Washington State Auditor's Office

Troy Kelley

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Financial Statements and Federal Single Audit Report

Clover Park School District No. 400

Pierce County

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

Published March 5, 2015

Report No. 1013718

Washington State Auditor
Troy Kelley

March 5, 2015

Superintendent and Board of Directors
Clover Park School District No. 400
Lakewood, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Clover Park School District No. 400'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 X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Clover Park School District No. 400
Pierce County
September 1, 2013 through August 31, 2014

The results of our audit of Clover Park School District No. 400 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

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

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
12.556	Competitive Grants - Promoting K-12 Student Achievement at Military Connected Schools
12.600	Community Investment
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)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $2,483,085.

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

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

Clover Park School District No. 400
Pierce County
September 1, 2013 through August 31, 2014

Superintendent and Board of Directors
Clover Park School District No. 400
Lakewood, 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 Clover Park School District No. 400, Pierce County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 25, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 25, 2015

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

Clover Park School District No. 400
Pierce County
September 1, 2013 through August 31, 2014

Superintendent and Board of Directors
Clover Park School District No. 400
Lakewood, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Clover Park School District No. 400, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 25, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clover Park School District No. 400
Pierce County
September 1, 2013 through August 31, 2014

Superintendent and Board of Directors
Clover Park School District No. 400
Lakewood, 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 Clover Park School District No. 400, Pierce County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 Clover Park School District No. 400, as of August 31, 2014, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund and Associated Student Body funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 15 through 29 and information on postemployment benefits other than pensions on page 79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 25, 2015

FINANCIAL SECTION

Clover Park School District No. 400
Pierce County
September 1, 2013 through August 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Activities – 2014
Balance Sheet – Governmental Funds – 2014
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2014
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2014
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2014
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue (ASB) Fund – 2014
Statement of Net Position – Fiduciary Funds – 2014
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014
Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Actuarial Valuation of Postemployment Benefits Other Than Pensions – Schedule of Funding Progress and Annual Contributions – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2014

Clover Park School District No. 400
Management's Discussion and Analysis

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the Clover Park School District. The financial statements provide an overview of district financial activities for the fiscal year ended August 31, 2014. This discussion and analysis should be read in conjunction with the preceding letter of transmittal and the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- The district's net financial position at the end of the year rested at $305.8 million for its governmental activities.
- The district's unrestricted position, which is an indication of what assets may be used to meet additional, ongoing obligations, was $25.6 million at year-end for the governmental funds.
- By the end of the year, the district's net financial position improved by $93.2 million.
- The Maintenance and Operation Levy approved by Clover Park School District voters in 2012, provided revenues of $20.8 million from property taxes during the current fiscal year.
- The district's total long-term debt outstanding, including bonds, compensated absences, and the district's responsibility for other post-employment benefits, was $170.8 million.
- The district's total of capital assets, net of accumulated depreciation, was $364.3 million. Of this amount, construction in process is $137.6 million.
- The district held a $5.9 million financial position at year-end in its fiduciary fund, which consists solely of a Private Purpose Trust fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented in our Comprehensive Annual Financial Report include all of the activities of the Clover Park School District using an integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments. There are four components to the basic financial statements: 1) government-wide financial statements, 2) fund financial statements, 3) required budgetary comparisons, and 4) notes to the basic financial statements. The district has also provided other supplemental information intended to give the reader a greater understanding of the activities and financial position of the district.

Government-wide Financial Statements

The government-wide statements are intended to provide readers with a broad overview of the district's overall financial status and report information about the district's operations as a whole. The government-wide statements use accounting methods similar to those used by private-sector organizations.

The statement of net position presents information on the district's assets and liabilities, and deferred outflows and inflows, with the difference reported as a net financial position. Over time, increases or decreases in this net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information on the district's activities which result in changes to the district's net financial position for the current reporting period. Activities that affect net position are reported on the statement of activities as soon as the underlying event affecting the activity occurs, and are not based on the timing of the associated cash flows. Thus revenues and expenses reported on the statement of activities may represent future cash flows for some items, rather than cash flows of the current period. Long-term debt and uncollected taxes are two examples of items that are reported on the government-wide statements that do not represent current cash flows, but will affect future cash flows.

The government-wide financial statements can be found as *Exhibits 1 and 2* of our report.

Fund Financial Statements

Fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The district, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the district can be divided into two categories: governmental funds and fiduciary funds.

Essentially the same functions reported as governmental activities in the government-wide financial statements are reported in governmental fund financial statements. However, unlike the government - wide financial statements, governmental fund financial 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. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental funds and governmental activities as reported in the government-wide statements.

The district maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for these five funds. All governmental funds are considered to be major funds for purposes of consolidating information into government-wide financial statements.

The fund financial statements can be found as *Exhibits 3 and 4* of our report.

The district adopts an annual appropriated budget for its general and special revenue (Associated Student Body) funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget. These budget comparisons can be found as *Exhibits 6 and 7* of our report.

Resources held for the benefit of parties outside the government are accounted for in fiduciary funds. The district maintains one fiduciary fund, a private purpose trust fund. Because the resources of those funds are not available to support district programs, fiduciary funds are not reflected in the government-wide financial statements.

Information is presented separately for the private purpose trust fund in the statement of fiduciary net position and the statement of changes in fiduciary net position. These statements reflect all activities of funds provided by individuals and private organizations for scholarships and other similar purposes. The district, as trustee, is responsible for ensuring that the assets reported in these fiduciary fund statements are used for their intended purposes. The fiduciary financial statements can be found as *Exhibits 8 and 9* of our report.

Notes to the Basic Financial Statements

The notes to the basic financial statements are an integral part of the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. *The notes are found following Exhibit 9*.

Other Information

Supplemental data has been included in the financial report, which is comprised of statements and schedules not part of the basic financial statements, nor required by the Governmental Accounting Standards Board (GASB). This information has been presented for purposes of additional analysis. See *Exhibits A-1 through H-2* and the *"Statistical Section"* of our report for this supplemental information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

In our analysis, we include condensed versions of the government-wide statements of net position and activities for governmental operations. The government-wide statements are presented in detail in the financial section of the report (See *Exhibit 1* and *Exhibit 2*).

Table A-1

Comparative Statement of Net Financial Position

	August 31, 2014	August 31, 2013	% Change
Current and other assets	$121,114,974	$128,687,611	-6%
Capital assets	364,306,138	264,728,748	38%
Total assets	$ 485,421,112	$ 393,416,359	23%
Deferred outflows of resources	$ 3,742,789	$ 5,614,183	-33%
Current liabilities	12,574,464	12,779,595	-2%
Long-term liabilities	170,790,789	173,681,046	-2%
Total liabilities	$ 183,365,253	$ 186,460,641	-2%
Deferred inflows of resources	$ -	$ -	
Net Position			
Net Investment in capital assets	$224,789,177	$150,941,171	49%
Restricted	55,331,814	22,754,500	143%
Unrestricted	25,677,657	38,874,230	-34%
Total net financial position of govt activities	$ 305,798,648	$ 212,569,901	44%

District-wide Net Position

As noted earlier, the district's net financial position may serve as a useful indicator of the district's financial health, over time. The net position has increased from last year. In the case of the district, assets and other additions, such as deferred outflows of resources, exceeded liabilities and other deductions, such as deferred inflows of resources, by almost $306 million (see *Table A-1*). This is known as the net financial position of the district. Last year, the net position was approximately $213 million. In management's opinion, this is a favorable increase.

A major portion (74%) of the district's net financial position reflects the district's investments in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The district uses capital assets to service students, and consequently, these assets are not considered available for future spending. Since capital assets are not considered available for future spending, it should be noted that the district must use other assets to liquidate the liabilities associated with these assets.

Notably, capital assets have increased significantly from last year ($99.6 million). This is primarily the result of using funds during the year for the construction of six new buildings to replace the current schools of Harrison Preparatory Academy, Southgate Elementary school, Oakwood Elementary School, Clarkmoor Elementary School, Hillside Elementary School, Carter Lake Elementary School, Beachwood Elementary School, and Greenwood Elementary School. For more information, see other comments provided on capital assets later in this document.

The district's net investment in capital assets increased due to the current capital projects.

Restricted net position is made up of funds legally restricted for debt service, capital projects, grant objectives, and monies restricted for associated student body activities. Note that property tax payments that have been received for debt payments, but not yet spent, have been restricted, as well as the net effect of unspent funds that are to be used for capital projects in the coming years, after consideration of the corresponding liability.

Restricted net position increased primarily since the state replenished local funds from prior years that were used for capital projects and the balance from transportation funding was restricted for this year.

District-wide Activities and Changes in Net Position

Governmental activities increased the district's net financial position by approximately $93 million. Last year, similar activities increased the district's net position by approximately $65 million.

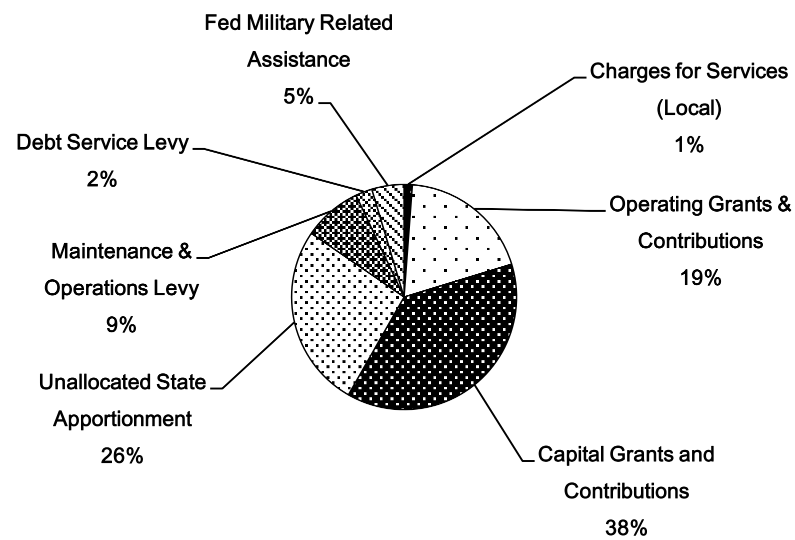
Figure 1 and *Figure 2* provide an overview of the primary revenues by source and expenses by function of the district for the current year.

A closer analysis of the composition of the district's revenues (See *Figure 1*) reflects the current influx of funding for the new schools being built, as capital grants and contributions make up 38% of the district's total revenues. That aside, the district is primarily funded, from an operating standpoint, by state apportionment and operating grants.

As can be seen by *Figure 2*, most of the district's expenditures are spent on education; i.e., regular instruction, special instruction, and compensatory education. Instruction and education account for about 73% of the district's expenditures. The district's general support services for all programs primarily makes up the balance of the expenditures at 14%.

Figure 1

Primary Revenues by Source - Governmental Activities



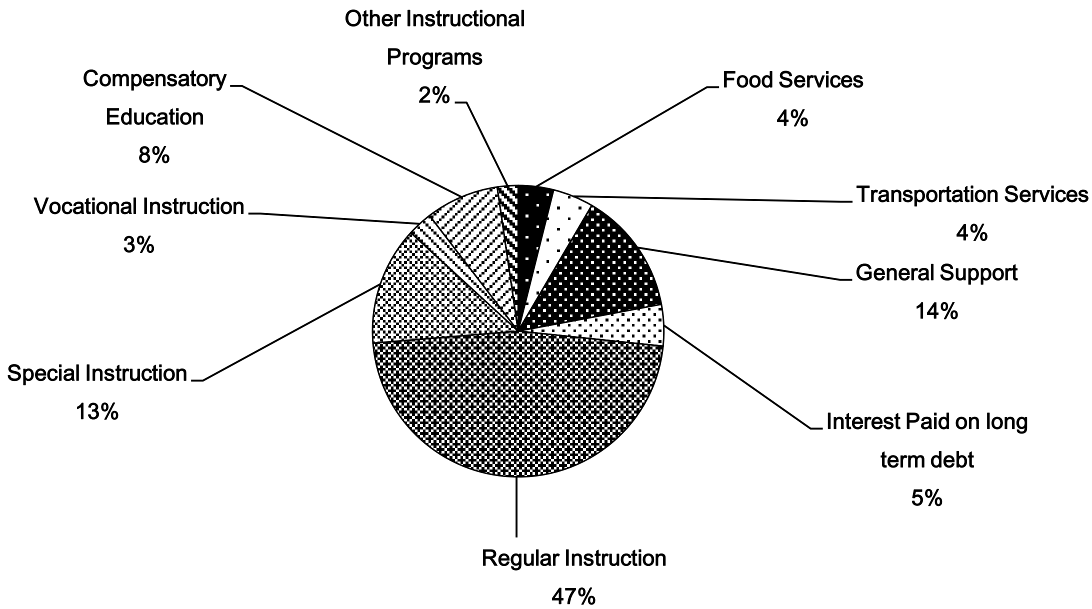
Refer to *Table A-2* for a comparison of changes in the activities relating to net position.

Capital grants and contributions continue to be a primary factor for an increase in net position. This is related to the district's current initiative of the construction of new buildings to replace some of the older schools that have deteriorated over time. Further analysis indicates that, otherwise, the district is primarily spending the funding it receives on its normal operations without much contribution to an increase in net position.

In general, changes in revenues for instruction and education are matched by similar changes in expenses in such functions, as can be seen by our comparison of the current period with activities from last year (See *Table A-2* and *Exhibit 2* of the basic financial statements). For example, each of the changes in revenue were typically matched by changes in expenses for the program using those funds. Overall, revenues increased slightly and expenditures increased slightly, with the exception of capital grants and contributions and property taxes collected for debt service.

Typically, it might be expected that activities and programs would be self-supporting. Many of the activities of the district are not self-supporting. Activities such as regular instruction, special instruction, and support services operate with a negative outflow without the general revenue. This is typical of a school district in Washington State. School districts in Washington are structured such that the operations are financed primarily through state apportionment and property taxes, which are general in nature and not specifically earmarked for certain activities.

Figure 2 Primary Expenditures by Function - Governmental Activities



The following information is a synopsis of the significant changes in revenues and expenses which took place during the current year:

- Capital Grants and Contributions – Capital Grants and Contributions increased by a total of $27.4 million which is largely explained by increases in state and federal funding as indicated below.

  The state provided an additional funding for energy upgrades at various schools and for the rebuilding of schools, including three new schools: Rainier Elementary, Meriwether Elementary, and the combined school of Harrison Preparatory Academy and an elementary school. The state also continued funding that had started last year for completing certain aspects of other schools. Total funding from the state was $37.9 million during the current year, which was an increase of $18.1 million from last year.

  An arrangement has been made with the federal government to assist in funding the district for the rebuilding of certain schools operated by the district on the federal Joint Base Lewis-McChord (JBLM): Rainier Elementary, Meriwether Elementary, Hillside, Carter Lake, and Beachwood. The schools are being rebuilt from a combination of state, local, and federal funding. The federal funding stream had started last year and continued during the current year. Federal revenues for new JBLM schools accounted for $53.8 million of the capital grants and contributions, which was an increase of $9.5 million from last year.

TABLE A-2
Government Wide Comparison of Activities

	FYE Aug 2014	FYE Aug 2013	% Change
Program Revenues:			
Charges for Services	$2,929,496	$2,829,521	4%
Operating Grants & Contributions	$47,352,424	$44,709,673	6%
Capital Grants & Contributions	$94,075,844	$66,686,080	41%
General Revenues:			
Unallocated State Apportionment	$65,245,175	$60,252,506	8%
Unallocated Federal Impact Aid & other assistance	$11,488,771	$12,919,937	-11%
Property taxes, levies for maintenance and operations	$20,849,459	$20,101,092	4%
Property taxes, levies for debt service	$5,912,034	$3,350,785	76%
Interest and investment earnings	$77,550	$152,380	-49%
Sales of Capital Assets	$0	$0	
TOTAL REVENUES	$247,930,753	$211,001,974	18%
Expenses by Function:			
Regular instruction	$72,195,531	$67,594,559	7%
Special instruction	$20,130,505	$19,511,461	3%
Vocational instruction	$4,266,385	$4,032,972	6%
Compensatory education	$12,448,611	$11,018,589	13%
Other instructional programs	$3,529,823	$3,649,468	-3%
Community services	$520,019	$290,554	79%
Support services - general	$20,891,754	$20,176,303	4%
Support services - food services	$6,007,039	$5,683,913	6%
Support services - transportation	$6,934,066	$6,491,292	7%
Extracurricular (ASB)	$723,025	$722,794	0%
Interest paid on long-term debt	$7,055,248	$6,265,758	13%
TOTAL EXPENSES	$154,702,006	$145,437,663	6%
EXCESS (DEFICIENCY) OF REVENUES	$93,228,747	$65,564,311	42%
Special Items-Prior Period Adjustment		($622,658)	
Special Items-Adjustment of Bond Issuance Costs			
Increase (Decrease) in Net Position	$93,228,747	$64,941,653	44%
Beginning Net Position	$212,569,901	$147,628,248	44%
ENDING NET POSITION	$305,798,648	$212,569,901	44%

- Apportionment – The state support for basic education through apportionment funding increased about $5 million due to an overall increase in funding for lower class sizes (more teachers and staff) and an increase in enrollment of about 145 students. This increase in revenue correlates directly with an increase in regular instruction expenses.

