	1.57%
Student Activities	2,546,230	0.8%	(42,261)	-1.63%
Capital Outlay	19,627,038	6.5%	(184,319)	-0.93%
Debt Service	30,283,847	10.1%	(16,481)	-0.05%
Total Expenditures	300,845,959	100.0%	7,615,770	2.60%
Other Financing Sources	39,636,717		24,384,794	N/A
Other Financing Uses	22,604,366		7,600,037	N/A

General Fund Budgetary Highlights

Appropriations are a prerequisite to expenditures in the governmental funds. Appropriations lapse at the end of the fiscal year. The Board may adopt a revised or supplemental budget appropriation after a public hearing anytime during the fiscal year. The Board revised the Capital Projects Fund budget during the 2012-13 fiscal year to provide enough capacity to meet the planned expenditures.

Reasons for the significant variances in the general fund between budget and actual results include:

- Total actual general fund revenues were \$5,093,763 less than budgeted. When the revenue budget is established \$5,000,000 is budgeted as a revenue expansion contingency to account for any unanticipated revenues (a corresponding \$5,000,000 is budgeted in expenditures so there is no effect on ending fund balance).
- Expenditures of \$249,277,721 were \$12,812,669 less than the budgeted \$262,090,390 as a result of lower expenditures in salaries (\$3,224,519), benefits (\$1,981,534) and contractual services (\$8,415,084). The district's expenditures for supplies were \$647,089 more than budgeted. Also, travel (\$47,957) and capital outlay (\$113,422) were more than budgeted.

The general fund balance reported on Schedule A-1 on August 31, 2013, differs from the budgetary fund balance by \$11.076 million. The beginning fund balance was higher than budgeted by \$3.661 million, revenues were lower than budgeted by \$5.094 million due to

reduction in state monies, and expenditures were lower than budgeted by \$12.813 million due to the district's budget techniques to include contingencies. Washington statutes establish expenditure budgets as absolute expenditure limits, encouraging contingency budgeting.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2012-13, the district had \$680.175 million (an increase of \$14.168 million) invested in a broad range of capital assets, including school buildings, buses, and equipment. The district did issue \$14.620 million in Unlimited General Obligation Bonds in 2012-13 to finance the capital projects.

Some major projects that were completed in 2012-13 are as follows:

- Panther Lake Elementary Replacement--\$25.354 million
- Remodeling Projects at Kent Meridian High School--\$11.290 million
- Remodeling Projects at Kentridge High School--\$10.176 million
- Mechanical/HVAC Projects at various locations--\$9.817 million
- Addition at Scenic Hill Elementary--\$2.794 million
- Addition at East Hill Elementary--\$2.610 million

The district does not own general-purpose infrastructure assets (roads, bridges, tunnels, drainage systems, water and sewer systems, dams, lighting systems).

More information on the district's capital assets can be found in Note 4 in the Notes to the Financial Statements.

Long-Term Debt

At year-end, the district had \$200,428,760 in refunding, limited and unlimited tax general obligation bonds outstanding versus \$208,177,814 last year; a decrease of 3.72% as shown below:

Outstanding Debt at Year-End
(in thousands)

	2012-13	2011-12	Increase(Decrease)	
2001B Building Fund	\$ 6,920	\$ 8,990	\$ (2,070)	% (23.03)
2002 Building & Ref.	-	5,395	(5,395)	(100.00)
2003 Building Fund	1,250	2,450	(1,200)	(48.98)
2004 Building Fund	2,200	21,625	(19,425)	(89.83)
2005 Refunding	45,455	53,085	(7,630)	(14.37)
2006 Building Fund	29,505	31,795	(2,290)	(7.20)
2005 LGO Bonds	21	35	(14)	(40.00)
2007 Building Fund	15,000	15,000	-	100.00
2007 Refunding Bond	3,080	6,620	(3,540)	(53.47)
2008 Building Fund	19,415	19,415	-	100.00
2008 LGO Bonds	997	1,173	(176)	(15.00)
2010 Refunding	12,995	12,995	-	-
2010 QSCB	15,000	15,000	-	-
2012 Refunding	14,600	14,600	-	-
2012A Refunding	19,370	-	19,370	
2013 Building Fund	14,620	-	14,620	
TOTALS	\$ 200,428	\$ 208,178	\$ (7,750)	% (3.72)

Outstanding debt will mature on the following dates:

2001B Building Fund	June 1, 2016
2003 Building Fund	December 1, 2013
2004 Building Fund	December 1, 2024
2005 Refunding	December 1, 2018
2005 LGO Bonds	January 1, 2015
2006 Building Fund	December 1, 2020
2007 Building Fund	December 1, 2026
2007 Refunding Bond	December 1, 2026
2008 Building Fund	December 1, 2027
2008 LGO Bond	June 1, 2018
2010 Refunding Bond	December 1, 2022
2010 QSCB Bond	December 1, 2026
2012 Refunding Bond	December 1, 2022
2012A Refunding Bond	December 1, 2024
2013 Building Fund	December 1, 2032

The district's most recent underlying bond ratings were as follows:

Moody's: Aa1/Aa2

Standard and Poor's: AA+/AA-

The state limits the amount of general obligation debts (non-voted) that the district can issue to .375% of the assessed valuation of all taxable property within the district. This amount is calculated to be \$59.177 million. The limits for voted debts are 5.0 % of the assessed valuation of all taxable property within the district, provided the indebtedness in excess of 2.5% is for capital outlay, and an approval rate of 60% of the people who voted. The remaining debt capacity is \$590.547 million.

More information on the district's debt can be found in Note 7 in the Notes to the Financial Statements.

NEXT YEAR'S APPROPRIATIONS AND BUDGET RATES

The 2013-14 appropriations for governmental funds of the district were set at \$343.619 million, an increase of 9.95% from total appropriations of \$312.512 million last year.

Property tax rates of \$5.95 per \$1,000 were projected for 2014, a decrease of 1.3% from the 2013 actual tax rates of \$6.03 per \$1,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the district's finances, and to show the district's accountability for the money it receives. If you have questions about this report, or would like additional financial information, contact the district's Department of Fiscal Services at 12033 SE 256th Street, A-600, Kent, Washington 98030-6643.

KENT SCHOOL DISTRICT NO. 415
STATEMENT OF NET POSITION
August 31, 2013

		Primary Government
	Note #	Governmental Activities
ASSETS		
Cash and Cash Equivalents	1.F.1	\$ 78,555,708
Cash Held by Trustees	2.B	4,180,763
Property Tax Receivable	1.F.2	46,662,975
Receivables, Net	1.F.3	180,929
Prepaid Expenses		62,657
Due from Other Governments	1.F.5	1,986,949
Inventories	1.G	462,699
Capital Assets, net of accumulated depreciation, where applicable:	4	
Land		68,623,234
Land Improvements		14,843,412
Buildings & Improvements		368,734,513
Transportation Equipment		2,354,445
Equipment & Machinery		7,566,365
Construction-in-progress		5,582,630
TOTAL ASSETS		599,797,279
DEFERRED OUTFLOW OF RESOURCES	7.B	1,643,655
LIABILITIES		
Accounts Payable		7,847,760
Accrued Interest Payable		2,166,899
Accrued Contingent Losses		393,879
Accrued Wages & Benefits Payable		10,391,405
Due to Other Governments		1,527
Long-Term Liabilities:	7.A	
Due within one year		25,860,426
Due in more than one year		225,849,875
TOTAL LIABILITIES		272,511,771
DEFERRED INFLOWS OF RESOURCES		4,845,587
NET POSITION		
Net Investment in Capital Assets		278,153,226
Restricted for:		
Capital Projects		2,626,331
Debt Service		14,212,728
Other Purposes *		6,716,944
Unrestricted		22,374,347
TOTAL NET POSITION		\$ 324,083,576

* Imposed by laws & regulations

The notes to the basic financial statements are an integral part of this statement.

KENT SCHOOL DISTRICT NO. 415
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

Schedule 2

		PROGRAM REVENUES			PRIMARY GOVERNMENT
Functions/Programs	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
Regular Instruction	\$ 167,719,935	\$ 2,828,418	\$ -	\$ -	\$ (164,891,518)
Special Instruction	36,648,724	19,472,202	5,648,948	-	(11,527,574)
Vocational Instruction	7,320,239	-	-	203,675	(7,116,564)
Compensatory Education	16,427,797	-	15,135,820	-	(1,291,977)
Other Instruction Programs	826,994	-	-	-	(826,994)
Community Services	394,835	-	380,529	-	(14,306)
Support Services	54,627,893	4,841,280	7,763,541	-	(42,023,072)
Extracurricular Activities (ASB)	2,644,026	2,769,117	-	-	125,091
Interest Payment on Long-Term Debt	2,349,449	-	-	-	(2,349,449)
Total Governmental Activities	\$ 288,959,892	\$ 29,911,017	\$ 28,928,838	\$ 203,675	\$ (229,916,362)

General Revenues:

Taxes:

Property taxes, levies for maintenance and operations	\$ 59,009,757
Property taxes, levies for debt service	28,807,967
Property taxes, levies for capital projects	4,963,607
Unallocated State Apportionment & Others	145,239,639
Interest and Investment earnings	1,171,720

Total General Revenues

239,192,690

Changes in Net Position

9,276,328

Net Position - Beginning

314,807,248

Net Position- Ending

\$ 324,083,576

The notes to the basic financial statements are an integral part of this statement.

