



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

Kent School District No. 415

King County

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

Published April 23, 2015

Report No. 1014059





Washington State Auditor
Troy Kelley

April 23, 2015

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on Kent School District No. 415's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Kent School District No. 415 King County September 1, 2013 through August 31, 2014

The results of our audit of Kent School District No. 415 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

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

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We 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 deficiencies that we consider to be material weaknesses.

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

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.416	Race to the Top District Grants
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$674,821.

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

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Kent School District No. 415 King County September 1, 2013 through August 31, 2014

2014-001 The District did not have adequate internal controls to ensure compliance with federal procurement and suspension and debarment requirements for its Race to the Top program.

CFDA Number and Title: 84.416 Race to the Top – District Grants
Federal Grantor Name: U.S. Department of Education
Federal Award/Contract Number: NA
Pass-through Entity Name: Puget Sound Educational Service District No. 121
Pass-through Award/Contract Number: 8369 and 8468
Questioned Cost Amount: \$0

Background

During fiscal year 2014, the District spent \$532,870 in Race to the Top program funds. The Race to the Top grants support locally directed improvements in learning and teaching that directly improve student achievement and educator effectiveness. It encourages and rewards Districts that have the leadership and vision to implement the strategies, structures, and systems needed to implement personalized, student-focused approaches to learning and teaching.

Description of Condition

Procurement

Federal grant regulations require recipients to maintain documentation to sufficiently demonstrate its rationale for the method of procurement used to purchase goods and services. Federal grant recipients are required to obtain price or rate quotations from an adequate number of qualified sources for procurement of services up to \$100,000 and formal bids for contracts exceeding \$100,000. A grantee may solicit services from only one vendor if it determines the services are available from a sole source or if they determine competition is inadequate. Grantees must keep documentation to show how they reached this conclusion.

We reviewed two contracts totaling \$168,625 that were paid with federal funds. One contract had total expenditures of \$78,625 to create a professional development plan that focused on improving students' mathematical understanding. The second contract had total expenditures of \$90,000 to help close the race and income gaps for college and career readiness. The District considered both contracts to be sole source providers however; the sole source justifications were not prepared until five months after the contract date. Further, the District could not demonstrate how it determined no other vendors could provide similar services.

Suspension and debarment

Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For all vendors paid \$25,000 or more and all subawards, the District must ensure the vendor or subrecipient is not suspended or debarred. The District did not have evidence it verified two of four vendors were not suspended and debarred from participating in federally funded programs. The verification must occur before entering into the contracts. The District did not have an adequate process to demonstrate how it determined other vendors could not provide similar services. Further, the District's process to ensure vendors were not suspended or debarred prior to entering into a contract was not operating as intended.

We consider these internal control deficiencies to be material weaknesses.

Cause of Condition

The District was unaware that sole source justification was required until spring 2014.

The District thought it had the appropriate suspension and debarment clause in the contracts and did not verify it was actually included.

Effect of Condition and Questioned Costs

The District cannot be sure that it received the best possible price for the purchased goods. Because the products purchased are allowable under the federal program, we are not questioning these costs.

The District could have made payments to vendors who were suspended or debarred and would have been responsible to repay the granting agency. We were able to determine the vendors used by the District had not been suspended or debarred and therefore are not questioning these costs.

Recommendation

We recommend the District strengthen its internal controls to ensure:

- All purchases meet federal procurement requirements and retain documentation to demonstrate compliance.
- Vendors paid with federal funds are not suspended or debarred and retain documentation to demonstrate compliance.

District's Response

The District concurs with the auditor's conclusion that suspension/debarment and sole source justification was inadequate with the aforementioned contracts in the Race to The Top (RTTT) program. This was mainly due to a lack of understanding of the requirements and staff turnover.

With that in mind, the District has implemented a program where all suspension/debarment inquiries must be completed before a contract is signed or a purchase order issued. All the necessary paperwork, i.e. suspension/debarment clause, certification or EPLS search printout, must be included with the procurement documents.

Concerning sole source documentation, the District has implemented a procedure that prior to completing a sole source purchase; the purchaser is required to complete a sole source justification document. This will demonstrate how it was determined that no other vendor(s) could provide similar goods or services. This sole source determination must be included as part of the procurement paperwork.