- Property taxes, levied for debt service increased due to collections for the recent bond issues sold in fiscal year 2013.

- Regular instruction – Regular instruction expenses increased by about $4.5 million from last year primarily due to the cost of salaries and benefits for hiring additional staff at the schools for teaching-related activities.

- Compensatory education – The state increased its funding for learning assistance (LAP) in reading, writing, and mathematics by about $1.5 million. With such a boost in funding, the district was able to increase its focus in these areas which resulted in a similar increase in expenses of about $1.5 million.

- Community Services –During this year, the district picked up on a new federal program to provide food for students participating in extended learning opportunities at our schools. Since these food-related services are after school, they are considered community services, more than instructional services. New revenue and corresponding expenses for these services were about $200,000 for the year.

- Interest on long term debt – Interest expenses increased by about $800,000 from last year. The district had sold new bonds last year, which added new interest obligations and the district is still feeling the effect of this new interest in the current year.

FINANCIAL ANALYSIS OF THE DISTRICT'S ACCOUNTING FUNDS

Governmental Funds

The focus of the district's governmental funds is to provide information on near-term inflows and outflows, and current spendable resources. Using this focus, which excludes capital assets, long-term debt, and certain receivables, the district reported a combined governmental fund balance for the year ended August 31, 2014 of $95,124,203.

Of the total fund balance, $64,591,350 was restricted for specific uses such as debt service, certain capital projects required by district constituency per voted debt, funds to be used for student activities (ASB), transportation vehicles, and use of funds according to state and federal grant expectations. An additional $6,837,312 was committed to management's intent to insure that the needs of the district are adequately met. $22,522,924 of the fund balance is assigned for capital renovations, potential contingencies, and the public's expectations with respect to levied taxes.. Note that $198,218 cannot be spent due to the fact that the assets are part of inventories and prepaid expenses. The unassigned fund balance was $974,399.

Table A-3 provides fund balances by fund and a comparison of ending fund balance as of fiscal year end August 31, 2014 and 2013, for each major fund.

Table A-3

Comparison of Ending Governmental Fund Balances

	August 31 2014	August 31 2013	Increase (Decrease)
General Fund	$ 14,645,011	$ 12,830,862	$ 1,814,149
ASB Fund	579,871	561,011	$ 18,860
Debt Service Fund	12,125,557	11,865,705	$ 259,852
Capital Projects Fund	63,542,126	72,733,010	$ (9,190,884)
Transportation Vehicle Fund	4,231,638	6,113,640	$ (1,882,002)
Total governmental fund bal	$ 95,124,203	$ 104,104,228	$ (8,980,025)

Fund balance serves several purposes for the district. Fund balance provides the necessary cash cushion to allow financing of normal activities without excessive borrowing. Fund balance also provides a reserve for unanticipated emergency expenditures, and can be used to balance subsequent budgets, should such an allocation be required to finance necessary programs.

See changes in fund balances shown by *Table A-3*:

- *General Fund* – Due to the general nature of large amounts of the funding provided for the services accounted for in the district's general fund, it would be difficult to pinpoint specifically why there was an increase in the general fund balance. In short, the increase reflects management's ability to prudently provide necessary services and carry over funding to the next year.

- *Capital Projects Fund* – Notably, the capital projects fund balance decreased significantly from last year. This primarily reflects the use of funds for the construction of new buildings to replace some of the older schools that have deteriorated over time.

- *Transportation Fund* – The district purchased new buses during the year of about $3.2 million, but the state's allocation for bus replacement was only about $1.1 million this year, and after consideration of interest and a few other funds transferred in from the general fund, left a decrease in the transportation fund balance of approximately $1.8 million.

See *Notes #1.D.10 and #4.F* in the Notes to the Basic Financial Statements for more information regarding fund balances.

<u>General Fund Budgetary Highlights</u>

The district board of directors adopts an annual budget with appropriations after a public hearing. An appropriation is a prerequisite to expenditure. Appropriations lapse at the end of the fiscal period. Annual appropriated budgets are adopted at the fund level. Management may transfer appropriations within the approved budget for each fund without prior approval of the board. The total expenditures for each governmental fund cannot exceed the formal adopted appropriation for each fund unless the board amends the budget. See *Note 3A* of the Notes to the Basic Financial Statements for more information on the process of budgeting.

In comparing budgets with actual revenues and expenditures, it should be noted that the district's budgets are adopted with an excess capacity above known funding sources and spending needs. This is done to provide capacity to spend additional funding that may be received during the year, such as for additional grant awards received. For this reason, budgeted revenues and expenditures normally are expected to exceed actual revenues and expenditures for the district. This is evident this year, where actual expenditures were less than budgeted expenditures by about $9.9 million in the general fund and where local non-tax, federal general purpose, and federal special purpose revenues were short (See *Exhibit 6* of the basic financial statements). However, further analysis indicates that more specifically, the following areas were affected (See *Exhibit 6)*:

- <u>Local nontax revenues</u> -- The difference of approximately $1.2 million reflects the district's policy to set some budgets with excess capacity, for the purpose of accommodating an unexpected influx of donations or other local funding.

- <u>Federal revenues</u> – Overall, exclusive of what is shown in the general fund, federal general purpose revenues actually exceeded the budget that was set. The primary difference between the budgeted amount for federal general purpose revenues shown in the general fund and the actual amount recorded as received is due to management's decision to earmark approximately $3 million for each of the capital projects and debt service funds respectively after the budget had been set. The difference for federal special purpose revenue between budgeted and actual is due to management setting capacity to receive more funding from grants applied for with the federal Department of Defense for educational assistance (DoDEA).

- Regular instruction expenditures – Most of the difference between budgeted expenditures and actual expenditures reflects the district's policy to set budgets with excess capacity.

- Other instructional program expenditures – In the current year, actual expenditures, as recorded, exceeded the final appropriation for other instructional programs by about $1.8 million. Further examination indicates that this is due to a reduction in the budget by management after the initial budget was set. The expenditure budget was adjusted from other instructional programs to compensatory and special education programs.

- Compensatory instruction expenditures – With state budget discussions of increasing revenue for the state's targeted learning assistance program (LAP) targeted for reading, writing, and mathematics, the district had anticipated funding higher that actually provided and the budget was set accordingly. After the state finalized its discussions, the district adjusted its operations to accommodate the actual funding allotted by the state, but as a result there is a $1.3 million difference between the district's budgeted expenditures and the actual expenditures for the learning assistance program. In addition, $591,000 from the federal Title I (disadvantaged) program had been authorized and budgeted, but not spent.

- Support services expenditures – Actual expenditures for the general fund were less than budgeted expenditures by approximately $3 million for this activity. Most of this difference between budgeted expenditures and actual expenditures can be found in the areas of supplies ($1.8 million) and purchased services ($1 million) for general district-wide support.

There were no changes to the district's total appropriation for the year in the general fund. Differences between the district's adopted budget and final budget for the general fund are categorical in nature and reflect management's anticipation of changing events (See *Exhibit 6* of the basic financial statements for actual and final budget details).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The district's capital assets net of accumulated depreciation were $364,306,140. These assets include land, buildings, improvements, equipment, and construction in progress. A comparison to last year is included in *Table A-4*.

Table A-4

Summary of Changes to Net Capital Assets

	Net Capital Assets FYE Aug. 2014	Net Capital Assets FYE Aug. 2013	% Change in Capital Assets
Land	$4,411,364	$4,411,364	0%
Buildings & improvments	214,234,866	158,196,844	35%
Equipment	7,973,178	6,911,063	15%
Construction in Progress	137,686,730	95,209,476	45%
Totals	$364,306,138	$264,728,747	38%

New capital asset additions – The following transactions increased the building and equipment balances shown on the financial statements:

- Costs of improvements and construction of new buildings of approximately $60.5 million were added to buildings and improvements for the district. These additions consisted of a new Carter Lake Elementary School ($28.5 million), Hillside Elementary School ($30.1 million), and improvements to the Clover Park High School and Lochburn Middle School heating and air conditioning units ($1.4 million). These additions were comprised of a transfer of approximately $58.2 million out of the previous year's construction in progress to buildings and improvements and additional costs from the current year of approximately $2.3 million. Carter Lake and Hillside Elementary school projects were considered substantially complete when occupancy was granted and students began using the new schools at the beginning of the school year.
- New buses of approximately $3.1 million were purchased by the district and added to equipment.

Since most of the buildings being replaced were owned by the federal government, the prior building costs were not carried in our records, and consequently, there were no significant costs to remove for their replacement. The disposal of approximately $2 million of old buses was made with the acquisition of new buses. Otherwise, deletion of assets were routine in nature, with assets surplused or removed as part of the normal process of retirement due to normal wear.

Construction in progress primarily reflects the construction of the following new schools or improvements:

- A combined Harrison Preparatory Academy and Elementary School ($63.1 million)
- Beachwood Elementary School ($6.3 million)
- Rainier Elementary School that will replace the old Clarkmoor Elementary School ($31.8 million)
- Meriwether Elementary School that will replace the old Greenwood Elementary School ($29.3 million)

- Energy improvements to various schools throughout the district ($2.3 million)
- Improvement to Harry Lang Stadium ($1 million)
- Improvement to Lochburn Middle School's roof ($1 million)

The Rainier and Meriwether schools are primarily complete and are operational as of the start of the 2015 school year. In addition, improvements to the district's Harry Lang Stadium and the roofing on Lochburn Middle School are primarily complete, as well. The combined Harrison Preparatory Academy should be ready for use in January of 2015 and the associated elementary school connected to the same building should be ready in September 2015.

The district had finished the design phase of the new Beachwood Elementary School. With a design in place at this time, it is estimated that final construction costs for Beachwood Elementary School should be about $28 million.

See *Note 4-D* of the Notes to the Basic Financial Statements and *Exhibits H-1* and *H-2* in the Supplemental Data section of the Comprehensive Annual Financial Report (CAFR) for further information on capital assets.

Long-term Debt

At August 31, 2014, the district's total long-term debt outstanding was $170,790,789, including compensated absences, unamortized bond premiums and discounts, and the district's net other post employment benefits (OPEB) obligation per the Governmental Accounting Standards Board (GASB) Statement No. 45. Of the total long-term debt outstanding, $3,311,249 is considered due within one year. A comparison to last year is included in *Table A-5*.

Table A-5

Summary of Long-term Debt

	Long-term Debt FYE Aug 2014	Long-term Debt FYE Aug 2013	Percentage Change
Compensated absences	$5,742,064	$5,681,351	1%
Net OPEB Obligation	$9,414,435	$8,594,787	10%
Unmatured bonds	155,634,290	159,404,908	-2%
Totals	$170,790,789	$173,681,046	-2%

The district's change in net OPEB obligation reflects an annual presumed responsibility under the State of Washington Public Employees Benefits Board which has not been completely funded by the district. See *Note 6* in the Notes to the Basic Financial Statements for more information on the district's OPEB obligation.

The change in unmatured bonds is the result of amortizing bond premiums and discounts, and payments of bond principal.

Compensated absences balances remained fairly flat due to employees using about the same amount of vacation and sick leave for the past year as they had earned.

Under the constitution of the state of Washington and the Revised Code of Washington (RCW 28A.530), school districts may issue bonds for the purpose of covering operating expenditures, refunding prior indebtedness, or for land, buildings, initial equipment for those buildings, improvements, etc. However, all of these debt requirements are subject to certain limitations as set forth in RCW 39.36, which states in summary:

- The district can incur debt of up to 3/8% of taxable property for any reason without a vote of the citizens of the district.
- With authorization by a vote of the citizens of the district, the district can incur debt from 3/8% to 2-1/2% of taxable property for any reason.
- With authorization by a vote of the citizens of the district, the district can incur additional debt of 2-1/2% (total now can be 5%) of taxable property for capital projects only.

The district is below its statutorily set limits of indebtedness. As of August 31, 2014, the district could legally incur an additional $17.4 million without a vote of the citizens of the district and up to an additional $61 million with authorization by a vote of the citizens of the district. This district presents a detailed analysis of its limitations of indebtedness in the Statistical Section of this Comprehensive Annual Financial Report (See *Table 14*). Note that compensated absences and the district's obligations for other post-employment benefits (OPEB) are excluded from the limitation of indebtedness, as statutorily, only debt that pledges taxes should be included in this calculation.

Moody's rating of the district has been set at "Aa2". The bonds continue to be guaranteed by the State of Washington under the Washington State School District Credit Enhancement Program Act (as per Revised Code of Washington 39.98).

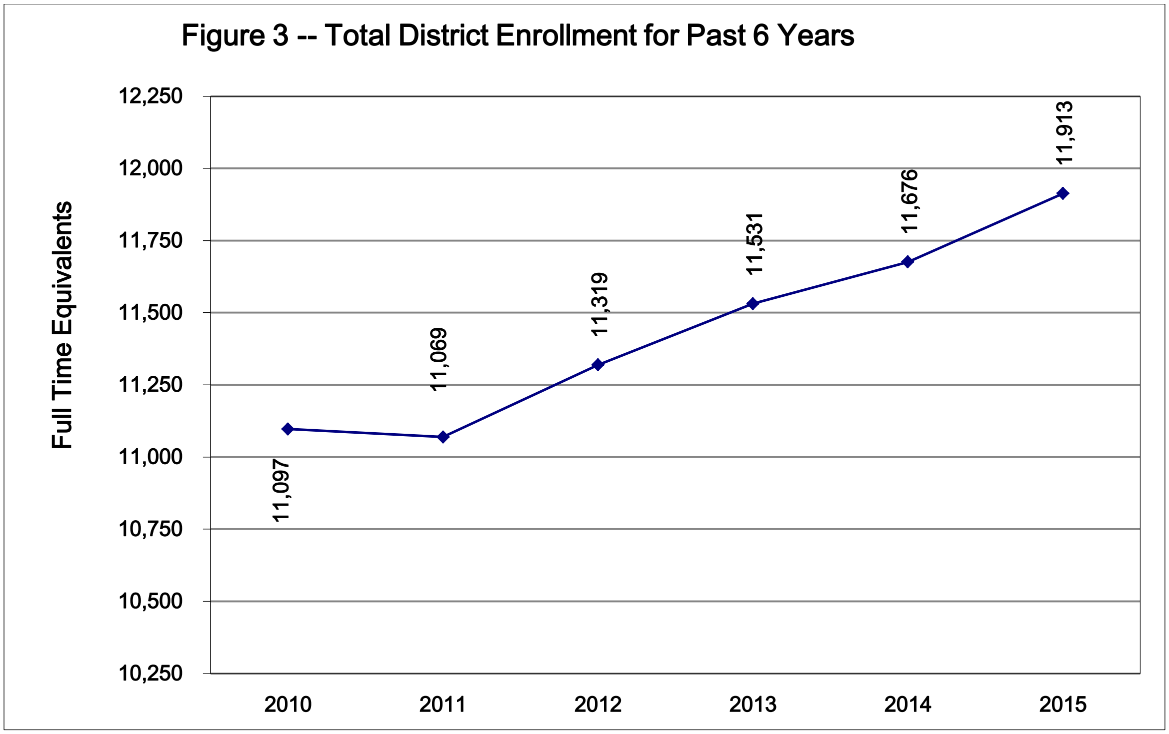
See *Note 10* in the Notes to the Basic Financial Statements for more information on long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

During the next couple of years, the district will continue to see significant capital outlay expenses as the district wraps up its current initiative of building or renovating schools. The remaining expenses are expected to be funded from matching money from the State of Washington, and the federal government.