KENT SCHOOL DISTRICT NO. 415
FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
August 31, 2013

Schedule 3

	GENERAL FUND	SPECIAL REVENUE FUND (ASB)	DEBT SERVICE FUND	CAPITAL PROJECT FUND	TRANSPORTATION VEHICLE FUND	PERMANENT FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS:							
Cash and Cash Equivalents	\$ 42,084,202	\$ 1,635,116	\$ 14,248,975	\$ 19,408,949	\$ 1,002,909	\$ 175,557	\$ 78,555,708
Cash Held by Trustee	-	-	-	4,180,763	-	-	4,180,763
Property Tax Receivable	29,748,505	-	14,433,144	2,481,326	-	-	46,662,975
Accounts Receivable, Net	180,929	-	-	-	-	-	180,929
Prepaid Expenses	62,657	-	-	-	-	-	62,657
Due From Other Funds	75,651	138,920	-	2,184	-	-	216,755
Due From Other Government Units	1,986,949	-	-	-	-	-	1,986,949
Inventories at Cost	462,699	-	-	-	-	-	462,699
TOTAL ASSETS	74,601,592	1,774,036	28,682,119	26,073,222	1,002,909	175,557	132,309,435
LIABILITIES:							
Accounts Payable	3,683,716	84,445	-	4,079,599	-	-	7,847,760
Accrued Wages & Benefits Payable	10,391,405	-	-	-	-	-	10,391,405
Accrued Contingent Losses	151,730	-	36,247	201,984	3,427	491	393,879
Due To Other Funds	141,105	24,449	-	51,202	-	-	216,755
Due to Other Government Units	1,527	-	-	-	-	-	1,527
TOTAL LIABILITIES	14,369,483	108,894	36,247	4,332,785	3,427	491	18,851,326
DEFERRED INFLOW OF RESOURCES							
Deferred Revenue-Others	477,797	187,027	-	4,180,763	-	-	4,845,587
Deferred Revenue - Taxes Receivable	29,748,505	-	14,433,144	2,481,326	-	-	46,662,975
TOTAL DEFERRED INFLOW OF RESOURCES	30,226,302	187,027	14,433,144	6,662,089	-	-	51,508,562
FUND BALANCES							
Nonspendable	525,356	-	-	-	-	-	525,356
Nonspendable: Permanent Fund Principal	-	-	-	-	-	165,000	165,000
Restricted For*	2,118,722	1,478,115	14,212,728	13,585,816	999,482	10,066	32,404,929
Committed To Min. Fund Balance Policy	12,463,886	-	-	-	-	-	12,463,886
Committed Levy Proceeds	-	-	-	1,417,395	-	-	1,417,395
Assigned To	8,700,000	-	-	75,137	-	-	8,775,137
Unassigned	6,197,843	-	-	-	-	-	6,197,843
TOTAL FUND BALANCES	30,005,807	1,478,115	14,212,728	15,078,348	999,482	175,066	61,949,547
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES AND FUND BALANCES	\$ 74,601,592	\$ 1,774,036	\$ 28,682,119	\$ 26,073,222	\$ 1,002,909	\$ 175,557	\$ 132,309,435

* Imposed by laws & regulations
The notes to the basic financial statements are an integral part of this statement.

KENT SCHOOL DISTRICT NO. 415
RECONCILIATION
BALANCE SHEET/STATEMENT OF NET POSITION
August 31, 2013

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets Totals
ASSETS				
Cash and Cash Equivalents	\$ 78,555,708	\$ -	\$ -	\$ 78,555,708
Cash Held by Trustees	4,180,763	-	-	4,180,763
Property Tax Receivable	46,662,975	-	-	46,662,975
Receivables, Net	180,929	-	-	180,929
Due from Other Funds	216,755	-	(216,755)	-
Due from Other Governments	1,986,949	-	-	1,986,949
Inventories	462,699	-	-	462,699
Prepays	62,657	-	-	62,657
Capital Assets, Net (land, building, equipment)	-	467,704,599	-	467,704,599
TOTAL ASSETS	132,309,435	467,704,599	(216,755)	599,797,279
DEFERRED OUTFLOW OF RESOURCES				
Deferred Charges	-	1,643,655	-	1,643,655
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	132,309,435	469,348,254	(216,755)	601,440,934
LIABILITIES				
Accounts Payable	7,847,760	-	-	7,847,760
Accrued Interest Payable		2,166,899		2,166,899
Accrued Contingent Losses	393,879			393,879
Wages, Benefits & Other Payables	10,391,405	-	-	10,391,405
Due to Other Funds	216,755	-	(216,755)	-
Due to Other Government Units	1,527			1,527
Long-Term Liabilities		251,710,301	-	251,710,301
TOTAL LIABILITIES	18,851,326	253,877,200	(216,755)	272,511,771
DEFERRED INFLOW OF RESOURCES				
Unearned Revenue	51,508,562	(46,662,975)	-	4,845,587
FUND BALANCES/NET POSITION	61,949,547	262,134,029	-	324,083,576
TOTAL LIABILITIES AND DEFERRED INFLOWS AND FUND BALANCES/NET POSITION	\$ 132,309,435	\$ 516,011,229	\$ (216,755)	\$ 601,440,934

The notes to the basic financial statements are an integral part of this statement.

KENT SCHOOL DISTRICT NO. 415
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Schedule 4

FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

	GENERAL FUND	SPECIAL REVENUE FUND (ASB)	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TRANSPORTATION VEHICLE FUND	PERMANENT FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES							
Local	\$ 65,793,849	\$ -	\$ 28,939,338	\$ 6,055,369	\$ 6,002	\$ 1,094	\$ 100,795,652
State	165,198,453	-	-	585,615	775,390	-	166,559,458
Federal	21,220,674	-	735,596	-	-	-	21,956,270
Miscellaneous	216,962	2,769,117	-	-	-	-	2,986,079
TOTAL REVENUES	252,429,938	2,769,117	29,674,934	6,640,984	781,392	1,094	292,297,459
EXPENDITURES							
Current Operating:							
Regular Instruction	141,097,476	-	-	-	-	-	141,097,476
Special Instruction	33,500,313	-	-	-	-	-	33,500,313
Vocational Instruction	6,922,724	-	-	-	-	-	6,922,724
Compensatory Instruction	15,828,079	-	-	-	-	-	15,828,079
Other Instructional Programs	772,428	-	-	-	-	-	772,428
Community Services	380,529	-	-	-	-	-	380,529
Support Services	49,887,263	-	-	-	-	-	49,887,263
Student Activities	-	2,546,230	-	-	-	-	2,546,230
Miscellaneous	-	-	-	-	18	14	32
Debt Service:							
Principal	86,254	-	21,360,637	-	-	-	21,446,891
Interest and Other Charges	19,334	-	8,677,658	139,963	-	-	8,836,955
Capital Outlay:							
Technology Equipment and Others	783,318	-	-	18,843,720	-	-	19,627,038
TOTAL EXPENDITURES	249,277,721	2,546,230	30,038,295	18,983,683	18	14	300,845,961
Excess (Deficiency) of Revenues Over Expenditures	3,152,217	222,887	(363,361)	(12,342,699)	781,374	1,080	(8,548,502)
OTHER FINANCING SOURCES (USES)							
Refunding Bonds Issued	-	-	19,370,000	-	-	-	19,370,000
Bond Premium	-	-	3,632,774	1,952,578	-	-	5,585,352
Bond Discount	-	-	-	-	-	-	-
Bond Issuance Cost	-	-	(232,671)	88,730	-	-	(143,941)
Sale of Surplus Equipment	61,365	-	-	-	-	-	61,365
Payment to Refunding Bond Escrow Agent	-	-	(22,460,425)	-	-	-	(22,460,425)
Long-Term Financing	-	-	-	14,620,000	-	-	14,620,000
Transfers	(345,436)	-	15,436	330,000	-	-	(0)
TOTAL OTHER FINANCING SOURCES AND USES	(284,072)	-	325,114	16,991,308	-	-	17,032,350
NET CHANGE IN FUND BALANCE	2,868,145	222,887	(38,247)	4,648,609	781,374	1,080	8,483,848
Fund Balance - Beginning	27,137,662	1,255,228	14,250,975	10,429,739	218,108	173,986	53,465,698
Fund Balance - Ending	27,137,662	1,255,228	14,250,975	10,429,739	218,108	173,986	53,465,698
Nonspendable	525,356	-	-	-	-	165,000	690,356
Restricted*	2,118,722	1,478,115	14,212,728	13,585,816	999,482	10,066	32,404,929
Committed To	12,463,886	-	-	1,417,395	-	-	13,881,281
Assigned To	8,700,000	-	-	75,137	-	-	8,775,137
Unassigned	6,197,843	-	-	-	-	-	6,197,843
TOTAL ENDING FUND BALANCES	\$ 30,005,807	\$ 1,478,115	\$ 14,212,728	\$ 15,078,348	\$ 999,482	\$ 175,066	\$ 61,949,547

* Imposed by laws & regulations

The notes to the basic financial statements are an integral part of this statement.

KENT SCHOOL DISTRICT NO. 415
RECONCILIATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

	Total Governmental Funds	Long-Term Revenue, Expenses	Capital Related Items	Long-Term Debt Transactions	Statement of Activities Totals
REVENUES AND OTHER SOURCES					
Property Taxes & Local Non-Tax	\$ 100,795,652	\$ 292,042	\$ -	\$ -	\$ 101,087,694
State	166,559,458	-	-	-	166,559,458
Federal	21,956,270	-	-	-	21,956,270
Miscellaneous	2,986,079	-	-	-	2,986,079
Other Sources:					
Bonds Issued	19,370,000	-	-	(19,370,000)	-
Bonds Premium	5,585,352	-	-	-	5,585,352
Long-Term Financing	14,620,000	-	-	(14,620,000)	-
Sales of Non-Capitalized Assets	61,365	-	-	-	61,365
TOTAL	331,934,176	292,042	-	(33,990,000)	298,236,219
EXPENDITURES/EXPENSES					
Current:					
Regular Instruction	141,097,476	3,637,023	21,075,094	-	165,809,593
Special Instruction	33,500,313	863,527	1,867,452	-	36,231,292
Vocational Instruction	6,922,724	178,445	135,693	-	7,236,861
Compensatory Education	15,828,079	407,995	4,609	-	16,240,683
Other Instruction Programs	772,428	19,911	25,235	-	817,574
Community Services	380,529	9,809	-	-	390,338
Support Services	49,887,263	1,285,928	2,832,486	-	54,005,677
Student Activities	2,546,230	65,633	32,163	-	2,644,026
	-	-	-	-	-
Miscellaneous	32	-	-	-	32
Debt Service:					
Principal	21,446,891	-	-	(21,446,891)	-
Interest and Other Charges	8,836,955	(4,672,435)	-	(1,815,071)	2,349,449
Bond Discount	-	-	-	-	-
Escrow Payment	22,460,425	-	-	(19,370,000)	3,090,425
Bond Issuance Costs	143,941	-	-	-	143,941
Capital Outlay	19,627,038	-	(19,627,038)	-	-
TOTAL EXPENDITURES/EXPENSES	323,450,327	1,795,835	6,345,693	(42,631,962)	288,959,892
NET CHANGE FOR THE YEAR					
	\$ 8,483,848	\$ (1,503,793)	\$ (6,345,693)	\$ 8,641,962	\$ 9,276,328

The notes to the basic financial statements are an integral part of this statement.