The District has also initiated a series of training sessions that includes both program/department managers and staff to review procurement procedures concerning the use of federal funds (not just RTTT). In these trainings the threshold amount for obtaining competitive quotes (more stringent than state law) as well as suspension/debarment and sole source justification are reviewed.

During the 2014-15 fiscal year the District assigned an administrator to coordinate all the RTTT programs and added a Fiscal Support Specialist in the Fiscal Services Department to help with the financial aspects of the grant.

We are confident that with additional staff emphasis and training, staff will have a better understanding of the requirements and the documentation needed for federal fund purchases.

Auditor's Remarks

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

Applicable Laws and Regulations

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

The auditee shall:

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

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

Title 34, Code of Federal Regulations, Section 80.36 – Procurement, states in part:

(b) *Procurement standards.* (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(d) *Methods of procurement to be followed—(1) Procurement by small purchase procedures.* Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used,

price or rate quotations shall be obtained from an adequate number of qualified sources.

Title 2, Code of Federal Regulations, Section 180.220, states in part, Are any procurement contracts included as covered transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a non-procurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed \$25,000

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in internal controls over compliance in its Codification of Statements on Auditing Standards, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur.

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

STATUS OF PRIOR FEDERAL AUDIT FINDINGS

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Kent School District No. 415. The State Auditor’s Office has reviewed the status as presented by the District.

Audit Period: 2013	Report Ref. No: 1011825	Finding Ref. No: 1	CFDA Number(s): 84.027, 84.173, 84.010
Federal Program Name and Granting Agency: Special Education IDEA Part B, Special Education Preschool Grants, Title I Part A – U.S. Department of Education		Pass-Through Agency Name: Office of Superintendent of Public Instruction	
Finding Caption: Kent School District’s internal controls were inadequate to ensure it maintained appropriate time and effort records to support payroll costs charged to the Special Education and Title I programs.			
Background: The fiscal year 2013 audit found that the District did not obtain time studies as required by the District’s substitute time and effort system for employees who work on more than one activity. The studies are to be completed in October, January, and May. Otherwise for employees that work on one federal activity the time and effort certification is required to be completed on a semi-annual basis. We reviewed the time and effort documentation for the employees whose salaries and benefits were charged to the Special Education program and other activities. There were ten employees, whose salaries and benefits were charged to the program, totaling \$130,132; we found the District did not obtain time studies as required. Of the ten employees, eight also worked on the Title I program of which time studies were not performed for these eight employees. However, we verified the employees did work in the Special Education and Title I programs therefore we did not question these costs. Questioned costs were \$0.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>During fiscal year 2012-2013 there was a lack of communication between the Inclusive Education (Special Education), Student and Family Support Services and Fiscal Services Departments concerning schoolwide programs that include Special Education. This lack of communication resulted in a breakdown of the internal controls concerning time and effort reporting.</i>			

Though Special Education may be included in schoolwide programs in certain cases, it should not have been included in the District's 2012-13 schoolwide plans. Consequently, the ten employees who were charged to both Special Education and Title I should have reported 3 times (October, January and May), or taken advantage of the Department of Education (ED) substitute system for time and effort reporting for individuals who work multiple cost objectives with a fixed schedule. With the substitute system the employees would have reported semi-annually with the fixed schedules attached to the time and effort certification.

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

Communication between the departments has improved and Special Education is not included in the schoolwide programs and a substitute system allowing certain employees to use alternative documentation for supporting salaries and wages, such as a class schedule has been employed. The employee would then need to certify semi-annually that the schedule reflected actual time worked in each program for the period being certified.

The District did discover this error in reporting time and effort during a review of the 2013-14 fiscal year and implemented the substitute time and effort reporting system for individuals who work in multiple cost objectives with a fixed schedule. This system meets the guideline as published by the ED and approved by Office of Superintendent of Public Instruction.