The district's enrollment determines the majority of the funding received from the state. The district has seen a steady increase in enrollment the past few years, but prior to that time, the district's enrollment was fairly flat. As of December 2014, enrollment for our current 2015 school year was reported at a higher level than last year (2014), and management is cautiously optimistic that the district will end the year with an increase in enrollment from last year. However, in past years enrollment has declined by the end of the year, and, for this reason, management is anticipating that this current enrollment will decline from December's enrollment by the end of the year. The district's overall enrollment trend over the past 6 years is shown in *Figure 3* below. The new 2015 enrollment represents an average for the school year up through December.

The state and the nation as a whole are still recovering from an economic recession. In Washington, it appears the recovery is steady, but slow, and full recovery is not yet realized.



In a landmark case, the Washington State Supreme Court issued an opinion in January 2012 that the state was not adequately meeting its constitutional obligation to fund basic education. The results of this case are commonly known as the "McCleary" decision, and the decision is still pertinent and under much scrutiny by the legislature and the public. The state supreme court stopped short as to what that obligation meant in terms of real dollars. However, this decision by the state supreme court is likely to affect funding decisions by the state legislature and executive branch for a number of years to come, as the state attempts to satisfy the findings of the case.

The state will be setting a new budget for the 2015 – 2017 biennium, and budget discussions have already started. At the forefront of the discussions, with respect to education, is how best to respond to the state supreme court's "McCleary" decision. In fact, the state supreme court, in a ruling signed on September 11th, 2014, found the legislature in contempt of its prior ruling on the McCleary case, which put greater emphasis on finding resolution.

Although, the state seems committed to try and make improvements in this area, the governor's forecast of revenues for the coming biennium is that revenues will not be substantial enough to fund progress based on the McCleary decision and satisfy the state supreme court. The governor is proposing the creation of additional revenue sources to make up for the perceived shortfall.

As a result of the last general election held by the voters of Washington, the public approved Initiative 1351, which requires funding reduced class sizes in grades kindergarten through 12, as well as enhancements to various state-funded staff levels. However, the state had already begun making some changes in this respect and the state and Initiative 1351 do not always agree. Action to resolve differences in both law and budget is likely to be taken during this current biennium.

Initiative 1351 does not provide for a funding source, and if the initiative is fully implemented, the state Office of Superintendent of Public Instruction (OSPI) estimates the state would have to fund, and the district would be required to hire, an additional approximately 400 teachers and other staff for the district.

With respect to education, the governor's budget submitted to the legislature in December 2014 for the next 2015-2017 state budget biennium attempts to satisfy much of the expectations for progress called for by the state supreme court's McCleary decision and Initiative 1351 by increasing funding by $1.8 billion. Specifically, certain areas of the governor's proposed budget that will primarily affect the district's budget include:

- Funding for a reduction of class sizes from 25 to 17 students for grades kindergarten through third grade.
- Funding full day kindergarten for all students. Currently, only a few schools in our district provide full day kindergarten.
- An increase in state funding of materials, supplies, curricula, and various other operating costs from a current rate of $848 per student to a rate of $1,216 per student.
- Funding salary increases for teachers to meet the expectations of Initiative 732, voted into law by the public in the year 2000. Funding for this initiative has apparently been suspended at least three times by the legislature since the initiative was voted into law, due to budget deficits.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the district's finances and to demonstrate district accountability. If you have questions about this report or need additional financial information, contact the district's Financial Services office at:

10903 Gravelly Lake Drive Southwest
Lakewood, Washington 98499

Phone: 253/583-5020
http://www.cloverpark.k12.wa.us

Clover Park School District No. 400
Statement of Net Financial Position
August 31, 2014

		Primary Government Governmental Activities
ASSETS:		
Cash and cash equivalents	$	91,036,585
Cash with fiscal agent		1,600
Investments		5,000,000
Receivables (net allowance for uncollectable) - Taxes		13,416,306
Receivables (net allowance for uncollectable) - Intergovernmental		11,399,763
Receivables (net allowance for uncollectable) - Other		62,502
Inventories		112,872
Prepaid items		85,346
Capital Assets:		
Land		4,411,364
Buildings & Improvements		263,600,551
Furniture & Equipment		29,542,329
Construction in Process		137,686,730
Less: Accumulated depreciation		(70,934,836)
Total Assets	$	485,421,112
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Charges of Refunding Bonds	$	3,742,789
LIABILITIES:		
Accounts & Contracts Payable	$	12,214,350
Deposits		704
Accrued payroll, payroll benefits, and withholding payable		265,466
Due to Other Government Units		400
Unearned Revenue		93,544
Noncurrent Liabilities:		
Due within one year		3,311,249
Due in more than one year		167,479,540
Total Liabilities	$	183,365,253
DEFERRED INFLOWS OF RESOURCES:		
	$	-
NET POSITION:		
Net Investment in Capital Assets	$	224,789,177
Restricted for:		
Capital Projects		34,032,091
Debt Services		15,309,379
Other Purposes		5,990,344
Unrestricted		25,677,657
Total Net Financial Position of Governmental Activities	$	305,798,648

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

Clover Park School District No. 400
Statement of Activities
For the fiscal year ended August 31, 2014

		Program Revenues			Net Revenue/ (Expense) and Changes in Net Position
	Expenses	Charges for Service	Operating Grants & Contributions	Capital Grants & Contributions	
Primary Government:					
Governmental Activities:					
Regular instruction	$ 72,195,531	$ 531,945	$ 2,896,307	$ 91,849,810	$ 23,082,531
Special instruction	20,130,505	614,719	14,888,945	-	(4,626,841)
Vocational instruction	4,266,385	10,490	4,957,342	-	701,447
Compensatory education	12,448,611	-	12,287,138	-	(161,473)
Other instructional programs	3,529,823	9,777	3,076,799	-	(443,247)
Community services	520,019	225,730	290,202	-	(4,087)
Support services - general	20,891,754	120,855	-	-	(20,770,899)
Support services - food services	6,007,039	671,452	5,106,681	-	(228,906)
Support services - transportation	6,934,066	8,404	3,844,444	1,104,045	(1,977,173)
Extracurricular (ASB)	723,025	736,124	4,566	-	17,665
Unallocated interest and other charges on long-term debt	7,055,248	-	-	1,121,989	(5,933,259)
Total Governmental Activities	$ 154,702,006	$ 2,929,496	$ 47,352,424	$ 94,075,844	$ (10,344,242)

General Revenues:	
Unallocated State Apportionment	$ 65,245,175
Unallocated Federal Impact Aid & other assistance	11,488,771
Property taxes, levies for maintenance and operations	20,849,459
Property taxes, levies for debt service	5,912,034
Interest and investment earnings	77,550
Total General Revenues	$ 103,572,989
Total Change in Net Financial Position	$ 93,228,747
Net Position - Beginning	212,569,901
Net Position - Ending	$ 305,798,648

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

Clover Park School District No. 400
Balance Sheet
Governmental Funds
August 31, 2014

	Governmental Funds: General Fund	Special Revenue (ASB) Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Total Governmental Funds
Assets:						
Cash and cash equivalents	$ 15,572,130	$ 603,568	$ 12,013,680	$ 58,615,568	$ 4,231,638	$ 91,036,584
Cash with fiscal agent	1,600	-	-	-	-	1,600
Long term investments	-	-	-	5,000,000	-	5,000,000
Receivables (net allowance for uncollectable) - Taxes	10,499,521	-	2,916,785	-	-	13,416,306
Receivables (net allowance for uncollectable) - Intergovernmental	2,231,167	-	-	9,168,596	-	11,399,763
Receivables (net allowance for uncollectable) - Other	57,658	-	-	4,844	-	62,502
Due from other funds	116,849	332	111,877	146,536	-	375,594
Inventories	112,872	-	-	-	-	112,872
Prepaid items	79,816	5,530	-	-	-	85,346
Total Assets	$ 28,671,613	$ 609,430	$ 15,042,342	$ 72,935,544	$ 4,231,638	$ 121,490,567
Deferred outflows of resources:						
	$ -	$ -	$ -	$ -	$ -	$ -
Total Assets and Deferred Outflows	$ 28,671,613	$ 609,430	$ 15,042,342	$ 72,935,544	$ 4,231,638	$ 121,490,567
Liabilities, equity and other credits:						
Liabilities:						
Accounts & contracts payable	$ 2,915,083	$ 28,308	$ -	$ 9,270,959	$ -	$ 12,214,350
Deposits	704	-	-	-	-	704
Accrued payroll, payroll benefits, and withholding payable	259,063	-	-	6,403	-	265,466
Due to other government units	400	-	-	-	-	400
Due to other funds	258,745	793	-	116,056	-	375,594
Unearned revenue	93,086	458	-	-	-	93,544
Total Liabilities	$ 3,527,081	$ 29,559	$ -	$ 9,393,418	$ -	$ 12,950,058
Deferred inflows of resources:						
Property Taxes Earned, but Not Available	$ 10,499,521	$ -	$ 2,916,785	$ -	$ -	$ 13,416,306

Exhibit 3 (cont.)

Clover Park School District No. 400
Balance Sheet (continued)
Governmental Funds
August 31, 2014

	Governmental Funds: General Fund	Special Revenue (ASB) Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Total Governmental Funds
Fund balances:						
Non-Spendable-						
Inventories and Prepaid Obligations	$ 192,688	$ 5,530	$ -	$ -	$ -	$ 198,218
Restricted For-						
Other Items	-	574,341	-	-	4,231,638	4,805,979
Carryover of Restricted Revenue	986,147	-	-	-	-	986,147
Debt Service	-	-	12,125,557	267,037	-	12,392,594
Bond Proceeds	-	-	-	579,249	-	579,249
State Proceeds	-	-	-	24,354,162	-	24,354,162
Federal Proceeds	-	-	-	21,473,219	-	21,473,219
Committed To-						
Minimum Fund Balance Policy	5,787,312	-	-	-	-	5,787,312
Other Purposes	1,050,000	-	-	-	-	1,050,000
Assigned To-						
Fund Purposes	-	-	-	16,868,459	-	16,868,459
Other Purposes	5,654,465	-	-	-	-	5,654,465
Unassigned	974,399	-	-	-	-	974,399
Total Fund Balances	$ 14,645,011	$ 579,871	$ 12,125,557	$ 63,542,126	$ 4,231,638	$ 95,124,203
Total Liabilities, Deferred Inflows, and Fund Balances	$ 28,671,613	$ 609,430	$ 15,042,342	$ 72,935,544	$ 4,231,638	$ 121,490,567

Reconciliation of Governmental Fund Balance Sheet to Statement of Net Position:

Total fund balance for governmental funds (above)	$ 95,124,203
Inclusion of long-term liabilities	$ (170,790,789)
Full accrual of remaining property taxes	$ 13,416,306
Inclusion of capital assets (net of depreciation)	$ 364,306,139
Deferred outflow of unamortized charges on refunding bonds	$ 3,742,789
Net financial position of governmental activities	$ 305,798,648

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

Clover Park School District No. 400
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended August 31, 2014

	Governmental Funds					Total
	General Fund	Special Revenue (ASB) Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Governmental Funds
Revenues:						
Local	$ 22,235,343	$ -	$ 4,713,418	$ 90,515	$ 4,199	$ 27,043,475
State	95,995,493	-	-	37,951,361	1,104,045	135,050,899
Federal	21,601,284	-	4,233,867	56,931,166	-	82,766,317
Other	765,325	740,690	-	-	-	1,506,015
Total revenues	$ 140,597,445	$ 740,690	$ 8,947,285	$ 94,973,042	$ 1,108,244	$ 246,366,706
Expenditures:						
Current:						
Regular instruction	$ 67,252,774	$ -	$ -	$ -	$ -	$ 67,252,774
Special education	20,094,680	-	-	-	-	20,094,680
Vocational education	4,299,454	-	-	-	-	4,299,454
Compensatory	12,447,958	-	-	-	-	12,447,958
Other instructional programs	3,498,303	-	-	-	-	3,498,303
Community services	523,908	-	-	-	-	523,908
Support services	30,568,216	-	-	-	-	30,568,216
ASB expenditures	-	721,830	-	-	-	721,830
Capital outlay:	-	-	-	103,896,888	3,125,732	107,022,620
Debt service:						
Principal	-	-	2,846,000	-	-	2,846,000
Interest	-	-	6,106,490	-	-	6,106,490
Fees & other costs	-	-	1,981	-	-	1,981
Total expenditures	$ 138,685,293	$ 721,830	$ 8,954,471	$ 103,896,888	$ 3,125,732	$ 255,384,214
Excess of revenues over (under) expenditures	$ 1,912,152	$ 18,860	$ (7,186)	$ (8,923,846)	$ (2,017,488)	$ (9,017,508)
Other financing sources (uses):						
Sales of capital assets	$ 3,497	$ -	$ -	$ -	$ 33,986	$ 37,483
Transfers in	-	-	267,038	-	101,500	368,538
Transfers out	(101,500)	-	-	(267,038)	-	(368,538)
Total other financing sources (uses)	$ (98,003)	$ -	$ 267,038	$ (267,038)	$ 135,486	$ 37,483
Net change in fund balances	$ 1,814,149	$ 18,860	$ 259,852	$ (9,190,884)	$ (1,882,002)	$ (8,980,025)
Fund balance - September 1, 2013	12,830,862	561,011	11,865,705	72,733,010	6,113,640	104,104,228
Fund balance - August 31, 2014	$ 14,645,011	$ 579,871	$ 12,125,557	$ 63,542,126	$ 4,231,638	$ 95,124,203

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

Clover Park School District No. 400
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the fiscal year ended August 31, 2014

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different from the Statement of Revenues, Expenditures and Changes in Fund Balances (Exhibit 4) due to the following activities:	
Net change in fund balances - total governmental funds (Exhibit 4):	($8,980,025)
Government funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which new capital outlays exceeded depreciation in the current period:	99,742,157
The issuance of long-term debt, such as bonds, provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, effects net assets. Also, governmental funds report the effect of issuance premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:	1,018,862
The net effect of various miscellaneous transactions involving capital assets, such as sales, retirements, adjustments, etc.:	(164,765)
Property taxes are fully recognized as revenue in the government-wide statement of activities as they are measureable. However, in the fund statements they are deferred since they are not yet available. This treatment results in the following differences:	
Prior year tax accrual	(11,803,788)
Current year tax accrual	13,416,306
Change in net financial position of governmental activities (Exhibit 2):	$93,228,747

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

Clover Park School District No. 400
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the fiscal year ended August 31, 2014

	Adopted Budget	Final Revised Budget	Actual	Variance with Final Budget
Revenues:				
Local taxes	$ 20,254,913	$ 20,254,913	$ 20,443,893	$ 188,980
Local nontax	3,221,074	2,985,236	1,791,450	(1,193,786)
State general purpose	72,876,549	72,876,549	72,583,273	(293,276)
State special purpose	24,298,827	24,105,126	23,412,220	(692,906)
Federal general purpose	12,024,456	12,024,456	6,159,553	(5,864,903)
Federal special purpose	16,795,996	16,793,282	15,441,731	(1,351,551)
Other	420,000	852,253	765,325	(86,928)
Total revenues	$ 149,891,815	$ 149,891,815	$ 140,597,445	$ (9,294,370)
Expenditures:				
Current:				
Regular instruction	$ 75,381,939	$ 73,761,555	$ 67,252,774	$ 6,508,781
Special education	18,546,348	20,044,535	20,094,680	(50,145)
Vocational education	4,318,063	4,338,585	4,299,454	39,131
Compensatory	10,585,844	14,335,368	12,447,958	1,887,410
Other instructional programs	6,792,145	1,701,025	3,498,303	(1,797,278)
Community services	439,134	716,420	523,908	192,512
Support services	32,532,877	33,698,862	30,568,216	3,130,646
Total expenditures	$ 148,596,350	$ 148,596,350	$ 138,685,293	$ 9,911,057
Excess of revenues over (under) expenditures	$ 1,295,465	$ 1,295,465	$ 1,912,152	$ 616,687
Other financing sources (uses):				
Sales of capital assets	$ -	$ -	$ 3,497	$ 3,497
Transfers in	-	-	-	-
Transfers out	(101,500)	(101,500)	(101,500)	-
Total other financing sources (uses)	$ (101,500)	$ (101,500)	$ (98,003)	$ 3,497
Excess of revenues and other financing sources over/(under) expenditures and other financing uses	$ 1,193,965	$ 1,193,965	$ 1,814,149	$ 620,184
Fund balance - September 1, 2013	12,413,789	12,413,789	12,830,862	417,073
Fund balance - August 31, 2014	$ 13,607,754	$ 13,607,754	$ 14,645,011	$ 1,037,257