KENT SCHOOL DISTRICT NO. 415
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
August 31, 2013

	Employee Benefits Trust	Private-Purpose Trust
ASSETS		
Cash and Cash Equivalents	\$ 182,320	\$ 58,387
TOTAL ASSETS	182,320	58,387
LIABILITIES		
Accounts Payable	718	-
TOTAL LIABILITIES	718	-
NET POSITION		
Held in Trusts for Employee Benefits	181,602	-
Held in Trusts for Other Purposes	-	58,287
Total Net Position	181,602	58,287
TOTAL LIABILITIES/ NET POSITION	\$ 182,320	\$ 58,287

The notes to the basic financial statements are an integral part of this statement.

KENT SCHOOL DISTRICT NO. 415
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

	Employee Benefits Trust	Private-Purpose Trust
ADDITIONS		
Employee Contributions	\$ 468,797	
Donations	-	\$ 34,672
Investment Earnings	2,147	308
Total Additions	470,944	34,980
DEDUCTIONS		
Benefits Claims	368,173	-
Scholarships	-	28,309
Administrative	33,267	4
Total Deductions	401,440	28,313
Change in Net Position	69,504	6,667
Net Position, Beginning of the year	112,098	51,720
Net Position, End of the year	\$ 181,602	\$ 58,387

The notes to the basic financial statements are an integral part of this statement.

**KENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kent School 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. The more significant of the district's accounting policies are described below.

A. REPORTING ENTITY

The Kent School District is a municipal corporation organized pursuant to Title 28A Revised Code of Washington for the purpose of providing public school services to students in grades K-12. The Kent School District operates under an independently elected board of directors. Management of the district is appointed by and 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 Kent School District's financial statements include all of the district's funds. The district considered whether there were any component units or organizations controlled by or dependent on the district's board of directors or for which the district is considered to be financially accountable. There is no component unit or other organization that meets the criteria of GASB Statement 14.

B. BASIS OF PRESENTATION

The accounts of the district are organized on the basis of funds in *governmental fund financial statements*, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The district's basic financial statements in this report consist of:

1. GOVERNMENT-WIDE FINANCIAL STATEMENTS

Overall governmental activities report on all non-fiduciary activities without displaying individual funds or fund types and display information about the district as a whole. They include the primary government.

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, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantors have been met. 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. Capital assets (land, land improvements, building, building

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

improvements, vehicles, and equipment) are reported at historical cost, net of accumulated depreciation.

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

Expenses - Expenses are reported by function/program which include direct and indirect expenses. Depreciation expenses are allocated to direct expenses with a function/program. Interest expenses may be considered direct (interest on long-term debt, when borrowing is essential to the creation or continuing existence of a program) or indirect expenses (interest on long-term liabilities).

Revenues - The revenues are divided into program revenues and general revenues.

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

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

2. FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

a. **General Fund** - This fund is the general operating fund of the district. It is used to account for and report all financial resources not accounted for and reported in another fund. In keeping with the principle of as few funds as necessary, food services, maintenance, information technology, printing and transportation

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

activities are included in this fund. These activities are legally designated in the General Fund, and also principally serve and receive their support from the General Fund.

b. **Special Revenue Fund (Associated Student Body Fund)** - This fund is used to account for and report the proceeds of extracurricular fees and resources collected in fund-raising events for students that are restricted or committed to expenditure for the Associated Student Body Fund's specified purposes.

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 Kent School District.

c. **Debt Service Fund** - This fund is used to account for and report financial resources that are restricted to expenditure for principal, interest, and related expenditures.

There are no legal requirements which mandate a separate fund for each bond issue; therefore, the district maintains one debt service fund for all bond issues.

d. **Capital Projects Fund** - The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for construction or purchase of major capital facilities. This fund must be used when projects are financed wholly or in part by bond issues, intergovernmental resources, major private donations, or insurance recoveries. This fund is also used to account for energy capital improvements, and the purchase of additional major items of equipment or furniture. Transportation buses cannot be purchased in this fund.

e. **Transportation Vehicle Fund** - The Transportation Vehicle Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the purchase, major repair, rebuilding, and debt service expenditures related to pupil transportation equipment. The major sources of revenue in this fund include the state reimbursement for pupil transportation equipment, limited tax general obligation bonds, and special levies.

f. **Permanent Fund (Reeploeg Permanent Fund)** - This fund accounts for and reports resources that are restricted to the extent that only investment earnings, and not principal (\$165,000), may be used for purposes that support the district's expenditures for the district's performing art facilities. The district accumulates interest income and can make a distribution every 7 years. The last distribution was made in 2010. The fund was donated by the Reeploeg family.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to account for assets held by the district in the capacity of trustee or agent. The district has the Employee Vision Benefits Trust, Invest ED Trust, and other miscellaneous trusts. The Employee Vision Benefit Trust accounts for moneys held in trust for employees participating in the district's self-insured

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

vision benefits plan. Premiums are deposited into, and vision claims are paid from this fund. The fund is governed by a board of trustees who have contracted with a service provider to administer claims payments. The Invest ED Trust and other miscellaneous trusts are reported under Private-Purpose Trust.

MAJOR AND NONMAJOR FUNDS

The district considers all governmental funds as major funds.

C. GENERAL BUDGETARY POLICIES

The Kent School District's budgeting and accounting policies are in compliance with Generally Accepted Accounting Principles (GAAP). That means the modified accrual basis serves as the basis for budgeting. School district accounting systems provide the basis for the budgetary control. The budget is adopted by the board of directors after public hearing. Appropriations are a prerequisite to expenditures in the General, Special Revenue, Debt Service, Capital Projects, and Transportation Vehicle Funds. Appropriations lapse at the end of the fiscal year. Each fund's expenditures cannot, by law, exceed formal fund appropriations.

Management is authorized to modify specific accounts within the overall fund appropriation. The Board may adopt a revised or supplemental budget appropriation after a public hearing anytime during the fiscal year. If the local school district budget does not comply with the budget procedures established by RCW43.09.200, the Superintendent of Public Instruction shall give written notice to the board of directors of the local school district that shall, within thirty days from the date the notice is issued, submit a revised budget which meets the requirements of RCW43.09.200. During the fiscal year 2012-13, the district revised the capital projects expenditure budget to provide enough capacity to meet the planned expenditures.

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

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

MEASUREMENT FOCUS

The *government-wide and fiduciary fund financial statements* measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains, and losses using the *economic resources measurement focus and the accrual basis of accounting*. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and financial position.

The *governmental fund financial statements* (General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, Transportation Vehicle Fund, and Permanent Fund) utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

BASIS OF ACCOUNTING

In the *government-wide* Statement of Net Position and the Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the statement of fiduciary net position and changes in fiduciary net position revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

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

E. ELIMINATIONS AND RECLASSIFICATIONS

In the process of aggregating data for the *government-wide* Statements of Net Position and the Statement of Activities, the interfund receivables and payables within governmental funds were eliminated.

F. ASSETS, LIABILITIES AND NET Position

1. Cash and Cash Equivalents

Kent School District’s cash and cash equivalents are considered to be cash on hand and cash with the King County Investment Pool, because the district can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Property Taxes

Property tax revenues are collected as the result of special levies passed by the voters in the district. Per Revised Code of Washington 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 taxes due by April 30, with the remaining one half

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

taxes due October 31, and delinquent after that date. Typically, a little more than half of taxes due are collected on the April 30 date. The County forecloses on property following the third year of delinquency. In *governmental fund financial statements*, property tax revenue which is measurable but not available (taxes that are not expected to be collected within 60 days after the current period) is recorded as a receivable and deferred revenue. In *government-wide financial statements*, property tax revenue, net of estimated uncollectible, is accrued at year-end.

3. Accounts Receivable

This account represents amounts due for services rendered by the district, net of allowance for doubtful accounts.

4. Due From/To Other Funds

Interfund receivables and payables and the associated revenues and expenditures/expenses are recorded in the respective funds in *governmental fund financial statements*. Interfund receivables and payables are eliminated in *district-wide financial statements (Statement of Net Position)*. The purposes of the interfund receivables and payables were to make short-term loans between governmental funds regarding payroll and other accounts payable in order to streamline the issuance of warrants.

5. Due From Other Governments

This account represents receivables for federal, state, and local grants. Grant revenues are recorded in the year in which the related expenditures are incurred.

6. Prepaids

A government may recognize the entire amount of the prepayment as an expenditure of the period that the payment is made (purchases method) or proportionately over the periods that service is provided (consumption method). The District uses the consumption method.

G. INVENTORIES

Inventory is valued at cost using the first in, first out (FIFO) method. The “consumption method” of inventory is used, which charges the inventory accounts when inventory is received and the appropriate department as an expenditure when it is consumed. The reserve for inventory is equal to the ending inventory amount to indicate a portion of the fund balance which is not available for future expenditure.

USDA commodities consist of food donated by the United States Department of Agriculture for use in the district’s child nutrition program. The commodities are valued at the prices paid by the USDA for the commodities, and are included in General Fund inventory. As of August 31, 2013, the value of USDA commodities included in the district’s inventory was \$63,807.42

H. BOND DISCOUNT, BOND PREMIUMS & ISSUANCE COST

In *governmental fund* types, bond discounts, premium, and issuance costs are recognized in the period of issuance. In *government-wide financial statements*, they are amortized over the life of the bonds.

I. CAPITAL ASSETS

Capital assets, which include property, buildings and improvements, and equipment, are reported in

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

the applicable governmental activities in the *government-wide financial statements*. Capital assets, stated at historical costs or estimated historical costs, are defined by the district as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized, 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 expenses and allocated to various functions/programs in *government-wide financial statements* in compliance with GASB Statement 34 (See Note 4).

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the *Statement of Activities*, with accumulated depreciation reflected in the *Statement of Net Position*. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Land Improvements	20 years
Buildings & Additions	50 years
Site Improvements and Other	20 years
Portable Classroom	25 years
Equipment and Vehicles	8-10 years

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

J. NEW ACCOUNTING STANDARDS

For the year ended August 31, 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position.

The District also chose to adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, earlier than required. This statement classifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

K. COMPENSATED ABSENCES

1. Sick Leave

Full-time employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year. For buy-back purposes employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

Under the provisions of the Revised Code of Washington, sick leave accumulated by district employees is paid at death or retirement at the rate of 25% of each day of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy-back of an amount up to the maximum annual accumulation of twelve days. To qualify for annual sick leave buy-back, the employee must have accumulated in excess of 60 days sick leave as of January 1. Sick leave is reported under long-term liabilities in the *Statement of Net Position*. For reporting purposes, 25% of the sick leave liability (up to 180 days) for those

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

eligible for retirement is considered accruable. The vesting method in GASB Statement 16 was applied in calculating the sick leave. The amount of accrued sick leave as of August 31, 2013, was \$3.82 million and reported as long-term liabilities in *government-wide financial statements*.

