

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.

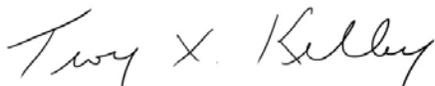
COMPLIANCE AND OTHER MATTERS

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

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

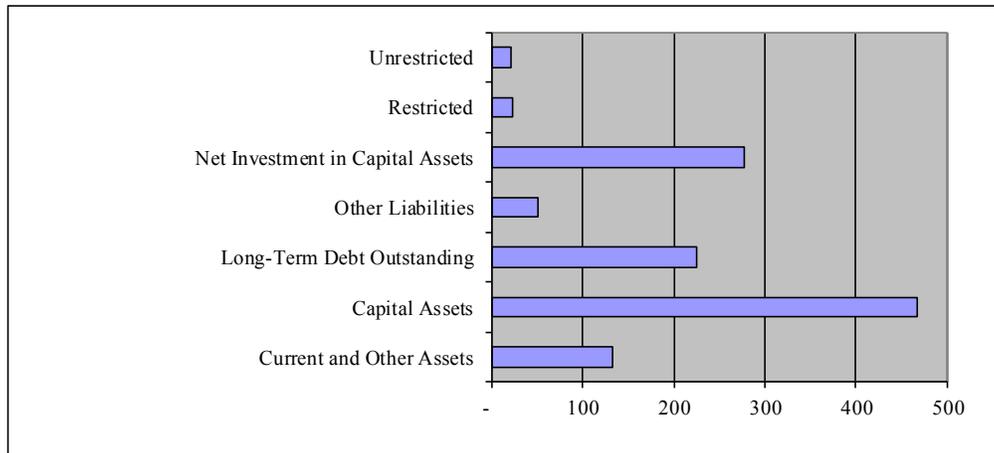
Net position may serve as a useful indicator of a government's financial position. The Kent School District's assets exceeded liabilities by \$324.084 million at the end of the 2012-13 fiscal year.

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 | | | | |
| | 2012-13 | Percent of | Increase | Percent |
| | Amount | Total | (Decrease) | Increase |
| Revenue Source | | | From 2010-11 | (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

| | Note # | Primary Government 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

| Functions/Programs | Expenses | PROGRAM REVENUES | | | PRIMARY GOVERNMENT |
|--------------------------------------|-----------------------|----------------------|------------------------------------|----------------------------------|-------------------------|
| | | 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 | 8,700,000 | - | - | 1,417,395 | - | - | 1,417,395 |
| Assigned To | 6,197,843 | - | - | 75,137 | - | - | 8,775,137 |
| Unassigned | - | - | - | - | - | - | 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 | | | | |
| Total 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

| <u>Project</u> | <u>Funds</u> <u>Authorized</u> | <u>Total</u> <u>Expenditures</u> |
|---|-----------------------------------|-------------------------------------|
| <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 ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of September 1, 2008 (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) | | <u>6,512,066</u> |

Determination of Net OPEB Obligation

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

* 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

| Year Ending August 31, | Debt Service Requirement to Maturity 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> |

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

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 |
| | <u>August 31, 2013</u> |
| 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 |
| | <u>August 31, 2013</u> |
| 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 |
|---------------|---|--------------------|
| | Property | |
| SIAW121334025 | 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 | |
| SIAW121334025 | General Liability, Auto Liability or all combined (Each Occurrence). | 25,000,000 |
| | 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.

| Fiscal Year | Unemployment | | | |
|-------------|--------------|------------|------------|--------------|
| | Beg. Balance | Additions | Reductions | End. Balance |
| 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) | | | |
| <i>Changes in Fund Balances</i> | <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> | <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 | | \$4,056 | 6899 | |
| | WA OSPI | Title I Grants to Local Educational Agencies | 84.010 | 0200756 | | \$4,736,836 | 3, 5 | \$240,977 | 5150-59 | |
| | WA OSPI | Special Education - Grants to States | 84.027 | 0304045 | | \$5,493,907 | 3, 5 | \$279,426 | 5175 | |
| | WA OSPI | Career and Technical Education - Basic Grants to States | 84.048 | 0172411 | | \$203,675 | 5 | \$10,359 | 2450 | |
| | WA OSPI | Special Education - Preschool Grants | 84.173 | 0364044 | | \$155,041 | 3, 5 | \$7,886 | 3860 | |
| | WA OSPI | Education for Homeless Children and Youth | 84.196 | 0456108 | | \$26,760 | 5 | \$1,361 | 2451 | |
| | WA OSPI | Advanced Placement Program | 84.330 | 0887307 | | \$13,770 | | | 2453 | |
| | WA OSPI | English Language Acquisition Grants | 84.365 | 0401526 | | \$1,275,058 | 3, 5 | \$25,001 | 5180 | |
| | WA OSPI | Improving Teacher Quality State Grants | 84.367 | 0522010 | | \$853,647 | 5 | \$43,428 | 5104 | |
| | | Subtotal U. S. Dept of Education | | | | \$79,733 | \$12,758,694 | \$12,838,427 | | 6418 |
| | | | | | | | | | 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 | 5 | \$7,122 | 7914 | |
| | WA DSHS Schools Out Washington | PPHF 2012 Community Transformation Grant Small Communities Program | 93.737 | N/A | | \$4,453 | 5 | \$227 | 1910 | |
| | Seattle-King County Dept. of Public Health | ARRA - Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement | 93.724 | D40530D06985 | | \$12,421 | 5, 6 | \$632 | 7962 | |
| | Puget Sound ESD | Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 7434 | | \$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.



ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens 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.

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