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

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

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

**Kent School District No. 415
King County
September 1, 2013 through August 31, 2014**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent School District No. 415, King County, Washington, as of and for the year ended August 31, 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 March 10, 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 KELLEY
STATE AUDITOR
OLYMPIA, WA

March 10, 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**

**Kent School District No. 415
King County
September 1, 2013 through August 31, 2014**

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

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

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

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

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

District's Response to Findings

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

April 14, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Kent School District No. 415 **King County** **September 1, 2013 through August 31, 2014**

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent School District No. 415, King County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 23.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Kent School District No. 415, as of August 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

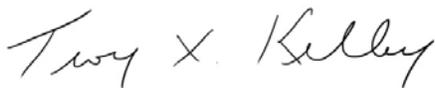
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 24 through 32, budgetary comparison information on pages 73 through 75 and information on postemployment benefits other than pensions on page 76 be presented to supplement 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 March 10, 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 KELLEY
STATE AUDITOR
OLYMPIA, WA

March 10, 2015

FINANCIAL SECTION

Kent School District No. 415
King County
September 1, 2013 through August 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Fund Balance Sheets – Governmental Funds – 2014

Reconciliation – Balance Sheet/Statement of Net Position – 2014

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

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

Statement of Fiduciary Net Position – Fiduciary Funds – 2014

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014

Notes to Basic Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund – 2014

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

Notes to Required Supplementary Information – 2014

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Kent School District's financial performance provides an overview of the district's financial activities for the fiscal year ended August 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-7 of this report.

FINANCIAL HIGHLIGHTS

- The district's total net position of governmental activities as of August 31, 2014, was \$318.077 million, a decrease of \$6.006 million. The total assets decreased by 22.942 million because of the current assets which were \$11.834 million lower than last year and capital assets decreased by \$11.108 million. Total liabilities decreased by \$17.852 million because long term debt outstanding decreased by \$17.294 and other liabilities decreased by \$0.558 million.
- During the year, the district had revenues of \$312.379 million and expenses of \$318.385 million incurred for all governmental activities, resulting in a corresponding decrease in the district's net position by \$6.006 million.
- As of the close of the current fiscal year, the Kent School District's governmental funds reported combined ending fund balances of \$48.734 million, a decrease of \$13.215 million in comparison with the prior year. The total governmental fund balances are as follows:

- Non-spendable	\$ 0.899 million
- Restricted for	25.034
- Committed to	15.501
- Assigned to	3.718
- Unassigned	3.582
- At the end of the current fiscal year, committed to 5% fund balance board policy and unassigned fund balance was \$17.376 million or 6.3% of the general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

- The first two statements (*statement of net position* and *statement of activities*) are *district-wide financial statements* that provide both short-term and long-term information about the district's *overall* financial status as a *whole*.
- The *governmental fund financial statements* that focus on *individual* parts of the district, report the district's operations in more detail than the district-wide statements. These

governmental fund statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

- The remaining statements provide financial information about activities for which the district acts solely as a trustee for the benefit of those outside of the district.

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

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

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

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

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

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

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

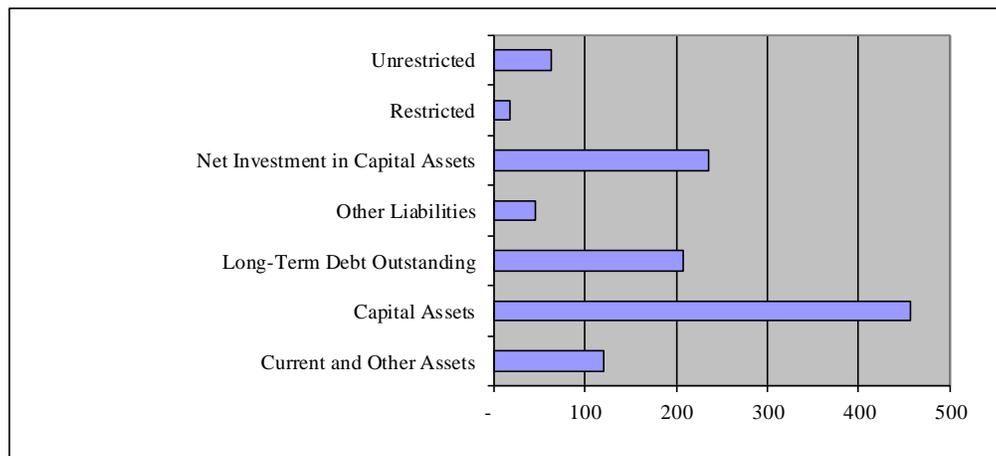
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve as a useful indicator of a government's financial position. The Kent School District's assets exceeded liabilities by \$318.077 million at the end of the 2013-14 fiscal year.