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

Clover Park School District No. 400
Special Revenue (ASB) Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the fiscal year ended August 31, 2014

	Adopted Budget	Final Revised Budget	Actual	Variance with Final Budget
Revenues:				
General student body	$ 1,290,376	$ 1,290,376	$ 381,377	$ (908,999)
Athletic programs	860,424	860,424	239,859	(620,565)
ASB classes	80,400	80,400	22,567	(57,833)
ASB clubs	366,280	366,280	92,321	(273,959)
ASB private money donations	72,000	72,000	4,566	(67,434)
Total revenues	$ 2,669,480	$ 2,669,480	$ 740,690	$ (1,928,790)
Expenditures:				
Current:				
General student body	$ 1,383,497	$ 1,380,465	$ 371,003	$ 1,009,462
Athletic programs	859,499	861,910	236,884	625,026
ASB classes	81,950	81,950	23,475	58,475
ASB clubs	383,168	382,734	85,763	296,971
ASB private money donations	73,735	74,790	4,705	70,085
Capital outlay:	-	-	-	-
Total expenditures	$ 2,781,849	$ 2,781,849	$ 721,830	$ 2,060,019
Excess of revenues over (under) expenditures	$ (112,369)	$ (112,369)	$ 18,860	$ 131,229
Other financing sources (uses):				
Transfers in:	$ -	$ -	$ -	$ -
Transfers out:	-	-	-	-
Total other financing sources (uses)	$ -	$ -	$ -	$ -
Excess of revenues and other financing sources over/(under) expenditures and other financing uses	$ (112,369)	$ (112,369)	$ 18,860	$ 131,229
Fund balance - September 1, 2013	570,532	570,532	561,011	(9,521)
Fund balance - August 31, 2014	$ 458,163	$ 458,163	$ 579,871	$ 121,708

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

Exhibit 8

Clover Park School District No. 400
Statement of Fiduciary Net Position
Fiduciary Fund
August 31, 2014

		Private Purpose Trusts
ASSETS:		
Cash and cash equivalents	$	180,911
Investments		120,000
Cash and investments managed by Trustee		5,654,452
Interest Receivable		-
Total Assets	$	5,955,363
LIABILITIES		
Accounts Payable	$	600
Total Liabilities	$	600
NET POSITION		
Restricted for:		
Trust Principal	$	5,873,644
Trust Purposes (scholarships, etc.)		81,119
Total Net Financial Position for Fiduciary Fund	$	5,954,763

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

Clover Park School District No. 400
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the fiscal year ended August 31, 2014

		Private Purpose Trusts
ADDITIONS		
Donations	$	10,673
Investment Earnings		108,134
Net increase in the fair value of investments		963,618
Total Additions	$	1,082,425
DEDUCTIONS		
Scholarships	$	101,916
Administrative expenses		36,743
Total Deductions	$	138,659
Change in Net Position	$	943,766
Net Position - Beginning		5,010,997
Net Position - Ending	$	5,954,763

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

Clover Park School District

Notes to the Basic Financial Statements
September 1, 2013 through August 31, 2014

NOTE 1 -- Summary of Significant Accounting Policies

A. Reporting Entity

The Clover Park School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of providing public school services to students in Grades K–12. Financial accountability and oversight responsibility for the district's operations is vested with the 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 the provisions of state statutes rests with the board of directors.

For financial reporting purposes, the Clover Park School District includes all funds and organizations that are controlled by or dependent on the district's board of directors. Whether funds or organizations are considered to be controlled by or dependent on the district is based on budget adoption, taxing authority, outstanding debt secured by the general credit of the district, obligations of the district to finance any deficits that may occur, or receipt of significant subsidies from the district.

B. Basis of Presentation

The accounts of the district are organized on the basis of funds in the 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

   Government-wide financial statements report information on all of the non-fiduciary activities of the primary government and any component units. Overall governmental activities are reported here for the district as a whole, without displaying individual funds or fund types. The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

   The government-wide financial statements consist of the following:

   a. Statement of Financial Net Position – The statement of net position reports all financial and capital resources. Capital assets (land, land improvements, building, building improvements, vehicles, and equipment) are reported at historical cost, less accumulated depreciation.

   b. Statement of Activities – The statement of activities presents operations of the district shown as net revenue (or expense) of each individual function or program, and general revenues. General revenues are divided into property taxes, interest and investment earnings, and unallocated state apportionment. All activities of the district are considered to be governmental activities and no business-type activities are shown. The expenses and revenues are reported as follows:

NOTE 1 -- Summary of Significant Accounting Policies (cont.)

B. Basis of Presentation (cont.)

1. GOVERNMENT-WIDE FINANCIAL STATEMENTS (cont.)

   b. Statement of Activities (cont.)

      Expenses – Expenses are reported by function or program and include direct and indirect expenses. Depreciation expenses are allocated to direct expenses if they can be specifically identified with a function or program. Interest expenses may be considered direct (For example, interest on long-term debt may be associated with a particular function or program, when borrowing is essential to the creation or continuing existence of the function or program) or it may be considered an indirect expense (For example, interest on long-term liabilities that are not essential to a function or program may be recorded as an indirect expense).

      Revenues – The revenues are divided into program revenues and general revenues. Program revenues are revenues derived directly from the program itself or from parties outside the district's taxpayers. 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, 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, unallocated state apportionment support, and other non-tax revenues such as interest and investment earnings.

2. FUND FINANCIAL STATEMENTS

   Fund financial statements report information on an individual fund basis. The fund financial statements report governmental funds and fiduciary funds separately.

   a. Governmental Funds – Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. For the district, this includes a general fund, a special revenue fund, a capital projects fund, a transportation vehicle fund, and a debt service fund. Governmental fund presentation uses the modified accrual basis of accounting. The district considers all governmental funds to be "major funds", and all are reported individually in the governmental fund financial statements:

      General Fund

      This fund is the district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund. In keeping with the principle of maintaining as few funds as necessary, food services, maintenance, data processing, printing, and general transportation activities are included in the fund.

      Special Revenue Fund (Associated Student Body Fund)

      This fund is used to account for the extracurricular activities of the students which are the result of fees and resources collected in fund-raising events for students.

      Disbursements require the joint approval of the appropriate student body organization and the district's board of directors. This fund is accounted for as a special revenue fund since the financial resources legally belong to the district.

      Debt Service Fund

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

NOTE 1 -- Summary of Significant Accounting Policies (cont.)

B. Basis of Presentation (cont.)

2. FUND FINANCIAL STATEMENTS (cont.)

a. Governmental Funds (cont.)

Capital Projects Fund

This fund is used to account for financial resources to be used for the construction or acquisition of major capital assets. This fund must be used when projects are financed wholly or in part by bond issues, intergovernmental resources, major private donations, or insurance recoveries.

Transportation Vehicle Fund

This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures related to pupil transportation equipment. The major sources of revenues in this fund include the state reimbursement for pupil transportation equipment and special levies.

b. Fiduciary Funds – The district has a private-purpose trust fund that meets the criteria of a fiduciary fund and is used to account for resources legally held in trust for scholarships and other specific uses, unrelated to its primary business purpose. Fiduciary fund reporting focuses on net assets and changes in net position. These are funds that are used to account for assets held for individuals, private organizations, other districts, or other funds in its fiduciary capacity as trustee.

C. Measurement Focus & Basis of Accounting

Government-wide

The *government-wide* 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues for the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include 1) charges for goods or services, 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not required to be reported as program revenues, such as certain property tax levies and unallocated state apportionment, are reported as general revenues, even if internally dedicated to various program purposes.

Governmental Funds

The *governmental fund* financial statements (General Fund, ASB Special Revenue Fund, Debt Service Fund, Capital Projects Fund, and Transportation Vehicle Fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

<u>NOTE 1 -- Summary of Significant Accounting Policies</u> (cont.)

C. <u>Measurement Focus & Basis of Accounting</u> (cont.)

Measurable means knowing or being able to reasonably estimate the amount. 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 district considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Certain state, federal, and local grants paid after the end of the current period have been considered to be available and accrued in the revenue of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures (such as general obligation bond principal and interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

<u>Fiduciary Funds</u>

The *<u>private-purpose trust fund</u>* is reported using an economic resources measurement focus and accrual basis of accounting. The accounting objectives of this measurement focus are the determination of income, changes in net position, and financial position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

<u>Eliminations and Reclassifications</u>

In the process of aggregating data for the government-wide Statement of Net Position and the Statement of Activities, the ending balances of inter-fund receivables and payables within governmental funds were eliminated. The effect of inter-fund payments for services during the year has also been eliminated from the government-wide financial statements.

D. <u>Assets, Liabilities, and Net Position or Equity</u>

1. <u>Deposits and Investments</u>

The district's cash and cash equivalents are considered to be cash on hand (net of warrants outstanding), demand deposits, and highly liquid, short term investments readily convertible to cash within three months.

The county treasurer is the ex officio treasurer for the district. In this capacity, the county treasurer receives deposits and transacts investments on the district's behalf. Washington State statutes authorize the district to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States and (2) deposits in any state bank or trust company, national banking association, stock saving bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability.

An exception to the restrictions imposed by the state, a gift of common stock was accepted by the district in 1980 with the stipulation that the stock was to be held or disposed of and proceeds reinvested in common stocks as the board of directors deems appropriate. This trust, known as the John C. and Marilyn J. Dimmer Trust, is administered by the trust services of Key Bank National Association. Net position and activities for this trust are included in the assets and activities reported for the Private-purpose Trust Fund in Exhibits 8 and 9 of the basic financial statements. The nature of the original donation and the trust agreement is detailed further in note 12 "Other Disclosures."

NOTE 1 -- Summary of Significant Accounting Policies (cont.)

D. Assets, Liabilities, and Net Position or Equity (cont.)

2. Property Taxes

   Property tax revenues are collected as the result of special levies passed by the voters in the district. Per the Revised Code of Washington (RCW) 84.60.020, the tax assessment date is January 1 of the calendar year of the 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 taxes due October 31. Typically, slightly more than half the taxes are collected on the April 30 date.

   The taxes receivable reflected on the Governmental Funds Balance Sheet (Exhibit 3) reflects total taxes receivable as of year-end, per the Pierce County Treasurer's Office.

3. Other Receivables

   Other accounts receivable represent reimbursements and amounts due for services rendered by the district, net of any allowance for doubtful accounts. The district considers receivables collected within 90 days after year-end to be available and recognizes them as revenues of the current year.

4. Due From/To Other Funds

   In governmental funds, activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are also reported as "due to/from other funds." They are eliminated in government-wide financial statements.

   Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

5. Inventory and Prepaid Items

   Inventories recorded as assets for the district consists of food and fuel. This includes the market value of food commodities received from the federal government. Expenditures for food and fuel are recorded when consumed rather than when purchased. All other supplies are accounted for as expenditures when purchased. Inventories are valued at cost. Fuel is tracked using a perpetual inventory system, using the first-in, first-out (FIFO) method. A periodic method is applied to food inventories, and FIFO is approximated by using last purchase price to value the periodic inventory count.

   Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements.

6. Capital Assets

   Capital assets, which include property, plant, equipment, and construction in process, are reported in the government-wide financial statements. Capital assets are defined by the district as assets with an initial, individual cost of $5,000 or more and have an estimated useful life in excess of one year. If purchased or constructed, such assets are valued at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

   Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position.

<u>NOTE 1 -- Summary of Significant Accounting Policies</u> (cont.)

D. <u>Assets, Liabilities, and Net Position or Equity</u> (cont.)

6. <u>Capital Assets</u> (cont.)

Building improvements, and equipment of the district are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	25-50
Building & site improvements	20-30
Portables	20
Office furniture & equipment	6-10
Pupil transportation vehicles	5
Other vehicles	5
Computer equipment	4
Other equipment	5-12

Capital assets used in governmental fund operations are accounted for as capital outlay expenditures in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance upon acquisition. Capital assets are not reflected on the governmental funds Balance Sheet.

7. <u>Deferred Outflows and Inflows of Resources</u>

As per the Governmental Accounting Standards Board (GASB) 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*, certain items related to the consumption or the acquisition of net assets that are applicable to a future period are reported as deferred outflows of resources and deferred inflows of resources.

Deferred Outflows and Inflows of Resources are reported as separate sections in the district's government-wide and governmental statements of financial position.

A *deferred outflow of resources* is considered to be a consumption of assets by the government that is applicable to a future reporting period.

The district only has one item that qualifies for reporting in the category of a deferred outflow of resources. It is the deferred charge on refunding of bonds that is reported in the district-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

A *deferred inflow of resources* is considered to be an acquisition of assets by the government that is applicable to a future reporting period.

The district has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in the category of a deferred inflow of resources under the governmental funds financial statements. It is for property taxes earned, but not yet available, as the taxes have not yet been paid. The district-wide financial statements report this revenue under a full-accrual method of accounting when it is measurable and earned, irrespective of the cash flow, and so it is not deferred on the district-wide financial statements. However, under the modified-accrual method of accounting used in the governmental fund financial statements, it is not reported as revenue until it is also available. Accordingly, the item is reported as deferred in the governmental funds balance sheet.

<u>NOTE 1 -- Summary of Significant Accounting Policies</u> (cont.)

D. Assets, Liabilities, and Net Position or Equity (cont.)

8. <u>Compensated Absences</u>

Compensated Absences are reported in governmental funds only if they have matured.

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

Accrued vested sick leave for employees is recorded as a long-term debt liability in government-wide financial statements. Expenditures for vested sick leave are recorded when paid. Vested sick leave is computed using the vesting method. Due to considerations of prior employment credits in the state's retirement system, the district is unable to determine which employees are actually eligible for retirement at the end of a given fiscal year. The district assumes that all employees will become eligible for retirement, and so calculates an estimated vested sick-leave liability of one hour for each four hours of accrued sick-leave for all current employees as of the end of the fiscal year. The amount of accrued sick leave reflected as a liability on the government-wide statements as of August 31, 2014 is $4,239,263.

<u>Vacation</u>
Vacation pay that is expected to be liquidated with expendable, available financial resources; i.e., expected compensation that has matured, is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable, available financial resources are reported as long-term debt in government-wide financial statements. The amount reflected on the government-wide statements as liability for accrued vacation leave as of August 31, 2014 is $1,502,801.

The sick leave and vacation accruals reflect all salary related benefit liabilities. No unrecorded liability exists for other employee benefits.

9. <u>Long-Term Obligations</u>

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year in which they are incurred.

In the fund financial statements, the district recognizes bond premiums and discounts, as well as bond issuance costs, during the current period when issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

NOTE 1 -- Summary of Significant Accounting Policies (cont.)

D. Assets, Liabilities, and Net Position or Equity (cont.)

10. Fund Equity – Governmental Funds

In the fund financial statements, the district reports fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources:

- *Nonspendable Fund Balance* – This classification is used for that portion of net resources that cannot be spent because of their form or because they must remain intact.

- *Restricted Fund Balance* – This classification is used when there are enforceable limitations on the use of certain funds from external sources, such as by creditors, grantors, contributors, or from regulations of oversight government agencies.

- *Committed Fund Balance* – This classification is used when there are limitations imposed on funds by formal action of the district's board of directors and use of those funds cannot be changed without formal action of the same. Currently, the board has directed, in its policy #6022, that the superintendent or designee will present a general fund budget that includes a commitment of at least five percent of the current year's revenues towards a minimum fund balance. This is intended to recognize the importance of maintaining a prudent fund balance in the general fund to ensure operational cash flow needs are met, to set aside resources for known obligations and to help protect against unforeseen circumstances. Rescinding this policy would require a formal hearing and resolution by the board.