2. Vacation Leave

For the employees that receive vacation leave, vacation leave is accrued according to the particular bargaining agreement. Vacation pay is recorded as an expenditure at the time of payment which occurs upon usage or upon employee termination. It is computed at 100% of the accrued amount. The amount accrued for vacation leave as of August 31, 2013, was \$1.05 million and reported as long-term liabilities in *government-wide financial statements*.

The sick leave and vacation liabilities reflect all salary related payments to employees and will be liquidated in general fund.

	Compensated Absences			
	Beginning Balance	Additions	Reductions	Ending Balance
Vacation	\$ 1,063,347	\$ 877,824	\$ 890,817	\$ 1,050,354
Sick Leave	3,770,204	2,027,172	1,976,697	3,820,679
Total	<u>\$ 4,833,551</u>	<u>\$ 2,904,996</u>	<u>\$ 2,867,514</u>	<u>\$ 4,871,033</u>

L. NET POSITION (Government-Wide Financial Statements)

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

M. GOVERNMENTAL FUND BALANCES (per GASB Statement # 54)

Nonspendable:

- a. Inventory (\$525,356): this amount is not in spendable form, e.g. is not expected to be converted to cash.
- b. Reeploeg permanent fund (\$165,000): the principal amount is contractually required to be maintained intact.

Restricted For:

- a. Bond, state, and levy proceeds in Capital Projects Fund (\$13,585,816): these amounts are legally imposed by laws and regulations.
- b. Grant carryover and uninsured risks (\$2,118,722): these amounts are legally imposed by laws and regulations.
- c. Special Revenue Fund (ASB) (\$1,478,115); these amounts are restricted for use for the purposes of the ASB fund.
- d. Restricted for Debt Service (\$14,212,728); these amounts represent the restriction of both fund cash and fund balance

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

- e. Restricted for Transportation Vehicle Fund (TVF) (\$999,482); these amounts are restricted for use for purposes of the TVF Fund.

Committed To:

- a. 5% Minimum Fund Balance Policy (\$12,463,886) required board policy #6002.
- b. Committed for Levy Proceeds (\$1,417,395); represents the amounts remaining from capital projects levies that have been allocated for specific projects or amounts remaining after the proposition projects have been completed.

Assigned To:

Management's decisions (\$8,700,000) to set aside for contingencies and special projects.

Assigned to Fund Purposes-Capital Projects Fund (\$75,137); represents after closing the budgetary, revenue, other financing sources, expenditures and the establishment of any amounts that are Nonspendable, Restricted, Committed or otherwise Assigned, this amount is equal to the ending available fund balance.

Unassigned:

This is the residual fund balance (\$6,197,843) which may be available for general operations.

When both restricted and unrestricted fund balances are available for use, it is the District's policy (#6002) to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and the unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Committed Fund Balance represents those amounts that can be only used for the specific purposes approved by the board of directors. The Committed Fund Balance section is composed of two sections. The Committed to Minimum Fund Balance is the amount that at the end of the district's fiscal year should be sufficient to compensate for economic uncertainties in the new fiscal year and will be targeted at a minimum of five percent (5%) of the previous year's actual General Fund expenditures. The board of directors can modify or rescind this commitment by formal board action by resolution.

Should the Committed to Minimum Fund Balance amount fall below five percent (5%), the superintendent or designee shall create a plan to restore the five percent (5%) level. This plan shall be presented to the board of directors within sixty (60) days of the submission of the district's F-196-Annual Financial Statements with the Office of Superintendent of Public Instruction.

The second section of Committed Fund Balance shall represent the 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 an established policy of the board

Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by subsequent formal action of the board of directors.

Assigned Fund Balance represents those amounts that are constrained by the school district's intent to be used for specific purposes but are neither restricted nor committed. Included in this portion of the fund balance can be reservations to cover contingencies such as unanticipated changes in tax and spending policies of the Federal and State governments, court decisions, financial impacts of labor agreements, natural disasters, unexpected or emergency capital expenditures and special projects. These amounts are determined by management and approved by the superintendent.

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

In other governmental funds, Unassigned Fund Balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered. A negative fund balance means that the legal restrictions and formal commitments of the District exceed its currently available resources.

NOTE 2. DEPOSITS AND INVESTMENTS

In accordance with state investment laws, the district's governing body has entered into a formal interlocal agreement with the district's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

All investments in cash equivalents are stated at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Fair value for the King County Investment Pool is provided by the County's safekeeping bank or Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing.

As of August 31, 2013, the district had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King Co. Invest. Pool	\$77,489,339	1.45 Years

Cash and Cash Equivalents Reconciliation

Cash and Cash Equivalents Primary Government	78,555,703
Cash and Cash Equivalents Fiduciary Funds	240,707
Total Cash and Cash Equivalents	\$78,796,410

Cash with King County Investment Pool	77,489,339
General Fund Impress Cash	813,930
General Fund HSA Account	4,051
Capital Projects Impress Cash	30,000
ASB Impress Cash	3,880
Vision Trust Fund Bank Account	60,613
Primary Government Impaired Investment Retainage	394,597
Total Cash and Cash Equivalents	\$78,796,410

Impaired Investment – As of August 31, 2013, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principle is \$414,460 and the District's fair value of these investments is \$244,835.

Interest Rate Risk – As of August 31, 2013, the Pool's average duration was 1.45 years.

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

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

Credit Risk – As of August 31, 2013, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. Agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

A. Cash with Fiscal Agent - The repayments of the bond interest and principal are made through the district's fiscal agent (The Bank of New York-Mellon). Cash held by the fiscal agent due to outstanding coupons is reported as an asset of the district.

B. Cash Held by Trustee - The impact fee which is held by King County until all expense criteria are met, is reported as an asset of the district.

NOTE 3. INTERFUND TRANSACTIONS

As of August 31, 2013, short-term interfund receivables and payables in governmental funds that resulted from various interfund transactions in *governmental fund financial statements* were as follows:

Fund	Due from Other Funds	Due to Other Funds
General	\$ 75,651	\$ 141,104
Special Revenue (ASB)	138,920	24,449
Debt Service	-	-
Capital Projects	2,184	51,202
Transportation Vehicle	-	-
TOTAL	\$ 216,755	\$ 216,755

The interfund balances are liquidated on a monthly basis. The purpose of the interfund transfers is to reimburse general fund and/or other funds for short-term loans

NOTE 4. CHANGES IN CAPITAL ASSETS

Purchases of items over \$5,000 are capitalized and depreciated in *government-wide financial statements*. The district's property valuation of buildings and contents for insurance purposes is \$861,468,149.

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

	Primary Government			
	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 68,623,234	\$ -	\$ -	\$ 68,623,234
Construction in Progress	67,281,962	12,833,999	74,533,331	\$ 5,582,630
Total Capital Assets, not being depreciated	135,905,196	12,833,999	74,533,331	74,205,864
Capital assets, being depreciated:				
Land Improvements	10,945,401	5,742,160	-	16,687,561
Buildings and Improvements	487,660,621	69,724,493	89,638	557,295,476
Transportation Equipment	14,826,306	284,058	37,820	15,072,544
Equipment and Machinery	16,670,096	643,910	400,069	16,913,937
Total Capital Assets, being depreciated	530,102,424	76,394,621	527,527	605,969,518
Less Accumulated Depreciation for:				
Land Improvements	1,286,852	557,297	-	1,844,149
Buildings and Improvements	176,120,245	13,916,402	75,684	189,960,963
Transportation Equipment	11,903,231	852,688	37,820	12,718,099
Equipment and Machinery	8,144,242	1,507,628	304,298	9,347,572
Total Accumulated Depreciation	197,454,570	16,834,015	417,802	213,870,783
Total Capital Assets, being depreciated, net	332,647,854	59,560,606	109,725	392,098,735
Governmental Activities Capital Assets, Net	\$ 468,553,050	\$ 72,394,605	\$ 74,643,056	\$ 466,304,599

Depreciation expense was charged to governmental activities as follows:

Regular Instruction	\$ 13,659,651
Special Instruction	1,210,374
Vocational Instruction	87,948
Compensatory Education	2,987
Other Instruction Programs	16,356
Support Services	1,835,853
ASB	20,846
	<u>\$ 16,834,015</u>

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

NOTE 5. CONSTRUCTION IN PROGRESS

The district reports construction in progress as capital assets when expenditures are incurred each year. Once the school board accepts a project as entirely complete, the costs are distributed to the appropriate capital asset account. Construction in progress at August 31, 2013, is shown below:

Construction in Progress August 31, 2013

Project	Funds Authorized	Total Expenditures
<u>Nonbond Projects</u>		
Elevator: Educational Service Building	300,000	279,379
Total Nonbond Projects	\$ 300,000	\$ 279,379
<u>Impact Fee Projects</u>		
Portables(Daniel, Martin Sortun, Meadow Ridge, Millennium, Panther Lake	550,000	522,538
Total Impact Fee Projects	\$ 550,000	522,538
<u>2006 Bond Issue Projects</u>		
Field Renovation: Kentridge	3,533,831	45,461
Field Renovation: Kentwood	3,533,831	3,211,770
Classroom Enclosure: Crestwood	688,800	185,720
Covington Elementary Replacement	1,849,467	1,329,973
Total 2006 Bond Issue Projects	\$ 9,605,929	\$ 4,772,923
<u>2010 Qualified School Construction Bond Issue Projects</u>		
Fire Alarms: Park Orchard	7,800	7,789
Total 2010 Qualified School Construction Bond Issue Projects	\$ 7,800	\$ 7,789
Total Construction In Progress	\$ <u>10,463,729</u>	\$ <u>5,582,630</u>

NOTE:

Capital projects administrative costs are prorated annually against project expenses. These costs are then added to the year-to-date expenses for each project as an entry for construction in progress only.

NOTE 6. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (OPEB)

PENSIONS

A. 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).

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

The Teachers' Retirement Systems (TRS) includes certificated staff of 295 public school district employers and other public employers. As of June 30, 2012, it included 74,902 active and inactive members.

The Public Employees' Retirement System (PERS) includes noncertificated staff of 295 public school district employers and other public employers. As of June 30, 2012, it included 181,105 active and inactive members.

The School Employees' Retirement System (SERS) includes noncertificated staff of 295 public school district employers. As of June 30, 2012, it included 62,478 active and inactive vested members.

The employer contribution rates for Plan I and Plan II (for PERS, TRS and SERS) are established by the Pension Funding Council based upon advice from the Office of the State Actuary. The employee contribution rate for Plan II in each system is also established by the Pension Funding Council, based upon advice from the Office of the State Actuary. The employee contribution rate for Plan I in PERS and TRS is set by statute at six (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 and 41.32 RCW for PERS and TRS respectively, and 41.35 RCW for SERS.