The largest portion of net position is invested in capital assets. The investment in capital assets (e.g., land, building, and equipment), less any related outstanding debt used to acquire those assets, is currently \$236.468 million. The remainder consists of amounts restricted for capital projects, debt service, and other purposes, with \$64.025 million unrestricted. The district's investment in its capital assets is reported net investment of capital assets, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	NET POSITION		
	Primary Government		
	Governmental Activities		
	Aug 31, 2014	Aug 31, 2013	Changes
ASSETS			
Current and Other Assets	\$ 120,258,236	\$ 132,092,680	\$ (11,834,444)
Capital Assets	456,596,544	467,704,599	(11,108,055)
Total Assets	576,854,780	599,797,279	(22,942,499)
Deferred Outflow of Resources	1,499,034	1,643,655	(144,621)
LIABILITIES			
Long-Term Debt Outstanding	208,556,123	225,849,875	(17,293,752)
Other Liabilities	46,103,836	46,661,896	(558,060)
Total Liabilities	254,659,959	272,511,771	(17,851,812)
Deferred Inflow of Resources	5,616,833	4,845,587	771,246
NET POSITION			
Net Investment in Capital Assets	236,468,768	278,153,226	(41,684,458)
Restricted	17,583,290	23,556,003	(5,972,713)
Unrestricted	64,024,964	22,374,347	41,650,617
TOTAL NET POSITION	\$ 318,077,022	\$ 324,083,576	\$ (6,006,554)

Net Position Chart (in Millions)



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

Governmental Activities. Governmental activities decreased the district's net position by \$6.006 million. Key elements of this decrease are as follows:

Changes in Net Position			
Primary Government			
Governmental Activities			
	2013-2014	2012-13	Changes
REVENUES			
Program Revenues:			
Charges for Services	\$ 30,755,560	\$ 29,911,017	\$ 844,543
Operating Grants and Contributions	33,115,938	28,928,838	4,187,100
Capital Grants and Contributions	207,223	203,675	3,548
General Revenues:			
Property Taxes	93,681,515	92,781,331	900,184
Interest and Investment Earnings	390,509	1,171,720	(781,211)
Unallocated Revenues	154,228,560	145,239,639	8,988,921
TOTAL REVENUES	312,379,305	298,236,220	14,143,085
PROGRAM EXPENSES:			
Regular Instruction	183,581,432	167,719,935	15,861,497
Special Instruction	36,540,159	36,648,724	(108,565)
Vocational & Skill Center Instruction	8,289,592	7,320,239	969,353
Compensatory Instruction	19,391,302	16,427,797	2,963,505
Other Instr. & Community Services	1,726,647	1,221,829	504,818
Support Services	58,688,150	54,627,893	4,060,257
Extracurricular Activities	2,352,615	2,644,026	(291,411)
Debt Interest Payment	7,815,963	2,349,449	5,466,514
TOTAL EXPENSES	318,385,859	288,959,892	29,425,967
INCREASE (DECREASE) IN NET POSITION	(6,006,554)	9,276,328	
BEGINNING NET POSITION	324,083,576	314,807,248	9,276,328
ENDING NET POSITION	\$ 318,077,022	\$ 324,083,576	(6,006,554)

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

Governmental Activities				
	Total Costs of Services		Net Costs of Services	
	2012-13	2013-14	2012-13	2013-14
Regular Instruction	\$ 167,719,935	\$ 183,581,432	\$ (164,891,518)	\$ (180,844,599)
Special Instruction	36,648,724	36,540,159	(11,527,574)	(11,462,237)
Vocational Instruction	7,320,239	8,289,592	(7,116,564)	(8,082,369)
Compensatory Instruction	16,427,797	19,391,302	(1,291,977)	(207,989)
Other Instructional Programs	1,221,829	1,726,647	(841,300)	(1,529,579)
Support Services	54,617,893	58,688,150	(42,023,072)	(44,444,855)
Extracurricular Activities	2,644,026	2,352,615	125,091	80,452
Debt Payments	2,349,449	7,815,963	(2,349,449)	(7,815,963)
TOTALS	\$ 288,949,892	\$ 318,385,859	\$ (229,916,363)	\$ (254,307,138)