- *Assigned Fund Balance* – This classification is used to describe the portion of fund balance that reflects the district's intended use of resources, such as capital projects or transportation, but are neither restricted or committed. According to district practice, these funds are established to achieve the objectives of the district by the superintendent in accordance with good fiscal management, as advised by the district's Administrator of Business Services and staff. They are usually set along with the budget. Any change in this direction or the budget for these funds would require approval by the superintendent and the Administrator of Business Services.

- *Unassigned Fund Balance* – This classification is used for the net resources in excess of the other four categories previously described and would be used for funds that could be used for any purpose. Typically, only the general fund will report an unassigned fund balance, since other funds would have fund balances at least assigned to that fund's purpose, unless the fund were in a deficit position.

Typically, it is the district's practice to use funds in the following order: Nonspendable, Restricted, Committed, and Assigned, before using the unassigned fund balance, as long as the intended purpose of the funds are met.

11. Net Position

In government-wide financial statements, the "Invested in Capital Assets, Net of Related Debt" component consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The "Restricted" net position component reports remaining resources where constraints have been placed on them by external laws, regulations, or legislation. Therefore, these resources are available for use only for specific purposes (e.g., debt service, capital projects, and others). The "Unrestricted" net position indicates financial resources that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

NOTE 2 -- Reconciliation of District-Wide and Fund Financial Statements

The following information explains differences between the governmental statements and the district-wide statements.

A. Governmental Funds Balance Sheet and District-wide Statement of Financial Net Position

As mentioned earlier, government-wide financial statements are prepared using the economic resources measurement focus and full accrual method of accounting, and fund financial statements are prepared using the flow of resources measurement focus and modified accrual method of accounting. The different measurement focuses and methods of accounting result in certain differences between government-wide and fund financial statements.

The governmental fund balance sheet includes a reconciliation of differences between total governmental fund balances and net position of resources for governmental activities reported in the government-wide statement of net position. This schedule presents individual details for the major elements of the reconciliation including certain entity-wide assets and liabilities not included in governmental fund balance sheets.

Further detail on each of these reconciling items follows below.

- Long-Term Liabilities – Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. All liabilities – both current and long-term – are reported in the statement of net position. The district reports $170,790,789 of long-term liabilities, including unamortized bond premium/discount, applicable to the district's governmental activities in the statement of net position. These liabilities consist of:

Unmatured bonds payable	$143,839,000
Unamortized bond premium	11,795,290
Compensated absences	5,742,064
OPEB Obligation	9,414,435
Total effect of long-term debt	$ 170,790,789

- Capital Assets – Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. 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. The district reports $435,240,975 of capital assets with accumulated depreciation of $70,934,836 for a net value of $364,306,139 that is applicable to the district's governmental activities in the statement of net position.

- Full accrual of Property Taxes – It is anticipated that the remaining property taxes receivable for the district will be collected during the year, but are not considered available soon enough to pay for the current period's expenditures. Therefore, all uncollected taxes are deferred in the governmental fund financial statements. However, since these property taxes have been levied during the current fiscal year, the remaining receivables are accrued in the government-wide financial statements. The difference between the fund statements and the statement of net position for these taxes consists of $13,416,306.

NOTE 2 -- Reconciliation of Districtwide and Fund Financial Statements (cont.)

A. Governmental Funds Balance Sheet and District-wide Statement of Financial Net Position (cont.)

- Deferred Outflows of Resources – District resources were placed in escrow to purchase investments for the future refunding of bonds initially purchased in 2006. These resources related to a future period and as such are deferred in the government-wide financial statements. However, in the governmental funds financial statements, this use of resources is immediately reported as such. These deferred costs are being amortized over the remaining life of the refunded bonds, which is shorter than the life of the new bonds. The balance of these deferred charges and the difference between the governmental-wide statement of net position and governmental fund balance sheet is $3,742,789

- Due To/Due From – Additionally, internal receivables and payables between governmental funds in the amount of $375,594 were eliminated in government-wide statements to avoid a "doubling-up" effect. This does not affect the difference between fund balances as reported on the governmental funds balance sheet and net position reported on the district-wide statement of net position.

B. District Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and District-wide Statement of Activities

The district has included a reconciliation that summarizes differences between net changes in the total of the fund balances per the governmental fund statements and changes in net position of governmental activities as reported in the government-wide statement of activities (See Exhibit 5). Additional explanations of certain differences are presented below.

- Capital Outlay and Depreciation of Capital Assets - Governmental funds report capital outlays as expenditures, however in the statement of activities the cost of capital assets is allocated over the estimated useful lives and reported as depreciation expense. This results in a $99,742,158 difference for the current period. Details of this difference are as follows:

Depreciation recorded in Government-Wide Financial Statements	$ (6,976,934)
Capital asset additions recorded in Government-Wide Financial Statements	106,719,092
Total effect of capital asset transactions	$99,742,158

- Long-term debt transactions – Repayment of the principal of long-term debt reduces the fund balance in governmental funds. However, it reduces the liabilities in the statement of net position. Additionally, the government-wide statements reflect changes in the long-term liabilities accrued for compensated absences and other post employment benefits. This results in a $1,018,862 difference for the current period. Details of this difference are as follows:

Debt service principal paid (expenditures)	$ 2,846,000
Net increase in OPEB (GASB 45) liability	(819,648)
Net change in value of accrued vacation & sick leave	(60,713)
Deferred Outflow additions and amortization	(1,871,395)
Bond premium additions, changes, and amortization	924,618
Total effect of long term debt transactions	$ 1,018,862

<u>NOTE 2 -- Reconciliation of Districtwide and Fund Financial Statements</u> (cont.)

B. <u>District Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and District-wide Statement of Activities</u> (cont.)

- <u>Property Taxes</u> – Under the full accrual method of accounting, all property taxes levied during the current fiscal year are recognized as revenue in the government-wide statement of activities. However, any taxes not yet collected are deferred in the governmental fund financial statement. A reversal of last year's tax accrual of $11,803,788 and the addition of the current year tax accrual of $13,416,306 resulted in a net difference of $1,612,518 between the governmental-wide statement of activities and the fund statement balance sheet.

- <u>Other sources and uses</u> – Transfers between governmental funds in the amount of $368,538 were eliminated in government-wide statements to avoid a "doubling-up" effect. This does not affect the difference between the changes in fund balance as reported on the governmental funds statement and changes in net position reported on the government-wide statement of net position.

<u>NOTE 3 -- Stewardship, Compliance, and Accountability</u>

A. <u>Budgetary Information – General Budgetary Policies and Information</u>

Chapter 28A.505 RCW and Chapter 392-123 of the *Washington Administrative Code* (WAC) mandate school district budget policies and procedures. A budget is required for all governmental funds. The district board adopts an annual budget after public hearing which is submitted to the state's Office of the Superintendent of Public Instruction.

An appropriation is a prerequisite to expenditure. Appropriations lapse at the end of the fiscal period. Annual appropriated budgets are adopted at the fund level.

Management may transfer appropriations within the approved budget for each fund without prior approval of the board. For this reason, differences of budgeted revenues and expenditures within a fund may be the result of management transfers within the fund. Examples of this, for the current year, include:

- Expenditure budgets adjusted from other instructional programs to compensatory and special education programs.

Some grants are based on reimbursable expenditures. The budget is typically set at the maximum allowable, but if the district spends less than allowable, there will be a difference in the budget for both revenues and expenditures. Examples of this, for the current year, include:

- Compensatory programs – $591,000 from the federal Title I (disadvantaged) program had been authorized and budgeted, but not spent.

In addition, budget differences within a fund can be due to reserve budget that is set aside to accommodate unexpected revenues or expenditures. Examples of budget set aside and not used during the current year include:

- $4.7 million of budget for expenditures related to regular instruction.
- $430,000 of budget for pupil transportation related to support services.
- $1.4 million of budget for expenditures related to learning assistance from compensatory education.
- $600,000 of budget for expenditures related to special and pilot programs from compensatory education.
- $233,000 of budget for motor poor vehicle replacement.
- ASB funds of approximately $2 million.

The total expenditures for each governmental fund cannot exceed the formal adopted appropriation for each fund unless the board amends the budget by submitting a supplemental appropriation to the state.

NOTE 3 -- Stewardship, Compliance, and Accountability (cont.)

B. Budgetary Basis of Accounting

For budget and accounting purposes, revenues and expenditures are accounted for on the modified accrual basis as prescribed for all governmental funds. Fund balance is budgeted as available resources, and pursuant to state law, the budgeted ending fund balance cannot be negative.

C. Encumbrances

Encumbrance accounting is used in the governmental funds. During the fiscal year, encumbrances such as purchase orders, contracts, and other commitments for the expenditure of moneys are recorded during the fiscal year in order to set aside a portion of the applicable appropriation and maintain appropriate budgetary and cash control. Per the laws of the State of Washington, a new budget must be established each year and consequently, encumbrances at the end of the year lapse. However, the board, as part of its debt and fiscal management policies, commits a portion of its ending fund balance in the general fund each year for obligations from the previous year that may need to be appropriated during the next year.

Actual funds appropriated in fiscal year 2015 to address obligations started or continued from the year ending August 31, 2014 include:

- General Fund – $502,281 for certain services and supplies for instruction, maintenance, including two additional pole barns, food services, and transportation.
- Capital Projects Fund – $19,552,876 primarily to complete the projects of building a combined new Harrison Preparatory Academy and Four Heroes elementary school, and a new Beachwood elementary school, but does include some additional construction at the Rainier, Meriwether, and Evergreen elementary schools.

NOTE 4 -- Detailed Notes on All Funds

A. Deposits and Investments

Temporary investments, which will be liquidated within 90 days are considered to be cash equivalents and stated at carrying value. Investments, other than the Dimmer Trust assets that are managed by a trustee, are stated at carrying value, since the interest is not realized. This includes the investment pool, which fair value of the district’s position would be the same value of the pool shares, once the investment interest is realized. Investments from Dimmer Trust assets are reported at fair value, inclusive of all unrealized gains or reductions in fair value. Investments at year-end are summarized below:

	Carrying Amount	Fair Value
Temporary investments of governmental funds held by the Local Government Investment Pool and included in cash equivalents	$51,510,000	$51,514,364
Temporary investments of fiduciary funds held by the state Local Government Investment Pool and included in cash equivalents	$170,000	$170,014
Long Term investments of governmental funds held as certificate of deposits	$5,000,000	$5,029,977
Long Term investments of fiduciary funds held as certificate of deposits	$120,000	$120,228
Fiduciary Fund investments managed by trustee	$3,819,540	$5,654,453
Total	$60,619,540	$62,489,036

<u>NOTE 4 -- Detailed Notes on All Funds</u> (cont.)

A. <u>Deposits and Investments</u> (cont.)

The Washington State Local Government Investment Pool (LGIP) was created by Chapter 294, Laws of 1986 and began operations in July 1986. Operations are pursuant to RCW 43.250. The LGIP is a short-term investment pool of the state of Washington, available to Washington State counties, cities, towns, municipal corporations, special-purpose taxing districts, community and technical colleges, four-year public institutions of higher education, the State Board for Community and Technical Colleges, and the State Finance Committee. Participation in the LGIP is voluntary.

The LGIP is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

The LGIP's investment objectives are, in priority order: 1) safety of principal, 2) maintaining adequate liquidity to meet cash flows, and 3) providing a competitive interest rate relative to other comparable investment alternatives. The LGIP offers 100% liquidity to its participants.

<u>Interest Rate Risk</u>
Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The district manages its exposure to declines in fair value or interest rate risk by limiting the type of investments it makes from its general operating capital.

Most of the district's available operating funds were invested at year-end by the Pierce County Treasurer with the State of Washington Treasurer's Local Government Investment Pool (LGIP). The State of Washington LGIP mitigates interest rate risk by managing the portfolio in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds. Much of the Rule 2a-7 investment guidelines are directed towards limiting interest rate risk, in order to maintain a stable net asset value. For example, the LGIP's policy places a 90 day maximum on the weighted average maturity. Further, the maximum maturity of any security will not exceed 397 days, except for securities utilized in repurchase agreements and U.S. Agency floating or variable rate notes may have a maximum maturity of 762 days, provided that they have reset dates within one year and which on any reset date can reasonably be expected to have a fair value that approximates its amortized cost.

The private-purpose trust fund includes assets of the Dimmer Scholarship Trust, which are held primarily in stocks of private corporations. Interest rate risk and other risks associated with such investments are diffused by disbursing the assets among many different corporations in the portfolio.

<u>Credit Risk</u>
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

State law limits investments that can be held by government agencies. State law is designed to minimize the risk to a municipal corporation. The investments authorized under state law, with the exception of private purpose trust funds, are limited to:

- Savings or time accounts in qualified public depositaries
- Certificates, notes, or bonds of the U.S.
- Other obligations of the U.S. or its agencies, or any corporation owned by the U.S. government
- Bankers' acceptances purchased on the secondary market
- Federal home loan bank notes and bonds
- Federal land bank bonds and federal national mortgage association notes, debentures, and guaranteed certificates of participation
- Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the federal reserve system.

<u>NOTE 4 -- Detailed Notes on All Funds</u> (cont.)

A. <u>Deposits and Investments</u> (cont.)

- Bonds of the state or any local government in the state that have one of the three highest credit ratings of a nationally recognized rating agency
- General obligation bonds of another state, or local government in another state, that has one of the three highest credit ratings of a nationally recognized rating agency
- Any registered warrants of any government located in the same county as the government making the investment
- Any investment authorized by law for the treasurer of the state of Washington or any local government in the state, other than metropolitan municipal corporations

The county treasurer is the ex-officio treasurer for the district. In this capacity, the county treasurer receives deposits and transacts investments on the district's behalf. Most of the district's operating funds are invested by the Pierce County Treasurer in the Local Government Investment Pool (LGIP) managed by the State of Washington Treasurer. The policy of the LGIP is to invest funds according to the types of instruments allowable by law as noted above. In addition, the LGIP investment policy indicates that banker's acceptances and commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. The LGIP, as a whole, is not rated with any external organization that we are aware of.

The private-purpose trust fund includes assets of the Dimmer Scholarship Trust, which are not subject to the same restrictions as the general district government. These assets are managed by Key Bank Trust and Investment Management services of Key Bank National Association as agent for the district. Key Bank follows certain procedures which are designed to minimize the credit risk associated with these types of investments:

- No individual holding can be more than 5% of the total of all stock holdings.
- Industry sector weightings cannot be less than 50% of the weights of the Standard and Poors 500, nor can they be more than double the weights of the Standard and Poors 500.
- The stocks purchased must be included on an approved company list that is analyzed and reviewed by various parties within Key Bank.
- Management of the trust is within the scope of the Uniform Prudent Investor Act, which provides for certain standards that must be followed with respect to investing and risk management.

<u>Custodial Credit Risk – Deposits</u>
For deposits, this is the risk that in the event of a bank failure, the government's deposits might not be returned. The district does not have a deposit policy which addresses this concern. Up to $250,000 of the funds deposited in commercial institutions were insured by the Federal Deposit Insurance Commission (FDIC) for each bank used by the district. The remaining funds would not be insured by the FDIC. As of August 31, 2014, district deposits in commercial institutions of $16,667,805 were uninsured by the FDIC. However, the entire value of these uninsured deposits with public banks would be secured by the state Public Deposit Protection Commission as indicated below.

The district also minimizes custodial credit risk by restrictions set forth in state law. Statutes restrict the deposit of funds to financial institutions that are physically located in Washington unless otherwise expressly permitted and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

NOTE 4 -- Detailed Notes on All Funds (cont.)

A. Deposits and Investments (cont.)

Custodial Credit Risk -- Investments
For investments, this is the risk that, in the event of a failure of the counterparty, the district would not be able to recover the value of its investments that are in the possession of the outside party.

The district's available operating funds were primarily invested at year-end with the State of Washington Local Government Investment Pool (LGIP) that is managed by the Office of the State Treasurer (OST). It is the policy of the LGIP to mitigate custodial credit risk with a policy of requiring that securities purchased by the office are to be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the OST's exposure to risk and insure the safety of the investment. All securities utilized in repurchase agreements were rated AAA by Moody's and AA+ by Standard & Poor's. The fair value of securities utilized in repurchase agreements must be at least 102% of the value of the repurchase agreement.