Plan 3 for TRS was established effective July 1, 1996. This plan is a combination defined benefit, defined contribution plan. The Pension Funding Council establishes employer contribution rates each biennium. The state actuary calculates the rates and the Pension Funding Council adopts the rates for the defined benefit portion of the plan. The Employee Retirement Benefits Board (ERBB) establishes employee rate choices. These rates fund the defined contribution portion of the plan.

The retirement system for school employees, SERS, was established effective September 1, 2000, and included a Plan 3. This plan is a combination defined benefit, defined contribution plan. The Pension Funding Council establishes employer contribution rates each biennium. The state actuary calculates the rates, and the Pension Funding Council adopts the rates for the defined benefit portion of the plan. The Employee Retirement Benefits Board (ERBB) establishes employee rate choices. These rates fund the defined contribution portion of the plan.

Employer contribution rates for Plan 1, 2, and 3 of each system have been set at rates reflective of amounts that have been appropriated by the State Legislature.

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

B. GENERAL SYSTEM INFORMATION BY INTERNAL BENEFITS PLANS

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

Plan 1 (employment on or before September 30, 1977) members of TRS and PERS are eligible to retire with full benefits after 5 years of credited service and attainment of age

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

60, or after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 (employment on or after October 1, 1977) members of TRS and PERS are eligible to retire with full benefits after 5 years of credited service and attainment of age 65, or after 20 years of credited service and attainment of age 55, with the benefit actuarial reduced from age 65.

Plan 3 (employment on or after July 1, 1996) members of TRS are eligible to retire with full benefits after 10 years of credited service and attainment of age 65, or after 10 years of credited service and attainment of age 55, with benefit actuarially reduced from age 65.

Plan 3 (employment on or after September 1, 2000) members of SERS are eligible to retire with full benefits after 10 years of credited service and attainment of age 65, or after 10 years of credited service and attainment of age 55, with benefit actuarially reduced from age 65.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the greatest average salary during any 2 consecutive years. For Plan 2 TRS and PERS members it is the greatest average salary during any 5 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, PERS 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 it is the AFC multiplied by one percent per year of service with a cost-of-living adjustment.

C. CONTRIBUTIONS

Pension contribution rates are summarized in the table below:

	8/31/2013		8/31/2012	
	Employee	Employer	Employee	Employer
TRS 1	0.0600	0.0805	0.0600	0.0805
TRS 2	0.4690	0.0805	0.0469	0.0805
TRS 3	-	0.0805	-	0.0805
PERS 1	0.0600	0.0919	0.0600	0.0721
SERS 2	0.0490	0.0759	0.0409	0.0758
SERS 3	-	0.0759	-	0.0758

Employer required contribution in dollars contributed:

Plan	FY 2012-13	FY 2011-12	FY 2010-11
Plan 1 TRS	\$ 239,159	\$ 311,529	\$ 330,104
Plan 2 TRS	1,529,682	1,348,736	1,017,033
Plan 3 TRS	7,017,408	6,927,888	5,534,988
Plan 1 PERS	75,692	76,821	62,847
Plan 2 SERS	1,025,024	977,572	700,783
Plan 3 SERS	\$ 1,924,186	\$ 1,827,586	\$ 1,339,714

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

Historical trend information showing TRS and PERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 2013, comprehensive annual financial report. Refer to said report for detailed trend information. It is available from:

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

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The state, through the Health Care Authority (HCA), administers an agent multiple-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 and long-term disability. Employers participating in the plan include the state (which includes general government agencies and higher education institutions), 52 of the state's K-12 school and educational service districts (ESDs), and 200 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 249 K-12 school districts and ESDs. The Kent School District's retirees (approximately 800) are eligible to participate in the plan under this arrangement.

Plan Description

Eligibility

District members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plan 2 or 3 of TRS or SERS.

- Age of 65 with 5 years of service
- Age of 55 with 20 years of service

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 2013:

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

Descriptions	Type of Coverage		
	Employee	Employee & Spouse	Full Family
Group Health Classic	\$ 550.48	\$ 1,095.43	\$ 1,504.14
Group Health CHDP	\$ 482.92	\$ 957.35	\$ 1,269.42
Group Health Value	\$ 501.58	\$ 997.63	\$ 1,369.67
Kaiser Permanente Classic	\$ 538.18	\$ 1,070.83	\$ 1,470.32
Uniform Medical Plan Classic	\$ 531.11	\$ 1,056.69	\$ 1,450.88
Uniform Medical Plan CDHP	\$ 485.22	\$ 961.45	\$ 1,274.87

For calendar year 2013, after age 65 retired members receive a subsidy of 50% of their monthly medical premiums up to \$150.00 per Medicare covered person. For 2013, retirees also receive an explicit subsidy of \$6.57/month toward life insurance.

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 other post-employment benefits (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB statement 45. The ARC represents a level of funding that, if paid on an on-going 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 (level cost method). The following table shows the components of the district's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in district's net OPEB.

Determination of Annual Required Contribution August 31, 2012

Normal Cost at Year End	\$ 3,710,428
Amortization of UAAL	2,801,638
Annual Required Contribution (ARC)	6,512,066

Determination of Net OPEB Obligation

Annual Required Contribution	6,512,066
Interest on Prior year Net OPEB Obligation	1,219,171
Adjustment to ARC	(1,300,449)
Annual OPEB Cost	6,430,788
Less Contribution Made*	1,826,490
Increase in Net OPEB Obligation	4,604,298
Prior Year Ending OPEB Balance	32,511,219
Net OPEB Obligation - End of Year	\$ 37,115,517

* Estimated based on retiree benefit amounts

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
8/31/2011	10,579,632	17.87%	28,126,741
8/31/2012	6,485,021	32.39%	32,511,219
8/31/2013	6,430,788	28.40%	37,115,517

Funded Status and Funding Progress

The 2011-12 fiscal year was a valuation year. As of August 31, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The accrued liability for benefits was \$72.8 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$72.8 million. The covered payroll amounted to \$151,363,952 and the UAAL as of percentage of covered payroll is 48%.

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.

In the August 31, 2012 actuarial valuation, the Projected Unit Credit actuarial cost method was used. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation are accrued as they are earned by active members, rather than on a pay-as-you-go basis. The actuarial assumptions used included a 3.75% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payments of benefits.

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

The health cost trend rates used for the actuarial study are as follows:

Year Ending August 31	Retiree Premiums & Claims
2013	5.90%
2014	6.70%
2015	5.80%
2016	5.50%
2020	5.50%
2030	5.40%
2040	5.00%
2089+	4.30%

The Life Insurance trend rates used for the actuarial study are as follows:

Year Ending August 31	Life Trend
2013	4.0%
2014+	3.5%

The UAAL is being amortized as a level percentage of pay on a closed basis at the assumed discount rate. Payroll is assumed to increase at 3.75%. The remaining amortization period at August 31, 2012 was 26 years.

For further information on the results of the actuarial valuation of the employer provided subsidies associated with the state's PEBB plan, refer to:

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

NOTE 7

LONG-TERM DEBT

In the *government-wide financial statements*, long-term debts are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs are amortized over the life of the bonds using the straight-line method.

In the *fund financial statements*, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face value of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

A. Changes in Long-Term Liabilities

During the year ended August 31, 2013, the following changes occurred in liabilities reported in the *government-wide financial statements*.

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
GOVERNMENT ACTIVITIES					
Bonds Payable:					
2001B UTGO Bonds	8,990,000	-	2,070,000	6,920,000	2,185,000
2002 UTGO Bonds	5,395,000	-	5,395,000	-	-
2003 UTGO Bonds	2,450,000	-	1,200,000	1,250,000	1,250,000
2004 UTGO Bonds	21,625,000	-	19,425,000	2,200,000	935,000
2005 UTGO Bonds	53,085,000	-	7,630,000	45,455,000	7,985,000
2006 UTGO Bonds	31,795,000	-	2,290,000	29,505,000	2,375,000
2007 UTGO Bonds	15,000,000	-	-	15,000,000	-
2008 UTGO Bonds	19,415,000	-	-	19,415,000	1,005,000
2007 Refunding bonds	6,620,000	-	3,540,000	3,080,000	3,080,000
2010 Refunding bonds	12,995,000	-	-	12,995,000	800,000
2010 QSCB	15,000,000	-	-	15,000,000	-
2012 Refunding bonds	14,600,000	-	-	14,600,000	-
2012A Refunding bonds	-	19,370,000	-	19,370,000	2,265,000
2013 UTGO Bonds	-	14,620,000	-	14,620,000	-
Sub-Total UTGO BONDS	206,970,000	33,990,000	41,550,000	199,410,000	21,880,000
2005 LGO Bonds	35,032	-	13,640	21,392	14,476
2008 LGO Bonds	1,172,782	-	175,414	997,368	182,984
Sub-Total LGO BONDS	1,207,814	-	189,054	1,018,760	197,460
TOTAL BONDS	208,177,814	33,990,000	41,739,054	200,428,760	22,077,460
Other Liabilities:					
Capital Leases	882,032	-	431,582	450,450	450,450
Non-Cancellable Operating Leases	-	459,216	71,132	388,084	138,219
Unamortized Net Bond Premium/Discount	4,522,744	5,585,352	1,651,639	8,456,457	326,783
Net OPEB	32,511,219	6,430,788	1,826,490	37,115,517	-
Compensated Absences	4,833,551	2,904,996	2,867,514	4,871,033	2,867,514
Total Other Liabilities	42,749,546	15,380,352	6,848,357	51,281,541	3,782,966
GRAND-TOTAL	\$ 250,927,360	\$ 49,370,352	\$ 48,587,411	\$ 251,710,301	\$ 25,860,426

B. Unamortized Bond Issuance Costs

The unamortized bond issuance costs for the unlimited tax general obligation bonds are as follows:

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

Unamortized Bond Issuance Costs						
Bond Issue	Issue Date	Issuance Costs	Beginning Balance	Additions	Amortization FY 12-13	Ending Balance
1993A	7/27/93	179,504	1,080	-	1,080	-
2001B	10/11/01	169,997	45,366	-	12,098	33,268
2002	11/13/02	283,807	145,888	-	14,233	131,655
2003	11/12/03	229,049	124,081	-	12,105	111,976
2004	12/1/04	178,740	113,978	-	9,304	104,674
2005	1/20/05	1,088	272	-	117	155
2005	5/2/05	360,977	170,271	-	27,612	142,659
2006	11/1/06	226,016	131,008	-	16,376	114,632
2007(R)	11/7/07	74,183	12,259	-	6,130	6,130
2007	11/7/07	67,500	21,976	-	1,560	20,416
2008	11/8/08	159,659	150,549	-	941	149,608
2010(R)	11/4/10	179,761	177,161	-	1,476	175,685
2010(QSCB)	11/4/10	151,950	150,264	-	928	149,336
2012®	3/28/12	211,379	209,728	-	1,808	207,920
2012 A ®	10/25/12	173,827	-	172,827	1,280	171,547
2012	5/1/13	125,518	-	125,518	1,524	123,994
		\$ 2,772,954	\$ 1,453,881	\$ 298,345	\$ 108,571	\$ 1,643,655

C. Bond Premium/Discount

Below is a schedule of the amortization of bond premium and/or discount on the unlimited tax general obligation bonds.