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

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

As the district completed the fiscal year, its governmental funds (as presented in the balance sheets in the Governmental Fund Financial Statement section) reported a combined fund balance of \$48.734 million, which is \$13.215 million or 21.3% lower than last year. This change is the result of the following factors:

- The fund balance in the General Fund decreased by \$6.270 million, because the district’s total revenues exceeded total expenditures.
- The fund balance in the Special Revenue (ASB) Fund increased by \$.163 million.
- The fund balance in the Debt Service Fund decreased by \$1.761 million. The district traditionally sets the property tax levy to closely match scheduled bond payments in order to moderate the impact of local property taxes.
- The fund balance in the Capital Projects Fund decreased by \$5.440 million due to the completion of capital projects.
- The fund balance in the Transportation Vehicle Fund increased by \$.093 million, because the district’s total revenues exceeded total expenditures.
- The Permanent Fund (Reeploeg Trust) had no significant change in fund balance.

The following table presents a summary of the governmental funds’ revenues and expenditures for 2013-14, and the amounts and percentages of increases and decreases in relation to the prior year.

Changes in Revenues and Expenditures				
Governmental Funds				
	2013-14 Amount	Percent of Total	Increase (Decrease) From 2012-13	Percent Increase (Decrease)
Revenue Source				
Local Taxes & Non-Tax	\$ 102,020,059	32.7%	\$ 1,224,407	1.21%
State Revenues	184,047,719	59.0%	17,488,261	10.50%
Federal Revenues	23,377,234	7.5%	1,420,964	6.47%
Other Revenues	2,614,679	0.8%	(371,400)	-12.44%
Total Revenues	312,059,691	100.0%	19,762,232	6.76%
Expenditures				
Regular Instruction	157,112,240	48.3%	16,014,764	11.35%
Special Instruction	34,050,495	10.5%	550,182	1.64%
Vocational Instruction	7,980,496	2.5%	1,057,772	15.28%
Compensatory Instruction	18,988,977	5.8%	3,160,898	19.97%
Other Instruction Programs	1,225,651	0.4%	453,223	58.68%
Community Services	437,755	0.1%	57,226	15.04%
Support Services and Misc.	54,867,280	16.9%	4,979,985	9.98%
Student Activities	2,270,333	0.7%	(275,897)	-10.84%
Capital Outlay	17,492,271	5.4%	(2,134,767)	-10.88%
Debt Service	30,880,010	9.5%	596,163	1.97%
Total Expenditures	325,305,508	100.0%	24,459,549	8.13%
Other Financing Sources	30,370		(39,606,347)	N/A
Other Financing Uses	-		(22,604,366)	N/A

General Fund Budgetary Highlights

Appropriations are a prerequisite to expenditures in the governmental funds. Appropriations lapse at the end of the fiscal year. The Board may adopt a revised or supplemental budget appropriation after a public hearing anytime during the fiscal year. The Board revised the Capital Projects Fund budget during the 2013-2014 fiscal year to provide enough capacity to meet the planned expenditures.

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

- Total actual general fund revenues were \$12,178,345 less than budgeted. When the revenue budget is established \$5,000,000 is budgeted as a revenue expansion contingency to account for any unanticipated revenues (a corresponding \$5,000,000 is budgeted in expenditures so there is no effect on ending fund balance).
- Expenditures of \$275,883,882 were \$11,641,527 less than the budgeted \$287,525,409 as a result of lower expenditures in salaries (\$4,299,541), contractual services (\$10,335,625) and travel (\$9,279). The district's expenditures for benefits (2,586,415), supplies (\$297,739) and capital outlay (\$118,764) more than budgeted.