Types of instruments in the investments for the LGIP primarily include United States treasury securities, other federal agency securities, and repurchase agreements.

It is noted that any interest bearing bank deposits, negotiable order of withdrawal accounts, or certificate of deposits purchased by the LGIP would be insured by federal depository insurance (FDIC or FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the state Public Deposit Protection Commission. The Public Deposit Commission Act (RCW 39.58) protects government depositors by requiring all banks who accept deposits from governmental agencies in the state of Washington to collectively assure that no loss of funds will be suffered by any public treasurer or custodian of public funds due to a bank failure or other similar event. The act also protects interest accrued on Certificates of Deposits.

The district does not have a policy in place with respect to custodial credit risk.

The private-purpose trust fund includes assets of the Dimmer Scholarship Trust, which are managed by the trust services of Key Bank National Association as agent for the district.

Concentration of Credit Risk – Investments
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The district did not have investments with a single issuer. The district's available operating funds were invested at year-end with the State of Washington Treasurer's Local Government Investment Pool (LGIP), which is not considered a single issuer, or with certificate of deposits.

Investments in the Dimmer Scholarship Trust are uninsured and unregistered investments with securities held by the counterparty or its trust department or agent, but not in the district's name. These assets are primarily invested in the stock of private corporations. The value of investments managed by trustee is expressed at their current fair value as stated on the August 31, 2014 trustee's report. Unrealized gains or losses due to changes in fair value of investments have been recognized in the fiduciary funds statements.

NOTE 4 -- Detailed Notes on All Funds (cont.)

A. Deposits and Investments (cont.)

The value of private-purpose trust fund assets managed by Trustee at August 31, 2014, is:

	Book Value	Fair Value
Dimmer Trust cash equivalents (money market)	$ 58,180	$ 58,180
Dimmer Trust investments in common stocks	3,761,360	5,596,273
Total Cash/Investments managed by Trustee	$3,819,540	$5,654,453

Since the assets of the Dimmer Scholarship Trust are held in trust, the assets are not commingled with the business assets of Key Bank National Association, and for this reason, are not subject to a business failure of the Key Bank National Association.

B. Receivables

Receivables as of year-end for the district's governmental and fiduciary funds, including any applicable allowances for uncollectible accounts, are as follows:

	General Fund	Capital Projects Fund	Debt Service Fund
Taxes	$10,499,521		$2,916,785
Intergovernmental	$2,231,167	$9,168,596	
Accounts and Interest	$57,658	$4,844	
Net Total Receiviables	$12,788,346	$9,173,440	$2,916,785

C. Deferred Outflows and Inflows of Resources

The district only has one item that qualifies for reporting in the category of a deferred outflow of resources. It is the deferred charge on refunding of bonds from 2006 that is reported in the district-wide statement of net position. This amount and the balance of this deferred charge is calculated as follows:

Reacquisition price of 2006 bonds	$ 59,942,211
Less: Carrying value of 2006 debt refunded	(51,350,000)
Less: Unamortized balance of premium for 2006 debt refunded	(1,106,633)
Equals: deferred charge to be amortized	$ 7,485,578
Less: prior amortization of deferred charge	(1,871,394)
Less: Current year amortization of deferred charge	(1,871,395)
Current balance shown as deferred outflow on district-wide financial statements	$ 3,742,789

The deferred charge is being amortized over the remaining life of the refunded bonds, which is 4 years.

The district has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in the category of a deferred inflow of resources under the governmental funds financial statements. It is property taxes earned, but not yet available, as the taxes have not yet been paid. The district-wide financial statements report this revenue under a full-accrual method of accounting when it is measurable and earned, irrespective of the cash flow, and so it is not deferred on the district-wide financial statements. However, under the modified-accrual method of accounting used in the governmental fund financial statements, it is not reported as revenue until it is also available. Accordingly, $10,499,521 is reported as a deferred inflow for the taxes in the general fund and $2,916,785 is reported as a deferred inflow for the taxes in the debt service fund.

NOTE 4 -- Detailed Notes on All Funds (cont.)

D. Capital Assets

Purchases of items over $5,000 are capitalized and depreciated in the district-wide financial statements. Capital Assets transactions during the fiscal year ended August 31, 2014 are as follows.

	Balance 09/01/13	Additions	Deletions	Balance 08/31/14
Land (not depreciated)	$ 4,411,364	$ ---- 0 ----	$ ---- 0 ----	$ 4,411,364
Construction in progress (not depreciated)	95,209,476	100,674,224	(58,196,970)	137,686,730
Buildings & improvements	203,186,735	60,574,927	(161,111)	263,600,551
Pupil transportation vehicles	14,371,305	3,321,657	(2,063,791)	15,629,171
Other equipment and machinery	14,009,593	354,635	(451,070)	13,913,158
Total Capital Assets	$331,188,473	$164,925,443	$(60,872,942)	$435,240,974
Less accumulated depreciation:				
Buildings	($44,989,891)	($4,536,903)	$ 161,111	($49,365,683)
Pupil transportation vehicles	(11,532,317)	(1,413,617)	2,063,791	(10,882,143)
Other equipment and machinery	(9,937,518)	(1,200,560)	451,070	(10,687,008)
Total Accumulated depreciation	($66,459,726)	($7,151,080)	$ 2,675,972	($70,934,834)
Net Capital Assets for Governmental Activities	**$264,728,747**			**$364,306,140**

Additions to accumulated depreciation include $174,146 of adjustments and new depreciation expense of $6,976,934.

The new depreciation expense was charged to functions (programs) as follows:

Regular instruction	$ 4,956,651
Special instruction	35,825
Vocational instruction	8,272
Compensatory education	653
Other instruction programs	31,520
Community services	0
Support services – district wide basic support	593,980
Support services – food service	42,521
Support services – transportation	1,306,317
Extracurricular activities (ASB)	1,195
Total current year depreciation	$ 6,976,934

NOTE 4 -- Detailed Notes on All Funds (cont.)

D. Capital Assets (cont.)

Construction in progress is composed of:

Project	Expended as of 08/31/14	Percentage Complete	Remaining Balance of Project
Lakeview Elementary Addition	$36,106	1%	$3,633,667
Combined Harrison Preparatory Academy and Southgate/Oakwood Elementary School	$63,170,366	84%	$12,163,162
JBLM-Rainier School	$31,821,705	82%	$6,766,767
JBLM-Beachwood School	$6,344,528	16%	$33,203,026
JBLM-Meriwether School	$29,347,129	82%	$6,360,398
JBLM-Evergreen School	$2,309,323	N/A*	N/A*
Harry Lang Stadium	$1,056,023	100%	$ -0-**
Energy Grant Improvements FY 2013-2015	$2,318,419	98%	$51,300
Lochburn Roofing	$1,070,254	100%	$ -0-**
District-Wide IPTV	$212,877	97%	$7,123
TOTAL	$137,686,730		$62,185,443

Note: JBLM = Joint Base Lewis McChord
*The complete scope of these projects has not yet been determined.
** Project not formally accepted as complete as of 08/31/14.

It is expected that the school projects will be completed with a combination of remaining federal funding, state construction matching funds, remaining bond money, and some local money.

The district's capital assets are insured for full replacement value, less $1,000 deductible. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

Impairments
Last year, we reported Heartwood Elementary School as an impaired asset, but since that time, the building has been turned back over to Joint Base Lewis-McChord and the building was demolished. Any assets associated with the building have been retired.

The school district operates six elementary schools located on military property. These schools are Beachwood Elementary, Carter Lake Elementary, Evergreen Elementary, Meriwether Elementary, Rainier Elementary, and Hillside Elementary. With exception of Evergreen Elementary, the district owns the buildings for these schools, but the federal government owns the land as part of the Joint Base Lewis-McChord. These buildings are included in the district's capital assets reported on the district-wide statement of net position, but not the land the buildings sit on.

Other than as noted, the district has no impaired assets at this time.

<u>NOTE 4 -- Detailed Notes on All Funds</u> (cont.)

E. <u>Interfund receivables, payables, and transfers</u>

The composition of inter-fund balances as of August 31, 2014 follows below.

<u>Due to and from other funds</u>

	Payable Fund			
Receivable Fund	**General**	**Capital Projects**	**ASB**	**Totals**
General Fund		$116,056	$793	$116,849
Capital Projects	$146,536			$146,536
ASB	$331			$331
Debt Service	$111,878			$111,878
Trust Fund				$0
Totals	$258,745	$116,056	$793	$375,594

Interfund balances result from the time lag between the dates that interfund goods and services are provided and reimbursable expenditures occur, or when transactions are recorded in the accounting system and payments are made between funds.

These balances are expected to be paid within one year.

<u>Interfund transfers</u>
Total transfers in and out between funds were $368,538 and comprised as follows:

	Transfer In:			
Transfer out:	**Capital Projects**	**Debt Service**	**Transportation Vehicle**	**Totals**
General Fund	--0--	--0--	$101,500	$101,500
Capital Projects	--0--	$267,038	--0--	$267,038
Totals	**$--0--**	**$267,038**	**$101,500**	**$368,538**

Transfers are routinely used to move revenues from the fund that statute or budget requires to be used for collecting them to the fund that statute or budget requires to expend them. In the year ended August 31, 2014, the following transfers were significant or of a non-routine nature:

- $101,500 was transferred from the general fund to the transportation vehicle fund for anticipated purchases of new buses in the future.
- $267,038 was transferred from the capital projects fund to the debt service fund to pay principal and interest on QZA bonds used for capital projects.

The district did not advance money between funds.

<u>NOTE 4 -- Detailed Notes on All Funds</u> (cont.)

F. <u>Fund Balance – Governmental Funds Balance Sheet</u>

In accordance with the extent to which the district is bound to observe constraints imposed upon the use of its resources, the district is reporting the following fund balances in its governmental funds.

<u>Nonspendable Fund Balance</u>
The district is including its inventories of $112,872 for gasoline, diesel, and government food commodities in this category for the general fund. Also, the district prepaid certain vendors a total of $79,816 from the general fund and $5,530 from the ASB fund for supplies and other needs to be used in the coming school year that is included here.

<u>Restricted Fund Balance</u>
The district is restricting revenues from grantors deposited to the general fund of $986,147 that is intended to be used in the coming school year.

The district accounts for funds earned by students and set aside for the cultural, athletic, recreational, and social activities of the associated student bodies (ASB) of the district in a special revenue fund since there are external expectations with respect to the use of these funds. Legally, the funds belong to the district, but since the funds are provided by the public with the expectation that they be used by the ASB in accordance with the purposes of the established ASB organizations and since the funds are intended to be used in accordance with state law (Revised Code of Washington 28A.325), the funds are set aside and restricted to the special revenue ASB fund. At the conclusion of the current fiscal year, the district had set aside and restricted $574,341 in the ASB fund for the reasons noted.

Debt service funds for the repayment of bonds and other indebtedness of the district are restricted due to the expectations of creditors. Total restricted funds for this year in the debt service fund is $12,125,557 for the purpose of repaying bonds.

In addition, certain funds in the capital projects fund are restricted:

1. For repayment of Qualified Zone Academy (QZA) bonds (debt service of $267,037)
2. From general obligation and qualified school construction bond proceeds that must be used for building new schools ($579,249).
3. From state money for new buildings ($24,354,162)
4. From federal money that is intended for updating the facilities of the district $21,473,219.

Funds provided by the state for the replacement of buses and other student transportation vehicles are required by law, per RCW 28A.150.280 and RCW 28A.160.130, to be set aside in the transportation fund and used solely for the purchase or major renovation of such equipment. For this reason, the fund balance of the transportation fund is restricted for the future purchase of buses ($4,231,638).

<u>Committed Fund Balance</u>
For fiscal stabilization, the board of directors of the district has a policy in place that directs the superintendent or designee each year to maintain in reserve a minimum of 5% of annual operating revenues designed to promote the orderly development and implementation of the board's goals and objectives for the coming year. Rescinding this policy would require a formal hearing and resolution by the board. Among these goals and objectives are strategic operational and capital programs, appropriate cash management principals, mitigating uninsured risk, debt structuring, and other key financial indicators. The district has committed funds of $5,787,312 from the general fund under this board policy. In addition, as part of this debt and fiscal management policy, the district has committed funds of $1,050,000 for the carryover of encumbrances from the general fund into the next year.

NOTE 4 -- Detailed Notes on All Funds (cont.)

F. Fund Balance – Governmental Funds Balance Sheet (cont.)

Assigned Fund Balance

In accordance with good management principals, certain funds in the general fund of $5,654,465 have been assigned to meet the needs of the district in the near future:

- Funds levied for specific purposes of the district as promised to our voting constituency of $3,197,465.
- Replacement of motor pool vehicles of $457,000.
- $2,000,000 set aside for anticipated reductions in funding in future years.

In the capital projects fund, the balances pertaining to the statutory intent of the fund have been assigned; Namely, future capital projects ($16,868,459).

Unassigned Fund Balance

The remaining funds of $974,399 in the general fund are reported as unassigned.

G. Net Position – District-wide Statement of Net Financial Position

In district-wide financial statements, the "Invested in Capital Assets, Net of Related Debt" component consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This balance is calculated as follows:

Capital assets	$ 435,240,974
Less: Accumulated depreciation	(70,934,836)
Less: Outstanding principal of capital-related debt	(143,839,000)
Add: Unamortized Charges on Refunding Bonds	3,742,789
Add: Principal of capital related debt not yet used	579,250*
Net position, as invested in capital assets, net of related debt	$ 224,789,177

* Unspent bond proceeds are originally included in the full debt principal shown as the "Outstanding principal of capital-related debt ", and necessarily needs to be offset in order to arrive at the net investment in capital assets since it has not yet been used to generate a capital asset.

Net position restricted for capital projects consists of:

- Assets from federal sources intended for capital projects of $21,473,219.
- Assets from state sources intended for capital projects of $24,354,162.
- Less bond premiums not yet amortized of $11,795,290.

Net position restricted for debt services consists of:

- Assets that must be used repay qualified school academy bonds of $267,037 per contractual arrangements.
- Funds previously collected from taxes and other sources for payment of debt obligations of $12,125,557.
- Accrued property taxes that must be used for payment of debt obligations of $2,916,785.

Net position restricted for other purposes, as found in the district-wide statement of net position, consists of:

- $1,178,835 in the general fund from inventory and prepaid expenses, and revenue from grants restricted by external sources for the specific purposes of the grant.
- ASB funds of $579,871 that are to be used for student activities as per law and the intent of the fund.
- Funds restricted per state law for the purchase of new buses of $4,231,638.

The "Unrestricted Net Position" are assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, grantors, or other legal requirements.

NOTE 5 -- Pensions

The following disclosures are made pursuant to GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers and GASB Statement No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

A. General Information

Substantially all district full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans.

The employees from approximately 295 public school districts participate in these three statewide retirement systems. Membership consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

System	Active Members	Inactive Vested Members	Retired Members
Teachers' Retirement System (TRS)	65,935	9,823	44,220
Public Employees' Retirement System (PERS)	150,706	31,047	85,328
School Employees' Retirement System (SERS)	52,295	11,588	9,079

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

B. Plan Descriptions

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members, unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within

90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

NOTE 5 – Pensions (cont.)

B. Plan Descriptions (cont.)

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 20 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003.

Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65 after 5 years of service, or they may retire at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Teachers' Retirement System (TRS)

TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated public school employee in an instructional, administrative or supervisory capacity. TRS is comprised principally of non-state employees. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the state Legislature.

<u>NOTE 5 – Pensions</u> (cont.)

B. <u>Plan Descriptions</u> (cont.)

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan.

TRS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

TRS members hired on or after July 1, 2007 have 90 days to make an irrevocable choice to enroll in either plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to TRS Plan 3. Notwithstanding, TRS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

TRS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

TRS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent.

TRS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits.

Effective June 7, 2006, TRS Plan 3 members may be vested either after ten years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 retirements prior to the age of 65 receive reduced benefits.

<u>School Employees' Retirement System (SERS)</u>

The Legislature established SERS in 2000. Membership in the system includes all classified employees of school districts or educational service districts. SERS is comprised principally of non-state employees. SERS retirement benefit provisions are established in chapters 41.34 and 41.35 RCW and may be amended only by the state Legislature.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3.

SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to make an irrevocable choice to enroll in either Plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made.

<u>NOTE 5 – Pensions</u> (cont.)

B. <u>Plan Descriptions</u> (cont.)

Employees who fail to choose within 90 days default to SERS Plan 3. Notwithstanding, SERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

SERS is comprised of and reported as two separate plans: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

SERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation (AFC) per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, SERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after 5 years of service if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by September 1, 2000. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at the age of 65. SERS Plan 3 members who retire prior to the age of 65 receive reduced benefits.

C. <u>Funding Policies</u>

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

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

The table at the end of this section provides the required contribution rates for all plans (expressed as a percentage of current year covered payroll) at the close of the fiscal year.

<u>Public Employees' Retirement System (PERS)</u>
Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials.

NOTE 5 – Pensions (cont.)

C. Funding Policies (cont.)

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Teachers' Retirement System (TRS)
Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates.

Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state elected officials.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion.

The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.
The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

School Employees' Retirement System (SERS)
Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature.

Under SERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

NOTE 5 – Pensions (cont.)

D. Contributions

Employee contribution rates as of August 31, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 PERS	N/A
Plan 2 SERS	4.64%	Plan 3 PERS – Defined Contribution	
Plan 3 TRS and SERS	5.00% (minimum) and 15.00% (maximum)		

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

Employer contribution rates as of August 31, 2014:

	September 1, 2013 – August 31, 2014		
Plan 1-TRS	10.39%	Plan 1-PERS	9.21%
Plan 2-TRS	10.39%	Plan 2 SERS	9.82%
Plan 3-TRS	10.39%	Plan 3 SERS	9.82%

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars for the last five plan-years (TRS: July 1–June 30; PERS/SERS: January 1–December 31) are as follows:

Plan	FY13-14	FY12-13	FY11-12	FY10-11	FY09-110
Plan 1 TRS	$101,430	$101,068	$127,370	$145,222	$225,649
Plan 2 TRS	$1,346,310	$922,716	$786,456	$554,759	$508,199
Plan 3 TRS	$4,365,845	$3,449,778	$3,327,550	$2,707,234	$2,828,430
Plan 1 PERS	$41,654	$46,664	$43,304	$39,950	$35,698
Plan 2 PERS	n/a	n/a	n/a	n/a	n/a
Plan 2 SERS	$1,152,477	$921,454	$843,166	$689,498	$617,502
Plan 3 SERS	$1,109,452	$914,169	$822,973	$680,451	$605,347

E. Other Information

The Washington Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan noted above. Historical trend information, showing progress in accumulating sufficient assets to pay benefits when due, is presented in the comprehensive annual financial report.

The DRS CAFR may be obtained by writing or accessing the internet at:

State of Washington
Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, Washington 98504-8380
http://www.drs.wa.gov/

NOTE 6 – Other Post Employment Benefits

The following disclosures are made pursuant to GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits (OPEB) expenses and related liabilities (or assets) and note disclosures in the financial reports of state and local governmental employers.

A. General Information

In 1993, under the Substitute House Bill 1784, the state enacted legislation which provided access to health insurance for retired school district employees of the state through the state health care authority (HCA) and established a state employees' benefits board (SEBB) under the state HCA to administer the program. Authority was provided within the bill for SEBB to establish the scope and terms of coverage of health care plans for current state employees and retirees. SEBB later became the Public Employees Benefits Board (PEBB).

Under the provisions of the bill, each retiree is required to pay the full cost of the health care premium. Such cost is to be actuarially reduced by the value of Medicare for eligible retirees. The legislation also requires the district to pay a certain subsidy for the current, active employees of the district that is to be used to reduce the cost of any health care premiums paid by retired employees. The amount of this subsidy is determined by legislation. The provision in the original bill was that the subsidy amount was to be equal to four and seven-tenths of a percent of the insurance benefit allocation rate in the appropriations act for certificated and classified staff for each month of the school year. The district paid subsidy rate for the year ending August 31, 2014 was $64.40 per active, full time employee.

The 1993 Substitute House Bill 1784 has been codified, at least in part, under Section 41.05.065 of the Revised Code of Washington (RCW).

Inquiry with the Governmental Accounting Standards Board (GASB) indicated that the district's participation in the retiree health care program administered by PEBB constitutes an other post employment benefit for which the district is liable. GASB considered the state program of health care benefits administered by PEBB to be an agent multiple-employer, other postemployment benefit plan.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs. The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

NOTE 6 – Other Post Employment Benefits (cont.)

B. 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 plans 1, 2 or 3 of the Teachers' Retirement System (TRS) or School Employees' Retirement System (SERS), or the Public Employees' Retirement System (PERS) as indicated below.

Plan 1:
- Age 60 with 5 years of service
- Age 55 with 25 years of service
- Any age when years of service equal or exceed 30 years of service

Plan 2:
- Age 65 with five years of service
- Age 55 with 20 years of service

Plan 3:
- Age 65 with 5 years of service
- Age 55 with 10 years of service

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement.

Survivors of previously covered members are eligible for medical benefits.

Medical and Life Benefits

Upon retirement, members are permitted to receive medical benefits. Retirees paid the following monthly rates for medical coverage in 2014:

Payments for Coverage for Members not Enrolled in Medicare

Descriptions	Employee	Employee & Spouse	Employee & Children	Full Family
Group Health Classic	$ 589.19	$ 1,172.16	$ 1,026.42	$ 1,609.39
Group Health Value	537.04	1,067.86	935.16	1,465.98
Group Health CDHP*	500.69	992.20	883.91	1,317.09
Kaiser Permanente Classic	588.43	1,170.64	1,025.09	1,607.30
Kaiser Permanente CDHP*	503.93	998.18	889.20	1,325.12
Uniform Medical Plan Classic	551.03	1,095.84	959.64	1,504.45
Uniform Medical CDHP*	504.56	999.94	890.68	1,327.73

Payments for Coverage for Member or Spouse Enrolled in Medicare**

Descriptions	Employee	Employee & Spouse	Employee & Children	Full Family
Group Health	$ 144.79	N/A	N/A	N/A
Group Health Classic	N/A	727.76	582.02	1,164.99
Group Health Value	N/A	675.61	542.91	1,073.73
Kaiser Permanente Classic	152.99	735.20	589.65	1,171.86
Uniform Medical Plan Classic	223.87	768.68	632.48	1,177.29

NOTE 6 – Other Post Employment Benefits (cont.)

B. Plan Description (cont.)

Notes regarding rates:

* CDHP = Consumer-directed health plan and lets the subscriber use a health savings account (HSA) to help pay for out-of-pocket medical expenses.

** Other rates apply if more than one member is enrolled in Medicare.

After age 65 retired members with Medicare received a subsidy of 50% of their monthly medical premiums up to $150. For retirees with covered spouses, the explicit subsidy was the lesser of $300 or 50% of the premium. This subsidy is included in the rates noted above.

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 postemployment benefits other than pension (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 August 31, 2013, the last date of actuarial valuation. 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 the District's net OPEB.

	August 31, 2014
Determination of Annual Required Contribution*:	
Normal Cost at Year End	$ 910,135
Amortization of Unfunded Actuarial Accrued Liability	894,734
Interest on Normal Cost and Amortization Payment	81,219
Annual Required Contribution (ARC)	1,886,088
Determination of Net OPEB Obligation:	
Annual required Contribution	1,886,088
Interest on Prior Year Net OPEB Obligation	386,765
Adjustment to ARC	(299,386)
Annual OPEB Cost	1,973,467
Less Contributions Made**	(1,153,819)
Increase in Net OPEB Obligation	819,648
Prior year Net OPEB Obligation	8,594,787
Net OPEB Obligation - End of Year	$ 9,414,435

** Last actuarial valuation conducted in fiscal year 2013.*

*** These are payments to the Washington Health Care Authority to subsidize retiree health benefits.*

<u>NOTE 6 – Other Post Employment Benefits</u> (cont.)

B. <u>Plan Description</u> (cont.)

The District's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligations for the current year (2014) and past two years were as follows:

Fiscal Year	Annual OPEB Cost	Employer's Annual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
8/31/2012	$2,762,444	$1,146,298	41%	$7,766,704
8/31/2013	$1,965,048	$1,136,966	58%	$8,594,786
8/31/2014	$1,973,467	$1,153,819	58%	$9,414,435

General operating funds are used towards contributions of other post employment benefit (OPEB) costs.

<u>Funded Status and Funding Progress</u>
As of August 31, 2013, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was $26.8 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $26.8 million. The funded ratio is, therefore, 0%. Payroll for active employees covered by this valuation is considered to be $85,279,090 for the fiscal year ending August 31, 2014 and the UAAL would then be 31.5% of the covered payroll.

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.

<u>Actuarial Methods and Assumptions</u>
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, 2013 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions used included a 4.50% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits (investment return). The economic inflation rate assumption is 3%. Expected salary increases are 4.5%.

The UAAL is being amortized as a level percentage of pay on an open basis over a period of 30 years. The remaining amortization period at August 31, 2013 was 30 years.

The following health care cost trend rates (benefit increase assumptions) were used in the actuarial calculations and used to project annual increases:

Year	Medical Trend
2013	6.0%
2014	5.5%
2015+	5.0%

The district's schedule of funding progress for postemployment benefits, presented as Exhibit 10 following these notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

NOTE 6 – Other Post Employment Benefits (cont.)

C. Other Information

Washington State reports its obligations and expenses for other postemployment benefits as part of its Comprehensive Annual Financial Report (CAFR). This program at our district is administered by the State of Washington Public Employees Benefits Board (PEBB) and details are disclosed as part of this state-wide report. A copy of the State of Washington's CAFR can be obtained from the Office of Financial Management at the following address and website:

State Of Washington
Office of Financial Management
P.O. Box 43113
Olympia, Washington 98504-3113
(360) 902-0555
http://www.ofm.wa.gov/

Questions regarding health care benefits provided to retired employees of the district can be directed to:

Washington State Health Care Authority
Public Employees Benefits Board
P.O. Box 42684
Olympia, Washington 98505
360-725-0440
http://www.hca.wa.gov/pebb/

There are no other post employment benefits (OPEB) that the district is required, either statutorily or by contract, to pay.

NOTE 7 -- Deferred Compensation Plan

District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the district, a state retirement system, or another governmental entity. The district retains a right of legal access to the plan assets (valued at market) until paid or made available to the employees, subject only to the claims of the district's general creditor.

NOTE 8 -- Risk Management

The district is exposed to various risks of loss related to: torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district's insurance coverage is designed to mitigate these risks. The insurance coverage has not changed from last year and there have not been any significant settlements that exceed insurance coverage for the past three years.

The district is one of over 70 school districts, educational service districts, and inter-local cooperative members of the Washington Schools Risk Management Pool (WSRMP), which was formed on August 30, 1986 pursuant to Chapter 48.62 of the Revised Code of Washington. The purpose of WSRMP is to provide for the joint purchase of liability insurance and establish resources and maintain a plan for self-insurance coverage. The district pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Washington Schools Risk Management Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $1,000,000 for each insured event up to $20 million. The WSRMP Executive Board sets rates annually, after consultation with an independent actuarial firm, based on actual loss experience. An independent actuarial firm also performs an annual solvency report. Should the assets of the pool to be exhausted, members would be responsible for the pool's liabilities, based on an allocation in proportion to each member's contribution.

<u>NOTE 8 -- Risk Management</u> (cont.)

In September 1991, the district joined together with other school districts in the state to form Puget Sound Workers' Compensation Trust (PSWCT), a public entity risk pool currently operating as a common risk management and insurance program for worker's compensation benefits. Employees of the district claim compensation for injuries sustained while at work from PSWCT. The district makes monthly payments to PSWCT that are based on rates established from a combination of claims experience and equal assessments passed on from the State of Washington Department of Labor and Industries for self-insured agencies. The state Department of Labor and Industries regulates worker's compensation. Currently, rates for calendar year 2015 paid by the district are set at $0.2772 for clerical staff, $0.0700 for volunteers, and $1.4374 for all others. The agreement for formation of the Puget Sound Workers' Compensation Trust provides that the pool will be self-sustaining through member premiums. The district paid a total of $1,149,250 to PSWCT during the fiscal year ended August 31, 2014, which included $113,730 of the district employees' proportionate share of the benefits as permitted by law.

The district self-insures unemployment compensation for all of its employees. Actual employee claims are paid by the Washington State Department of Employment Security and then the district reimburses the state through the district's general fund. This self-insurance program costs the district less than full participation in the state unemployment compensation program. The district made unemployment compensation payments totaling $135,524 for the fiscal year ended August 31, 2014. The district has not recorded a liability for unemployment claims, but has elected to pay claims as they come due or are presented by the Washington State Department of Employment Security.

In addition, as shown in the fund statements, the district has set aside $5,787,312 of general fund balance that is committed for debt and fiscal management. Part of the intent of these funds, per board policy, is to mitigate uninsured risks.

<u>NOTE 9 – Lease Obligations and Conditional Sales Contract Obligations</u>

The district does not have any significant conditional sales contract obligations. The district does have certain operating leases for copy machines and other equipment. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the district's financial statements. Total paid out of the general fund on operating leases in fiscal year ended August 31, 2014, was $409,381, which includes taxes, maintenance, and supply charges.

The following is a schedule of future minimum payments required under financing agreements or operating leases as of August 31, 2014:

	Final Installment Year	Estimated Payments *				
		FY 15	FY 16	FY 17	FY18	FY 19
Operating Leases*:						
Konica-Minolta	2019	$161,573	$161,573	$148,557	$42,465	$18,668
Total Commitments for Operating Leases		$161,573	$161,573	$148,557	$42,465	$18,668

*including taxes, interest and/or finance charges; excluding maintenance and supply charges

NOTE 10 – Long-term Debt

A. Outstanding Bonds Payable

Bonds have been issued for new construction and material renovations of buildings and facilities. Bonds payable at August 31, 2014, are comprised of the following individual issues:

Issue Name	Amount Authorized	Next Annual Installment*	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
Voted Debt – issued 06/01/06	$65,000,000	$2,445,169	12/1/15	4 – 5.25%	$4,780,000
Voted Debt – issued 01/23/13	$52,155,000	$2,205,150	6/1/26	2 – 5%	$51,600,000
Voted Debt – issued 12/04/12	$44,695,000	$1,741,800	12/1/32	2 – 4%	$44,695,000
Non-Voted QZA issued 12/21/04	$2,500,000	$267,036	12/1/14	1.15%	$264,000
Voted QSCB issued 08/24/10	$17,500,000	$913,000	6/1/27	5.21-5.22%	$17,500,000
Voted Debt – issued 07/29/11	$19,000,000	$891,250	12/1/31	4.625%-4.75%	$19,000,000
Voted QSCB issued 07/29/11	$6,000000	$296,040	12/1/26	4.934%	$6,000,000
Total general obligation, QZA and QSC bond principal outstanding at 8/31/14					$143,839,000

* principal and interest payments both included in installment amount

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year ended August 31, 2014 with respect to its bonds:

Long-Term Debt (Bonds) Payable at 9/1/13	$146,685,000
New Issues	---0---
Debt Retired (Includes principal paid)	- 2,846,000
Long-Term Debt (Bonds) Payable at 8/31/14	$143,839,000

At fiscal year end August 31, 2014, as reported on the district wide statements, the balance of unamortized bond premium was $11,795,290. The carrying amount of general obligation bonds, including the unamortized bond premium, was $155,634,290.

The following is a schedule of annual requirements to amortize long-term debt from general obligation, Qualified Zone Academy (QZA), and Qualified School Construction (QSC) bonds as of August 31, 2014:

Years Ending August 31,	Principal Payment	Interest Payment	Year end Principal Outstanding	Premium/Disc Balance after Amortization	Carrying amount of Bonds
2015	$ 2,759,000	$ 6,000,445	$141,080,000	$10,870,672	$151,950,672
2016	3,250,000	5,868,784	137,830,000	9,946,054	147,776,054
2017	3,555,000	5,748,915	134,275,000	9,132,099	143,407,099
2018	3,790,000	5,632,865	130,485,000	8,318,144	138,803,144
2019	4,190,000	5,481,990	126,295,000	7,504,189	133,799,189
2020-2024	27,020,000	24,899,825	99,275,000	3,434,414	102,709,414
2025-2029	53,200,000	15,859,160	46,075,000	1,019,439	47,094,439
2030-2033	46,075,000	4,056,575	-- 0 --	-- 0 --	-- 0 --
Total	$143,839,000	$73,548,559			

At August 31, 2014, the district had $12,125,557 available in the Debt Service Fund to service the general obligation, QZA, and QSC bonds.