Schedule of Bond Premium/Discount Amortization					
Unlimited General Obligation Bonds					
Fiscal Year	Payment	Interest Expense	Additional (Premium)/Disc.	Pre./Disc. Amortized	Carrying Amount of Pre/Disc.
12-13	(8,176,863)	(8,144,549)	(5,585,352)	(1,651,639)	(8,456,456)
13-14	(6,005,543)	(5,918,257)	-	(326,783)	(6,760,300)
14-15	(4,862,927)	(4,975,105)	-	(80,340)	(5,382,637)
15-16	(3,989,377)	(4,143,189)	-	(6,734)	(4,133,780)
16-17	(3,072,785)	(3,423,104)	-	239,431	(3,201,088)
17-18	(2,349,070)	(2,730,094)	-	296,064	(2,439,674)
18-19	(1,684,832)	(2,074,842)	-	322,460	(1,820,828)
19-20	(1,149,420)	(1,515,890)	-	307,977	(1,320,821)
20-21	(723,338)	(1,074,736)	-	291,583	(926,153)
21-22	(369,270)	(695,288)	-	275,572	(633,343)
22-23	(157,488)	(398,853)	-	213,991	(420,798)
23-24	(47,161)	(211,807)	-	146,142	(277,466)
24-25	(8,418)	(113,835)	-	91,766	(196,948)
25-26	48,523	(11,753)	-	58,023	(150,698)
26-27	155,863	111,973	-	44,281	(112,497)
27-28	241,950	205,710	-	37,960	(76,539)
28-29	234,200	194,635		28,832	(47,708)
29-30	185,600	141,693		21,500	(26,208)
30-31	135,100	103,718		14,806	(11,401)
31-32	82,600	63,735		8,601	(2,801)
32-33	27,900	21,596		2,801	-

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued**D. General Obligation Debt**

Outstanding general obligation debt as of August 31, 2013, consisted of the following:

OUTSTANDING GENERAL OBLIGATION BONDS					
	Amount Authorized and Issued	Issue Dates	Maturity Dates	Interest Rates	Amount Outstanding
Governmental Activities:					
2001B Building Fund	18,350,000	10/1/01	6/1/16	3.50 - 5.50%	6,920,000
2003 Building Fund	25,000,000	11/15/03	12/1/13	3.83 - 4.72%	1,250,000
2004 Building Fund	24,500,000	12/1/04	12/1/24	2.10 - 4.59%	2,200,000
2005 Refunding	69,265,000	5/2/05	12/1/18	5.00%	45,455,000
2006 Building Fund	35,000,000	11/1/2006	12/1/20	4.00 - 4.25%	29,505,000
2005 LGO Bonds	115,500	1/20/2005	1/1/15	5.99%	21,391
2007 Building Fund	15,000,000	11/7/07	12/1/26	4.00 - 3.375%	15,000,000
2007 Refunding Bond	16,485,000	11/7/07	12/1/26	4.00-4.375%	3,080,000
2008 Building Fund	25,000,000	11/1/08	12/1/27	4.00-5.125%	19,415,000
2008 LGO Bonds	1,800,000	5/8/2008	6/1/18	4.27%	997,369
2010 Refunding	12,995,000	11/4/2010	12/1/22	2.00%-3.00%	12,995,000
2010 QSCB	15,000,000	11/4/2010	12/1/26	5.127%	15,000,000
2012 Refunding	14,600,000	3/28/2012	12/1/22	4.00-4.625%	14,600,000
2012A Refunding	19,370,000	10/25/2012	12/1/24	2.00-4.00%	19,370,000
2013 Building Fund	14,620,000	5/1/2012	12/1/32	2.00-5.00%	14,620,000
	<u>\$ 307,100,500</u>				<u>\$ 200,428,760</u>

E. Debt Service Requirement to Maturity

Debt Service Requirement to Maturity			
Year Ending August 31,	General Obligation Bonds		
	Principal	Interest	Total
2014	22,077,460	8,222,255	30,299,715
2015	19,597,796	7,251,588	26,849,384
2016	21,949,118	6,365,656	28,314,774
2017	19,522,711	5,410,166	24,932,877
2018	16,281,675	4,650,905	20,932,580
2019	16,960,000	3,956,616	20,916,616
2020	11,885,000	3,374,791	15,259,791
2021	11,680,000	2,925,191	14,605,191
2022	8,860,000	2,529,570	11,389,570
2023	9,140,000	2,175,150	11,315,150
2024	6,000,000	1,859,351	7,859,351
2025	5,520,000	1,599,096	7,119,096
2026	8,880,000	1,254,454	10,134,454
2027	12,960,000	708,088	13,668,088
2028	2,665,000	319,850	2,984,850
2029	1,190,000	234,200	1,424,200
2030	1,240,000	185,600	1,425,600
2031	1,285,000	135,100	1,420,100
2032	1,340,000	82,600	1,422,600
2033	1,395,000	27,900	1,422,900
	<u>\$ 200,428,760</u>	<u>\$ 53,268,127</u>	<u>\$ 253,696,887</u>

F. Advance Refunding Bonds

In prior years the district completed defeasance of certain other general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Debt service on these bonds is met by cash and investments held by the refunding trustee. Accordingly, the trust account assets and corresponding liabilities are not included in the district's financial statements. As of August 31, 2013, the refunded bonds were paid off.

On October 25, 2012 the District issued \$19.37 million of general obligation bonds to advance refund \$22.46 million Unlimited Tax General Obligation Bonds, Series 2002 (that has not been previously refunded) and 2004 Unlimited Tax General Obligation Bonds, scheduled to mature on December 1, 2013 through 2024 with an average interest rate of 4.13%. The net proceeds of \$22.634 million included a premium of \$3.264 million and after payment of \$.174 million in underwriting fees and other issuance costs plus an additional \$.489 million were used to purchase U.S. Government securities. The amount deposited with the Refunding Trustee, together with interest on purchased Government Obligations, will be sufficient to pay interest on the Refunded Bonds on each scheduled payment date through December 1, 2012 and to redeem the Refunded Bonds on December 1, 2014, at a price equal to the principal amount.

The refunding of the Unlimited Tax General Obligation Bonds, Series 2002 and 2004, reduced the total debt service payments over the next eleven years by \$2.882 million and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3.054 million or 13.244%.

G. Capital and Operating Leases

The district has a capital lease for some school transportation buses, payable in semi-annual installments as shown in the following table. The lease for 18 buses was entered into on December 16, 2008, for \$2,259,087, with final payment on June 1, 2014. The carrying value and minimum lease obligations are as follows:

	Carrying Value As of August 31, 2013
Transportation Buses (18)	450,450
	<u>\$ 450,450</u>

In 2012-13, the district leased space in a shopping strip mall for the dropout reengagement program called I-Grad. The district entered two non-cancellable operating leases for this space. The carrying value of the lease obligations are as follows:

	Carrying Value As of August 31, 2013
I-Grad Lease #1	\$ 227,464
I-Grad Lease #2	\$ 160,619
	<u>\$ 388,083</u>

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

The schedule for lease payment for the next five years is as follows:

	I-Grad Lease #1	I-Grad Lease #2	Total Payments
2013-14	\$43,169	\$95,050	\$138,219
2014-15	\$44,225	\$65,569	\$109,794
2015-26	\$45,282	-	\$45,282
2016-17	\$45,282	-	\$45,282
2017-18	\$49,506	-	\$49,506
Total	\$227,464	\$160,619	\$388,083

The future minimum lease obligations and the net present value of these minimum lease payments as of August 31, 2013, were as follows:

Governmental Activities	
2013-14	853,198
Total Minimum Lease Payments	853,198
Less: Interest	(14,664)
Present Value of Minimum Lease Payments	\$ 838,534

H. Arbitrage Rebate

The Tax reform Act of 1986 requires the district to rebate the earnings on the investment of bond and revenue anticipation note proceeds, in excess of their yield, to the federal government. The districts contracted with Willdan Financial Services to perform the calculations to determine if the district had an arbitrage rebate liability. As of August 31, 2013 the district did not incur a liability.

NOTE 8. RISK MANAGEMENT

The district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; layoff of employees, injuries to employees; and natural disasters through the course of normal operations. The district monitors and maintains liability insurance considered to be economically justifiable for the level of coverage necessary. The probability of substantial risk for loss to the district, legal requirements and constraints, future trends, and historical experience are considered. The district did not have any settlements that exceeded insurance coverage for each of the last three years.

A. Association Insured Coverage

Kent School District became a member of the Schools Insurance Association of Washington (SIAW) on September 1, 2001. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool 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, or 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 pool 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 has 42 member districts.

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Public Officials Liability is on a “claims made basis.” All other coverages are on an “occurrence basis.” The pool provides the following forms of group purchased insurance coverage for its members: property, earthquake, liability, automobile liability, equipment breakdown, crime, excess liability, and educators’ legal liability.

The pool acquires liability insurance through their Administrator, Canfield that is subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$2,500 of the deductible amount of each claim, while the pool is responsible for the remaining \$100,000 self insurance retention. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self insured retention portion. The pool, however, purchases a stop loss policy with an attachment point of \$3,946,800, which it fully funds in its annual budget.

Property insurance is subject to a per-occurrence deductible of \$250,000. Members are responsible for the first \$25,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$250,000 self insured retention.

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 pool for one year and must give notice before December 31 before terminating 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 pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, Inc., which has been contracted to perform pool administration, claims adjustment and administration, and loss prevention for the pool. Fees paid to the third party administrator under this arrangement were \$3,298,672 for the fiscal year 2012-13.

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 pool. The Board of Directors has contracted with Canfield & Associates to perform day-to-day administration of the pool. The pool has no employees.