The general fund balance reported on Schedule A-1 on August 31, 2014, differs from the budgetary fund balance by \$4.526 million. The beginning fund balance was lower than budgeted by \$.885 million, revenues were lower than budgeted by \$12.178 million due to less than anticipated local, state federal and other monies, and expenditures were lower than budgeted by \$11.642 million due to the district's budget techniques to include contingencies. Washington statutes establish expenditure budgets as absolute expenditure limits, encouraging contingency budgeting.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2013-14, the district had \$692.032 million (an increase of \$11.857 million) invested in a broad range of capital assets, including school buildings, buses, and equipment. The district transferred \$3.1 million from the General Fund to Capital Projects for the renovation of Old Kent Elementary School to become the Kent Valley Early Learning Center. This new center is for early childhood education, kindergarten and first grade programs.

Some major projects that were completed in 2013-14 are as follows:

- Kentwood High School Field Renovation-\$3.660 million
- New portable classrooms at various elementary school-2.137 million
- Kent Valley Early Learning Center-\$2.064 million
- Classroom remodel project at Crestwood Elementary-.307 million
- Elevator in the Educational Services Building-\$.307 million
- HVAC Project at Meridian Middle School-.238 million

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

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

Long-Term Debt

At year-end, the district had \$178,351,300 in refunding, limited and unlimited tax general obligation bonds outstanding versus \$200,428,760 last year; a decrease of \$22,077,460 or 11.01% as shown below:

**Outstanding Debt at Year-End
(in thousands)**

	2013-14		2012-13		Increase(Decrease)	
2001B Building Fund	\$ 4,735	\$ 6,920	\$ (2,185)	% (31.58)		
2003 Building Fund	-	1,250	(1,250)	(100.00)		
2004 Building Fund	1,265	2,200	(935)	(42.50)		
2005 Refunding	37,470	45,455	(7,985)	(17.57)		
2006 Building Fund	27,130	29,505	(2,375)	(8.05)		
2005 LGO Bonds	7	21	(14)	(66.67)		
2007 Building Fund	15,000	15,000	-	100.00		
2007 Refunding Bond	-	3,080	(3,080)	(100.00)		
2008 Building Fund	18,410	19,415	(1,005)	100.00		
2008 LGO Bonds	814	997	(183)	(18.36)		
2010 Refunding	12,195	12,995	(800)	(6.16)		
2010 QSCB	15,000	15,000	-	-		
2012 Refunding	14,600	14,600	-	-		
2012A Refunding	17,105	19,370	(2,265)			
2013 Building Fund	14,620	14,620	-			
TOTALS	\$ 178,351	\$ 200,428	\$ (22,077)	% (11.01)		

Outstanding debt will mature on the following dates:

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

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

Moody’s: Aa1/Aa2 Standard and Poor’s: AA+/AA-

The state limits the amount of general obligation debts (non-voted) that the district can issue to .375% of the assessed valuation of all taxable property within the district. This amount is calculated to be \$61.964 million. The limits for voted debts are 5.0 % of the assessed valuation of all taxable property within the district, provided the indebtedness in excess of 2.5% is for capital outlay, and an approval rate of 60% of the people who voted. The remaining debt capacity is \$661.103 million.

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

NEXT YEAR'S APPROPRIATIONS AND BUDGET RATES

The 2014-2015 appropriations for governmental funds of the district were set at \$355.383 million, an increase of 2.8% from total appropriations of \$343.620 million last year.

Property tax rates of \$5.73 per \$1,000 were projected for 2015, an increase of 2.3% from the 2014 actual tax rates of \$5.60 per \$1,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