NOTE 10 – Long-term Debt (cont.)

A. Outstanding Bonds Payable (cont.)

Advance Refunding

On January 23, 2013, the district issued $52,155,000 of general obligation bonds. In addition, the district received a premium of $7,787,211 from the sale of these new bonds. These resources were placed in an irrevocable trust with an escrow agent and will be used to provide resources to refund the remaining balance of the district's 2006 bond issue in the year 2016, when the bonds are callable, and pay the majority of the interest on those bonds until that date.

This combination of the funding from the sale of the new bonds and the premium placed in escrow to service the old debt is known as the reacquisition price, and the reacquisition price which exceeded the net carrying amount of the 2006 bonds that will be paid in 2016, is being reported as a deferred outflow of resources and amortized over the remaining life of the refunded debt.

$4,780,000 of the 2006 bond issue that remains for the district to pay is shown as a liability on the district-wide statement of net position.

B. Qualified School Construction (QSC) Bonds and Non-voted Qualified Zone Academy (QZA) Bonds

Qualified School Construction Bonds

Pursuant to Section 54F of the Internal Revenue Code (enacted by the American Recovery and Reinvestment Tax Act of 2009 and recently amended by the Hiring Incentives to Restore Employment Act), the Federal government authorized state and local governments to issue Qualified School Construction Bonds ("QSCBs") as taxable governmental bonds with Federal subsidies for a portion of their borrowing costs. The issuer has the option to designate the following alternatives for the Federal subsidies:

- Tax Credit: An eligible investor that buys the QSCB is allowed annual federal income tax credits in lieu of periodic interest payments. These credits compensate the owner for lending money to the school district and function as interest payments on the bond.
- Direct Pay Subsidy: A refundable tax credit is paid to the state or local governmental issuers by the federal Treasury Department in an amount lesser than either a) the interest paid to investors; or b) the maximum QSCB tax credit rate determined on the date of issuance by U.S. Treasury.

The district has opted for the direct pay subsidy with the issue of the $17.5 million of QSCBs in August 2010 and the $6 million of QSCBs in July 2011. What this means is that the district pays all interest initially, but then the federal government (U.S. Treasury Department) reimburses the district for the interest. The net effect is that, in the end, the district does not realize an interest expense for these bonds and only is obligated for repayment of the principal.

100 percent of the available project proceeds of a QSCB issue is to be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which that public school facility will be constructed. The district has met this criteria.

The issue of these Qualified School Construction Bonds was authorized by the voters of the district during an election held on February 9, 2010.

NOTE 10 – Long-term Debt (cont.)

B. Qualified School Construction (QSC) Bonds and Non-voted Qualified Zone Academy (QZA) Bonds (cont.)

Qualified Zone Academy Bonds

School districts can issue Qualified Zone Academy Bonds to raise funds for the use of a Qualified Zone Academy (QZA). Certain banks, insurance companies, and corporations, who are actively engaged in the business of lending money, can receive a tax credit as an incentive to hold these bonds. The terms of the bonds are set so that school districts would repay the principal at 50 percent of the face amount of the bond.

To become eligible, a school district must have established a partnership with a business and be located either in an empowerment zone (EZ) or an enterprise community (EC); or if there is reasonable expectation that at least 35 percent of the students attending such school district or participating in the Program will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act. The Clover Park School District has met all of the conditions set forth in Section 1397E of the Internal Revenue Code of 1986 for the issuance of "Qualified Zone Academy Bonds."

These Qualified Zone Academy bonds are not considered part of voted debt, as an election was not held to authorize issuance of these bonds.

C. Total Changes in Long-Term Debt and Other Disclosures

To summarize long term debt activity for the district, the following changes occurred in long term liabilities during the fiscal year ended August 31, 2014 as they would pertain to non-current liabilities balances presented on government-wide statements:

	Balance 9/1/13	Additions	Reductions	Balance 8/31/14
Compensated absences	$ 5,681,351	$ 2,772,684	$ (2,711,971)	$ 5,742,064
Unmatured bonds payable	146,685,000	---- 0 ----	(2,846,000)	143,839,000
Unamortized bond premium (discount)	12,719,908	---- 0 ----	(924,618)	11,795,290
OPEB Obligation per GASB 45	8,594,787	1,973,467	(1,153,819)	9,414,435
Total non-current liabilities	$173,681,046	$4,746,151	($7,636,408)	$170,790,789

Within the governmental-wide statement of net position, non-current liabilities due within one year are reported as $3,311,249. This balance is comprised of principal payments for the following long term debt obligations:

Issue Name	Original Issue Amount	Principal Amount Due in 1 year	Final Maturity
General Obligation Bonds			
Voted Debt – issued 06/01/06	$65,000,000	$2,265,001	12/1/15
Voted Debt – issued 01/23/13	$52,155,000	$230,000	6/1/26
Voted Debt – issued 12/04/12	$44,695,000	-0-	12/1/32
Non-Voted QZA issued 12/21/04	$2,500,000	$264,000	12/1/14
Voted QSCB issued 08/24/10	$17,500,000	-0-	6/1/27
Voted Debt – issued 07/29/11	$19,000,000	-0-	12/1/31
Voted QSCB issued 07/29/11	$6,000000	-0-	12/1/26
Estimated compensated absences balance payable within one year	N/A	$552,248	N/A
TOTAL DUE IN ONE YEAR		$3,311,249	

NOTE 10 – Long-term Debt (cont.)

C. Total Changes in Long-Term Debt and Other Disclosures (cont.)

Compensated Absences
See Note #1.D.8 for more information regarding compensated absences in the district. Compensated absences are liquidated by district general funds.

Due to the nature of compensated absences, it is difficult to determine what current year absences balances might be liquidated within the next year, since each new year, employees are given new leave to use, and it could be assumed they are using the new leave first before the old leave. For example, we noted during this past year, that accruals were more than the leave used by $60,713. From this one could assume that employees used their new leave earned first.

However, retiring employees will buy out their leave and this is measurable by the district. Using a termination payment method, we have used a five year average of such leave that has been bought out to determine the amount of compensated absences that is due in one year.

We have reported $552,248 from this current year balance as due within one year with respect to compensated absences for this fiscal year for this reason.

NOTE 11 -- Summary of Significant Contingencies

A. Litigation

All litigation currently pending against the district is covered by insurance. In management's estimation, there is no other litigation that would pose a significant contingency to the district for this reason.

B. Arbitrage Rebates

When governments reinvest tax-exempt proceeds at a higher, taxable yield, the excess earnings must be remitted to the federal government as an arbitrage rebate. The tax code requires that arbitrage be calculated every five years and upon maturity. The District has sold tax exempt general obligation bonds, Qualified Zone Academy (QZA) bonds, and Qualified School Construction bonds (QSCB) which could be subject to the arbitrage rebate. Currently, the district does not have any arbitrage rebate outstanding.

NOTE 12 – Other Disclosures

A. King County Directors' Association

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power and is considered a joint venture. The district has been a member since April 11, 1962. This membership was reaffirmed by the board of directors of the district on January 10, 1977 by resolution #77-106. The district's current equity of $60,273 (at December 31, 2013) is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. If the district were to withdraw from the joint venture, it would receive its equity in 10 annual allocations of merchandise or 15 annual payments.

NOTE 12 – Other Disclosures

A. King County Directors' Association (cont.)

Financial information with respect to the King County Directors' Association is available at:

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

B. Dimmer Scholarship Trust

On September 25, 1980, the Clover Park School District board of directors approved Board Resolution #81-21, providing for the acceptance and establishment of the John C. and Marilyn J. Dimmer Scholarship Trust. According to the terms of the charitable gift, 28170 shares of common stock in Western Plastics, Inc., were assigned and transferred, to be held or disposed of, and the proceeds invested and reinvested in common stocks as the board of directors of Clover Park School District deemed appropriate. The stipulation allowing investment in common stock creates an exception to the restrictions imposed by Washington State statue on investments by a school district. The donors recommended that the Trust Department of Puget Sound National Bank (now Key-Bank National Association) be the custodial agent and investment advisor for said gift.

The Dimmer Scholarship Trust is entirely managed and administered by the Key-Bank National Association Trust Services, Daryl Hembry, account administrator. The gift must be separately accounted for and administered as follows, according to the original stipulations of the donors:

- Scholarships are to be provided for scholastically talented undergraduate students who have graduated or will be graduating from the Clover Park School District, and who are attending or will be attending a college or university in the United States.

- The recipient must be a citizen of the United States; no discrimination as to race, religion, national origin, or economic circumstances shall be shown.

- The student may be awarded the scholarship by application or qualification. Qualifications shall be based only on scholastic ability, talent, and scholastic potential. Preference shall be given to those students choosing to pursue studies in the fields of economics, business, mathematics, physics, or natural sciences.

- Scholarships shall be for one year, but the same student may be a recipient for up to four consecutive years, provided the student, who is a recipient of such a scholarship after the first year, earns from his or her own employment, a sum equal to 25% of the scholarship award to be applied toward his or her educational expenses, and the student continues to maintain achievement consistent with the qualifications for the award.

- Only new income is to be used for scholarships. The principal is to be preserved for creation of income to provide future scholarships. No less than 50% of the income is to be used each year for scholarships.

Noting that the original donation was made by means of common stock in a corporation, and license was provided to the district to sell the stock and purchase other stock as deemed appropriate, the district considers the current book value of any stock plus any cash investments that currently is a part of the investment portfolio for the Dimmer Scholarship Trust to be the principal to be preserved for purposes of this trust donation.

NOTE 12 – Other Disclosures (cont.)

B. Dimmer Scholarship Trust (cont.)

Gains and Losses in Fair Value

The net position and activities of the Dimmer Scholarship Trust are included in the fiduciary fund statements for the private purpose trust fund. Assets as recorded on the statement of fiduciary net position have been increased $1,834,912 to reflect the market value of the investments made by the Trustee for the private purpose trust. After considering actual gains or losses from transactions that have occurred during the year, a net unrealized gain of $601,231 has been recorded as part of the investment earnings in the statement of changes in fiduciary net position for the private purpose trust fund. As these investments mature and a gain realized, it would be available for use.

Clover Park School District No. 400
Actuarial Valuation of Postemployment Benefits Other than Pension
Schedule of Funding Progress and Annual Contributions
For the fiscal year ended August 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets* Column (a)	Actuarial Accrued Liability* Column (b)	Unfunded Actuarial Accrued Liability Col (b) - Col (a)	Funded Ratio Col (a)/Col (b)	Covered Payroll (Active Employees) Column (c)	UAAL as a Percentage of Covered Payroll (Col (b) - Col (a))/Col (c)	Employer's Annual Contributions
8/31/2009	$ -	$ 41,844,102	$ 41,844,102	0%	$ 82,446,562	50.8%	$ 1,105,235
8/31/2010	-	41,844,102	41,844,102	0%	81,386,812	51.4%	1,199,180
8/31/2011	-	33,016,188	33,016,188	0%	83,085,908	39.7%	1,094,009
8/31/2012	-	33,016,188	33,016,188	0%	81,734,267	40.4%	1,146,298
8/31/2013	-	26,842,018	26,842,018	0%	81,659,361	32.9%	1,136,966
8/31/2014	-	26,842,018	26,842,018	0%	85,279,090	31.5%	1,153,819

GASB 45 was implemented with fiscal year ending August 31, 2009.
Obligations prior to year 2009 are not considered or required for this reason.

* Last valuation was in fiscal year 2013.
Valuation of the Actuarial Accrued Liability is accomplished by the Projected Unit Credit Actuarial Cost Method.

Please refer to note #6 following the basic financial statements for more information regarding this liability.

Clover Park School District No. 400
Pierce County
Schedule of Expenditures of Federal Awards
For the Year Ending August 31, 2014

Federal Agency Name	Pass-Through Agency	Federal Program Title	Federal CFDA Number	Other ID Number	Expenditures: From Direct Awards	Expenditures: From Pass-Through Awards	Expenditures: Total	Foot-note Ref.
U.S. Department of Agriculture								
	WA OSPI	School Breakfast Program	10.553	N/A		1,243,623	1,243,623	
	WA OSPI	National School Lunch Program:					-	
	WA OSPI	Cash Assistance	10.555	N/A		3,277,265	3,277,265	
	WA OSPI	Non-Cash Assistance (Commodities)	10.555	N/A		399,797	399,797	3
	WA OSPI	Child and Adult Care Food Program	10.558	N/A		209,174	209,174	
	WA OSPI	Summer Food Service Program for Children	10.559	N/A		80,380	80,380	
	State Treasurer	School & Roads - Grants to States	10.665	N/A		1,880	1,880	
U.S. DEPT OF AGRICULTURE SUBTOTAL					-	**5,212,119**	**5,212,119**	
Department of Defense								
		Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556	N/A	784,389		784,389	
		Invitational Grants for Military-Connected Schools	12.557	N/A	1,058		1,058	
		Community Investment	12.600	N/A	54,841,994		54,841,994	
		Dept. of Defense - Impact Aid	12.558	N/A	1,266,863		1,266,863	
		JROTC	12.999	N/A	158,676		158,676	
		Army Youth Prograrm (AYPYN)	12.NAFBA1	N/A	376,986		376,986	
U.S. DEPT OF DEFENSE SUBTOTAL					**57,429,966**	-	**57,429,966**	
U.S. Department of Education								
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	N/A		4,099,743	4,099,743	4
	WA OSPI	Title 1 State Agency Program for Neglected and Delinquent Children and Youth	84.013	N/A		21,686	21,686	
	WA OSPI	Special Education-Grants to States	84.027	N/A		2,677,068	2,677,068	
		Impact Aid	84.041	N/A	11,079,929		11,079,929	
	WA OSPI	Career and Technical Education-Basic Grants to States	84.048	N/A		133,600	133,600	
		Indian Education Grants to LEAs	84.060	N/A	57,743		57,743	
	WA OSPI	Special Ed - Preschool Grants	84.173	N/A		115,904	115,904	
	WA OSPI	English Language Acquisition State Grants	84.365	N/A		216,202	216,202	
	WA OSPI	Improving Teacher Quality State Grants	84.367	N/A		692,899	692,899	
U.S. DEPT OF EDUCATION SUBTOTAL					**11,137,672**	**7,957,102**	**19,094,774**	
U.S. Department of Health & Human Services								
	Puget Sound ESD	Head Start	93.600	N/A		782,792	782,792	
	WA DSHS	Medical Assist Program	93.778	N/A		221,558	221,558	
	Puget Sound ESD	USDA reimbursements (ECEAP & Head Start)	93.999	N/A		28,291	28,291	3
U.S. DEPT OF HEALTH AND HUMAN SERVICES SUBTOTAL					-	**1,032,641**	**1,032,641**	
		TOTAL FEDERAL AWARDS EXPENDED			**68,567,638**	**14,201,862**	**82,769,500**	

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING - The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the district's financial records. The district uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine the amounts expended or matched from non-federal sources.

NOTE 2 - PROGRAM COSTS/MATCHING CONTRIBUTIONS - The amounts shown as current year expenditures represent only the federal grant portion of program costs. Entire program costs, including local matching and the use of contributions from other non-federal sources, may be more than shown.

NOTE 3 - NON-CASH AWARDS - The amount of commodities reported on the schedule is the value of the commodities used by the district during the current year and priced as prescribed by OSPI and the USDA.

NOTE 4 - SCHOOLWIDE PROGRAMS - The district operated a "schoolwide program" in eleven (11) buildings. Schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than target services to certain selected students. A portion of the federal program expenditures shown were expended by the district in its schoolwide programs. These expenditures are as follows:

Title I	$ 3,240,519
Title II - V	-
TOTAL	$ 3,240,519

NOTE 5 - FEDERAL INDIRECT RATE - The district used the federal restricted rate of 3.41%.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

Contact information for the State Auditor's Office	
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