The district paid \$1,306,221 in premiums to the Schools Insurance Association of Washington for insurance coverage from September 1, 2012, through August 31, 2013

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

**SCHOOLS INSURANCE ASSOCIATION OF WASHINGTON
COVERAGE AS OF AUGUST 31, 2013**

Policy Number	Type of Coverage	Amount of Coverage
SIAW121334025	Property	
	All Risk per Occurance excluding Flood and Equipment Breakdown	150,000,000
	Flood each Occurrence and Annual Aggregate except zones V, A or SFHA	25,000,000
	Flood each Occurrence and Annual Aggregate Property in zones V, A or SFHA	1,000,000
	Flood Pool per Occurrence and Annual Aggregate Property in zones V, A or SFHA	15,000,000
	Deductible Flood (\$25,000), Flood Zone A & Z Each Building (\$500,000) Flood Zone A & Z Personal Property (\$500,000) Deductible All Perils except Auto Physical Damage (\$25,000) Deductible Auto Physical Damage (\$2,500)	
	NOTE: Earthquake coverage is not provided for Kent School District #415, Renton School District #303, Wenatchee School District #246, and Toppenish School District #202.	
	Extra Expense/Business Interruption	10,000,000
	Transit and Off Premises	1,000,000
	Additionally Acquired Property	2,500,000
	Personal Effects	150,000
	Any One Teacher	5,000
	Electronic Data Processing (Per Occurrence)	10,000,000
	Liability	
	General Liability, Auto Liability or all combined (Each Occurrence).	25,000,000
SIAW121334025	General Aggregate (Per School District)	31,000,000
	Employee Benefits Liability	
	Per Occurance and Member Aggregate	25,000,000
	Products Liability Per Occurance	25,000,000
	Products Liability Aggregate	30,000,000
	Garage-Keepers Legal Liability Limit	1,000,000
	Sexual Abuse/Molestation (per Occurance)	10,000,000
	Sexual Abuse/Molestation (Aggregate)	10,000,000
	Sexual Abuse/Molestation Pool Maximum	30,000,000
	Deductible Each Occurrence (\$2,500)	
	Auto Liability and UIM deductible (\$1,000)	

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

Company and Policy Number	Type of Coverage	Amount of Loss
	Wrongful Acts Liability Claims Made	
SIAW121334025	Each Wrongful Act	\$ 25,000,000
	Aggregate Limit (Per District)	25,000,000
	Deductible Each Wrongful Act (\$2,500)	
	Crime	
SIAW121334025	Employee Dishonesty (Per Loss)	1,000,000
	Money and Securities	50,000
	Forgery and Alteration (per Occurance)	500,000
	Deductible	5,000
	Boiler and Machinery	
SIAW121334025	Boiler and Machinery	100,000,000
	Comprehensive form - Including Protection	
	Machinery - Includes Joint Loss Agreement	
	Hazardous Substance	1,000,000
	Perishable Goods	500,000
	CFC Refrigerants	included
	Deductible Each Accident (\$10,000)	
	Deductible Perishable Goods	
	(10% of loss \$10,000 minimum)	

B. UNEMPLOYMENT

The unemployment compensation insurance program is a federal-state system designed to provide partial wage loss compensation to workers during periods of temporary unemployment.

The school district, by board action, elected the reimbursement (self-insurance) method for claim payment. The district reimburses the Washington State Employment Security Department on a quarterly basis for claims approved and paid. The district paid a total of \$119,085 in unemployment claims for the fiscal year ended August 31, 2013.

Unemployment				
<u>Fiscal Year</u>	<u>Beg. Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>End. Balance</u>
11-12	\$ 631,711	\$ 356,876	\$ 239,189	\$ 749,398
12-13	749,398	359,948	150,865	958,481

C. INDUSTRIAL INSURANCE

The district became self-insured in April 2005. The district hired Eberle Vivian as a third party administrator to process all district claims for \$66,550 a year.

For the self-insured program coverage from September 1, 2012, through August 31, 2013, the loss paid out to claimants was \$915,254. The estimated incurred but not reported claims (IBNR) for the district are approximately \$187,500.

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

Industrial Insurance-Incurred and IBNR Claims				
Fiscal Year	Beg. Balance	Additions	Reductions	End. Balance
11-12	\$ 1,669,515	1,746,265	1,607,464	\$ 1,808,316
12-13	1,808,316	950,349	1,768,970	989,695

NOTE 9. Reconciliation Between Governmental Fund and Government-Wide Financial Statements.

A. Balance Sheets/Statement of Net Position (Schedule 3A)

When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets is reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the district as a whole.

1. Cost of Capital Assets \$680,175,382
Accumulated Depreciation (212,470,783)
\$467,704,599
2. **\$1,643,655** – Deferred Outflow of Resources (Unamortized Bond Issue Costs) – In governmental funds, bond issuance costs were charged to expenditures, while the unamortized bond issuance costs are shown as deferred outflow on the *statement of net position*. Refer to Note 7B (Unamortized Bond Issuance Costs).
3. Long-term liabilities of **\$251,710,301**(due within one year: \$25,860,426, due more than one year: \$225,849,875, applicable to the district's *governmental activities* are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term – are reported in the *statement of net position*.
4. Unearned Revenue (Property tax levies) - **\$46,662,975** - that will not be collected for several months after year-end are not considered "available." Therefore they are reported as unavailable revenue in *governmental funds*. They are accrued as property tax revenue in the *Statement of Activities*.
5. Due To and Due From (**\$216,755**) – Internal transfers between *governmental funds* were eliminated in *government-wide statement* to avoid the "doubling-up" effect.
6. **\$2,166,899**– Accrued interest on long-term debt due within one year.

B. Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities (Schedule 4A)

1. **\$292,042** - Property tax levies, which do not provide current financial resources, are reported as unavailable revenue in *governmental funds*, but as revenues in *government-wide financial statements*.
2. The amount of **\$6,468,270** represents the current year compensated absences (\$37,482) and net OPEB obligation (\$6,430,788). The compensated absences and net OPEB are not reported as expenditures in governmental funds. However, it is

KENT SCHOOL DISTRICT NO. 415, Notes to the Basic Financial Statements, Continued

reported in the *statement of activities* as an expense, allocated to various applicable programs. The balances of compensated absences increased from last year.

3. a. When capital assets (land, buildings, equipment) are purchased or constructed to be used in *governmental activities*, the cost of those assets are reported as expenditures in *governmental funds*. However, the *statement of net position* includes those capital assets among the assets of the district as a whole.

Capital Outlay	\$ 19,627,038
Depreciation Expense	(16,834,015)
Net Effect of Sales & Retirement of CA	<u>(9,138,716)</u>
Difference	<u>\$ (6,345,693)</u>

b. *Governmental funds financial statements* report capital outlay as expenditures while *government-wide financial statements* report depreciation expense (\$16,834,015), allocated to various applicable programs.

4. Repayment of total principal - **\$21,446,891** (Unlimited Tax General Obligation Bonds, Limited Tax General Obligation Bonds, and Capital Leases) was reported as expenditure in governmental funds, and thus has the effect of reducing fund balance. For the district as a whole, however, the principal payments reduce the liabilities in the *statement of net position*.
5. **\$1,815,071** - The current year amortizations of bond premium (\$1,651,639), issuance costs (\$103,959), and accrued interest payable (\$267,391) are to be charged to expenditure in *government-wide financial statements*.

Current Year Bond Premium/Disc Amortization	\$ 1,651,639
Current Year Bond Issuance Costs Amortization	(103,959)
Accrued Interest Payable	<u>267,391</u>
	<u>\$ 1,815,071</u>

NOTE 10. FUND EQUITY (GOVERNMENTAL FUNDS)

A. Changes in Unassigned Fund Balances

The following table shows the increases or decreases in undesignated fund balances.

	Changes in Unassigned Fund Balances						
	General Fund	Special Revenue Fund (ASB)	Debt Service	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	
Unassigned Fund Balance 8/31/12	\$ 2,994,287	\$ -	\$ -	\$ -	\$ -	\$ -	
Decrease/(Increase) Nonspendable Fund Balance	(123,738)						
Decrease/(Increase) Restricted Fund Balances	540,702	(222,887)	38,247	(6,339,464)	(781,374)	(1,080)	
Decrease/(Increase) in Committed To	(381,553)						
Decrease/(Increase) in Assigned To	300,000			(90,009)			
Changes in Fund Balances	<u>2,868,146</u>	<u>222,887</u>	<u>(38,247)</u>	<u>6,429,473</u>	<u>781,374</u>	<u>1,080</u>	
Unassigned Fund Balances 8/31/13	<u>\$ 6,197,844</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

NOTE 11. CONTINGENT LIABILITIES

Litigation

The district is a party to various pending legal actions arising out of the normal conduct of its operations. The district is fully insured against any losses and there will be no material impact on the district's operations or financial position resulting from the disposition of these matters.

NOTE 12. OTHER DISCLOSURES

A. King County Directors' Association

The district is a member of a purchasing cooperative (not a joint venture), the King County Directors' Association (KCDA), which is a purchasing cooperative designed to pool member districts' purchasing power. The Superintendent authorized joining the Association May 29, 1974, and the district has remained in the cooperative ever since.

Purchases for the calendar year 2012 totaled \$961,318. The district's equity in the cooperative as of December 31, 2011, was \$365,474.

The district's 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 administrative fees.

The equity may be withdrawn after a one-year notice of termination under two options:

- The district may withdraw inventory at a maximum rate of ten (10) percent per year for a ten year period, or
- The district may withdraw cash equally over a fifteen-year period.
- The equity is not reflected in the District's financial statements.

Financial information reports of the purchasing cooperative can be obtained from the King County Directors' Association, 18639 80th Avenue S, Kent, WA 98064-5550.

B. Flexible Spending Plan

Under Section 125 of the Internal Revenue Service Code, the district implemented an employee benefit plan on January 1, 1990. This plan includes provisions for sheltering from withholding taxes unreimbursed medical expenses, dependent care expenses, and other qualified benefits such as health insurance premium. The district is the administrator of the plan and has contracted with a service company in order to carry out the program requirements in an efficient and effective manner.