KENT SCHOOL DISTRICT NO. 415
STATEMENT OF NET POSITION
August 31, 2014

	Note #	Primary Government Governmental Activities
ASSETS		
Cash and Cash Equivalents	1.F.1	\$ 65,540,737
Cash Held by Trustees	2.B	4,658,736
Property Tax Receivable	1.F.2	46,315,253
Receivables, Net	1.F.3	304,878
Prepaid Expenses		82,130
Due from Other Governments	1.F.5	2,704,862
Inventories	1.G	651,640
Capital Assets, net of accumulated depreciation, where applicable:	4	
Land		68,623,234
Land Improvements		17,886,239
Buildings & Improvements		355,252,072
Transportation Equipment		2,345,256
Equipment & Machinery		7,452,666
Construction-in-progress		5,037,077
TOTAL ASSETS		576,854,780
DEFERRED OUTFLOW OF RESOURCES		
Deferred Charges	7.B	1,499,034
LIABILITIES		
Accounts Payable		9,012,997
Accrued Interest Payable		1,903,703
Accrued Contingent Losses		332,978
Accrued Wages & Benefits Payable		10,245,900
Due to Other Governments		1,527
Long-Term Liabilities:	7.A	
Due within one year		24,606,731
Due in more than one year		208,556,123
TOTAL LIABILITIES		254,659,959
DEFERRED INFLOWS OF RESOURCES		
Unearned Revenue		5,616,833
NET POSITION		
Net Investment in Capital Assets		236,468,768
Restricted for:		
Capital Projects		1,298,327
Debt Service		12,450,992
Other Purposes *		3,833,971
Unrestricted		64,024,964
TOTAL NET POSITION		\$ 318,077,022

* Imposed by laws & regulations

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

KENT SCHOOL DISTRICT NO. 415
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

Schedule 2

Functions/Programs	Expenses	PROGRAM REVENUES			PRIMARY GOVERNMENT
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
Regular Instruction	\$ 183,581,432	\$ 2,736,833	\$ -	\$ -	\$ (180,844,599)
Special Instruction	36,540,159	19,501,921	5,576,001	-	(11,462,237)
Vocational Instruction	8,289,592	-	-	207,223	(8,082,369)
Compensatory Education	19,391,302	-	19,183,313	-	(207,989)
Other Instruction Programs	1,279,749	-	-	-	(1,279,749)
Community Services	446,898	-	197,068	-	(249,830)
Support Services	58,688,150	6,083,739	8,159,556	-	(44,444,855)
Extracurricular Activities (ASB)	2,352,615	2,433,067	-	-	80,452
Interest Payment on Long-Term Debt	7,815,963	-	-	-	(7,815,963)
Total Governmental Activities	\$ 318,385,859	\$ 30,755,560	\$ 33,115,938	\$ 207,223	\$ (254,307,138)

General Revenues:

Taxes:

Property taxes, levies for maintenance and operations	\$ 60,479,012
Property taxes, levies for debt service	28,207,564
Property taxes, levies for capital projects	4,994,939
Unallocated State Apportionment & Others	154,228,560
Interest and Investment earnings	390,509

Total General Revenues	248,300,584
Changes in Net Position	(6,006,554)
Net Position - Beginning	324,083,576
Net Position- Ending	\$ 318,077,022