C. 403(b) – Tax Shelter Annuity

Due to the new Internal Revenue Service regulations, the district has hired a third party administrator (Bay Bridge) to help the district implement a written plan for 403(b) which was in effect starting January 2009. The third party administrator also handles all 403(b) transactions such as transfers, withdrawals, salary reduction agreements, etc. with district employees.'87/

REQUIRED SUPPLEMENTARY INFORMATION
KENT SCHOOL DISTRICT NO. 415
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

Schedule A-1

	BUDGETED AMOUNTS		ACTUAL AMOUNT	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Local	\$ 66,137,397	\$ 66,137,397	\$ 65,793,849	\$ (343,548)
State	169,812,541	169,812,541	165,198,453	(4,614,088)
Federal	21,398,763	21,398,763	21,220,674	(178,089)
Other	175,000	175,000	216,962	41,962
TOTAL REVENUES	257,523,701	257,523,701	252,429,938	(5,093,763)
EXPENDITURES				
CURRENT				
Regular Instruction	142,161,832	142,161,832	141,097,476	1,064,356
Special Education	35,567,939	35,567,939	33,500,313	2,067,626
Vocational Instruction	7,335,222	7,335,222	6,922,725	412,497
Compensatory Education	17,032,662	17,032,662	15,828,079	1,204,583
Other Instructional Programs	6,543,317	6,543,317	772,428	5,770,889
Community Services	360,629	360,629	380,529	(19,900)
Support Services	52,414,451	52,414,451	49,887,263	2,527,188
CAPITAL OUTLAY				
Other	669,896	669,896	783,318	(113,422)
DEBT SERVICE				
Principal	2,762	2,762	86,254	(83,492)
Interest and Other Charges	1,680	1,680	19,334	(17,654)
TOTAL EXPENDITURES	262,090,390	262,090,390	249,277,721	12,812,669
Excess of Revenues Over (Under) Expenditures	(4,566,689)	(4,566,689)	3,152,217	7,718,906
OTHER FINANCING SOURCES (USES)				
Sales of Surplus Vehicles	35,000	35,000	61,365	26,365
Non-Voted Bond Issued	-	-	-	-
Long-Term Financing	-	-	-	-
Transfers	(15,435)	(15,435)	(345,436)	(330,001)
Total Other Financing Sources (Uses)	19,565	19,565	(284,073)	(303,637)
CHANGE IN FUND BALANCE	(4,547,124)	(4,547,124)	2,868,145	7,415,269
FUND BALANCE-September 1	23,476,625	23,476,625	27,137,662	3,661,037
FUND BALANCE -August 31				
Nonspendable	400,000	400,000	525,356	125,356
Restricted	4,020,000	4,020,000	2,118,722	(1,901,278)
Committed	12,814,314	12,814,314	12,463,886	(350,428)
Assigned	1,650,000	1,650,000	8,700,000	7,050,000
Unassigned	45,187.00	45,187	6,197,843	6,152,656
TOTAL FUND BALANCE	\$ 18,929,501	\$ 18,929,501	\$ 30,005,807	\$ 11,076,306

Note: Budget Statements conform to GAAP.

REQUIRED SUPPLEMENTARY INFORMATION
KENT SCHOOL DISTRICT NO. 415
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND (ASSOCIATED STUDENT BODY FUND)
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

Schedule A-2

	BUDGETED AMOUNTS		ACTUAL AMOUNT	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
General	\$ 1,479,081	\$ 1,479,081	\$ 1,035,957	\$ (443,124)
Athletics	760,779	760,779	540,498	(220,281)
Classes	186,550	186,550	140,565	(45,985)
Clubs	2,028,755	2,028,755	1,012,733	(1,016,022)
Private Monies	111,000	111,000	39,364	(71,636)
Total Revenues	4,566,165	4,566,165	2,769,117	(1,797,048)
EXPENDITURES				
General	1,185,858	1,185,858	644,648	541,210
Athletics	1,144,298	1,144,298	758,225	386,073
Classes	177,275	177,275	100,834	76,441
Clubs	2,131,289	2,131,289	991,923	1,139,366
Private Monies	110,700	110,700	50,600	60,100
Total Expenditures	4,749,420	4,749,420	2,546,230	2,203,190
Changes in Fund Balance	(183,255)	(183,255)	222,887	406,142
FUND BALANCE - September 1	1,334,750	1,334,750	1,255,228	(79,522)
FUND BALANCE - August 31				
RESTRICTED	\$ 1,151,495	\$ 1,151,495	\$ 1,478,115	\$ 326,620

Note: Budget Statements conform to GAAP.

REQUIRED SUPPLEMENTARY INFORMATION
KENT SCHOOL DISTRICT NO. 415
ACTUARIAL VALUATION OF POST EMPLOYMENT BENEFITS
OTHER THAN PENSION
SCHEDULE OF FUNDING PROGRESS
AUGUST 31, 2013

Schedule A-3

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
8/31/2008	August 31, 2008	\$ -	\$ 78,868,089	\$ 78,868,089	0%	\$ 132,095,958	60%
8/31/2010	August 31, 2010	\$ -	\$ 106,976,797	\$ 106,976,797	0%	\$ 154,723,623	69%
8/31/2012	August 31, 2012	\$ -	\$ 72,842,578	\$ 72,842,578	0%	\$ 151,363,952	48%

GASB Statement #45 was implemented for the fiscal year ended August 31, 2008. No information prior to August 31, 2008 is available. 2012-13 year is a non-evaluation year.

KENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2013

NOTE 1: GENERAL BUDGETARY POLICIES

The Kent School District's budgeting and accounting policies are in compliance with Generally Accepted Accounting Principles (GAAP). That means the modified accrual basis serves as the basis for budgeting. School district accounting systems provide the basis for the budgetary control. The budget is adopted by the board of directors after public hearing. Appropriations are a prerequisite to expenditures in the General, Special Revenue, Debt Service, Capital Projects, and Transportation Vehicle Funds. Appropriations lapse at the end of the fiscal year. Each fund's expenditures cannot, by law, exceed formal **fund** appropriations.

Management is authorized to modify specific accounts within the overall fund appropriation. The Board may adopt a revised or supplemental budget appropriation after a public hearing anytime during the fiscal year. If the local school district budget does not comply with the budget procedures established by RCW43.09.200, the Superintendent of Public Instruction shall give written notice to the board of directors of the local school district that shall, within thirty days from the date the notice is issued, submit a revised budget which meets the requirements of RCW43.09.200

Any excess of budgetary expenditures over appropriations are visible on the face of the budgetary comparison because the level of detail shown is sufficient to demonstrate compliance at the legal level of budgetary control.

Kent School District #415
Schedule of Expenditures of Federal Awards
Fiscal Year Ending August 31, 2013

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA #	Other ID Number	Expenditures		Notes Ref.	Indirect Amt. (included in Exp. Total)	District Prog. #
					Direct Award	Pass - Through			
U. S. Dept of Agriculture	WA OSPI	School Breakfast Program (Cash Assistance)	10.553	N/A		\$1,133,552			
	WA OSPI	National School Lunch Program (Cash Assistance)	10.555	N/A		\$5,847,353			
	WA OSPI	National School Lunch Program (Non-Cash Assistance - Commodities)	10.555	N/A		\$643,762	4		
	WA OSPI	Summer Food Service Program for Children (Cash Assistance)	10.559	N/A		\$177,283			8909
	WA OSPI	Summer Food Service Program for Children (Non-Cash Assistance - Commodities)	10.559	N/A		\$788	4		
	WA OSPI	Child and Adult CareFood Program	10.558	N/A		\$67,705			
	Office of State Treasurer	School & Roads - Grants to States	10.665	N/A		\$15,369	2		
		Subtotal U.S. Dept of Agriculture			\$0	\$7,885,812	\$7,885,812		
U. S. Dept of Defense		JROTC Program	12.999	N/A	\$80,371				6900
		Subtotal U.S. Dept of Defense			\$80,371	\$0	\$80,371		6902
U. S. Dept of Education		Indian Education - Grants to Local Education Agencies	84.060	S060A111032	\$79,733		\$79,733	\$4,056	6899
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	0200756		\$4,736,836	\$4,736,836	\$240,977	5150-59
	WA OSPI	Special Education - Grants to States	84.027	0304045		\$5,493,907	\$5,493,907	\$279,426	5175
	WA OSPI	Career and Technical Education - Basic Grants to States	84.048	0172411		\$203,675	\$203,675	\$10,359	2450
	WA OSPI	Special Education - Preschool Grants	84.173	0364044		\$155,041	\$155,041	\$7,886	2451
	WA OSPI	Education for Homeless Children and Youth	84.196	0456108		\$26,760	\$26,760	\$1,361	2453
	WA OSPI	Advanced Placement Program	84.330	0887307		\$13,770	\$13,770		5180
	WA OSPI	English Language Acquisition Grants	84.365	0401526		\$1,275,058	\$1,275,058	\$25,001	5104
	WA OSPI	Improving Teacher Quality State Grants	84.367	0522010		\$853,647	\$853,647	\$43,428	6418
		Subtotal U.S. Dept of Education			\$79,733	\$12,758,694	\$12,838,427		5213-14
U. S. Dept Health / Human Services	WA State Department of Early Learning	Child Care and Development Block Grant	93.575	12-1143		\$140,000	\$140,000	\$7,122	7914
	WA DSHS Schools Out Washington	PPHF 2012 Community Transformation Grant Small Communities Program	93.737	N/A		\$4,453	\$4,453	\$227	1910
	Seattle-King County Dept. of Public Health	ARRA - Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement	93.724	D40530D 06985		\$12,421	\$12,421	\$632	7962
	Puget Sound ESD	Block Grants for Prevention and Treatment of Substance Abuse	93.959	7434		\$16,800	\$16,800		7998
		Subtotal U.S. Dept Health/Human Services			\$0	\$173,674	\$173,674		7994
		Total Federal Awards Expended			\$160,104	\$20,818,180	\$20,978,284	\$620,475	Total 12-13 Federal Indirects

Kent School District #415
Notes to the Schedule of Expenditures of Federal Awards
Year Ending 8-31-13

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the district's financial statements. The Kent School 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 - UNIT COST CONTRACTS

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

NOTE 3 - SCHOOLWIDE PROGRAMS

Kent School District operates a "Schoolwide program" in twenty 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 Kent School District in Schoolwide programs:
Special Ed IDEA-B & Section 619 (84.027, 84.173) \$1,677,621; Title I-A (84.010) \$3,179,530; Title III (84.365) \$62,094

NOTE 4 - NON-CASH AWARDS FOOD COMMODITIES

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

NOTE 5 - FEDERAL INDIRECT RATE

The Kent School District used the federal restricted Indirect rate of 5.36%, except where limited by program.

NOTE 6 - American Recovery and Reinvestment Act (ARRA)

Of the amount shown for this program, 100% was paid from ARRA funds.



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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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Troy Kelley
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Kelly Collins, CPA
Jan M. Jutte, CPA, CGFM
Sadie Armijo
Mark Rapozo, CPA
Lou Adams, CPA
Barb Hinton
Thomas Shapley
Mike Murphy
Mary Leider
(360) 902-0370
(866) 902-3900

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