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

**KENT SCHOOL DISTRICT NO. 415
FUND BALANCE SHEETS
GOVERNMENTAL FUNDS
August 31, 2014**

	GENERAL FUND	SPECIAL REVENUE FUND (ASB)	DEBT SERVICE FUND	CAPITAL PROJECT FUND	TRANSPORTATION VEHICLE FUND	PERMANENT FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS:							
Cash and Cash Equivalents	\$ 36,265,323	\$ 2,065,360	\$ 12,481,444	\$ 13,456,032	\$ 1,096,163	\$ 176,415	\$ 65,540,737
Cash Held by Trustee	-	-	-	4,658,736	-	-	4,658,736
Property Tax Receivable	30,209,262	-	13,635,856	2,470,135	-	-	46,315,253
Accounts Receivable, Net	304,878	-	-	-	-	-	304,878
Prepaid Expenses	72,066	10,064	-	-	-	-	82,130
Due From Other Funds	976,618	180,147	-	7,445	-	-	1,164,210
Due From Other Government Units	1,991,616	-	-	713,246	-	-	2,704,862
Inventories at Cost	651,640	-	-	-	-	-	651,640
TOTAL ASSETS	70,471,403	2,255,571	26,117,300	21,305,594	1,096,163	176,415	121,422,446
LIABILITIES:							
Accounts Payable	5,176,690	61,486	-	3,774,071	750	-	9,012,997
Accrued Wages & Benefits Payable	10,245,900	-	-	-	-	-	10,245,900
Accrued Contingent Losses	128,216	-	30,451	171,048	2,861	402	332,978
Due To Other Funds	187,592	381,484	-	593,783	-	-	1,162,859
Due to Other Government Units	1,527	-	-	-	-	-	1,527
TOTAL LIABILITIES	15,739,925	442,970	30,451	4,538,902	3,611	402	20,756,261
DEFERRED INFLOW OF RESOURCES							
Deferred Revenue-Others	786,345	171,752	-	4,658,736	-	-	5,616,833
Deferred Revenue - Taxes Receivable	30,209,262	-	13,635,857	2,470,135	-	-	46,315,254
TOTAL DEFERRED INFLOW OF RESOURCES	30,995,607	171,752	13,635,857	7,128,871	-	-	51,932,087
FUND BALANCES							
Nonspendable	723,706	10,064	-	-	-	-	733,770
Nonspendable: Permanent Fund Principal	-	-	-	-	-	165,000	165,000
Restricted For*	2,286,131	1,630,785	12,450,992	7,573,105	1,092,552	-	25,033,565
Committed To Min. Fund Balance Policy	13,794,194	-	-	-	-	-	13,794,194
Committed Levy Proceeds	-	-	-	1,707,305	-	-	1,707,305
Assigned To	3,350,000	-	-	357,411	-	11,013	3,718,424
Unassigned	3,581,840	-	-	-	-	-	3,581,840
TOTAL FUND BALANCES	23,735,871	1,640,849	12,450,992	9,637,821	1,092,552	176,013	48,734,098
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES AND FUND BALANCES	\$ 70,471,403	\$ 2,255,571	\$ 26,117,300	\$ 21,305,594	\$ 1,096,163	\$ 176,415	\$ 121,422,446

* Imposed by laws & regulations

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

KENT SCHOOL DISTRICT NO. 415
RECONCILIATION
BALANCE SHEET/STATEMENT OF NET POSITION
August 31, 2014

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Position Totals
ASSETS				
Cash and Cash Equivalents	\$ 65,540,737	\$ -	\$ -	\$ 65,540,737
Cash Held by Trustees	4,658,736	-	-	4,658,736
Property Tax Receivable	46,315,253	-	-	46,315,253
Receivables, Net	304,878	-	-	304,878
Due from Other Funds	1,164,210	-	(1,164,210)	-
Due from Other Governments	2,704,862	-	-	2,704,862
Inventories	651,640	-	-	651,640
Prepays	82,130	-	-	82,130
Capital Assets, Net (land, building, equipment)	-	456,596,544	-	456,596,544
TOTAL ASSETS	121,422,446	456,596,544	(1,164,210)	576,854,780
DEFERRED OUTFLOW OF RESOURCES				
Deferred Charges	-	1,499,034	-	1,499,034
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	121,422,446	458,095,578	(1,164,210)	578,353,814
LIABILITIES				
Accounts Payable	9,012,997	-	-	9,012,997
Accrued Interest Payable	-	1,903,703	-	1,903,703
Accrued Contingent Losses	332,978	-	-	332,978
Wages, Benefits & Other Payables	10,245,900	-	-	10,245,900
Due to Other Funds	1,162,859	-	(1,162,859)	-
Due to Other Government Units	1,527	-	-	1,527
Long-Term Liabilities	-	233,162,854	-	233,162,854
TOTAL LIABILITIES	20,756,261	235,066,557	(1,162,859)	254,659,959
DEFERRED INFLOW OF RESOURCES				
Unearned Revenue	51,932,087	(46,315,254)	-	5,616,833
FUND BALANCES/NET POSITION				
Total Fund Balances/Net Position	48,734,098	269,344,275	(1,351)	318,077,022
TOTAL LIABILITIES AND DEFERRED INFLOWS AND FUND BALANCES/NET POSITION	\$ 121,422,446	\$ 458,095,578	\$ (1,164,210)	\$ 578,353,814

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

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

Schedule 4

FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	GENERAL FUND	SPECIAL REVENUE FUND (ASB)	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TRANSPORTATION VEHICLE FUND	PERMANENT FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES							
Local	\$ 66,548,690	\$ -	\$ 28,274,876	\$ 7,191,554	\$ 3,979	\$ 960	\$ 102,020,059
State	183,305,155	-	-	49,773	692,791	-	184,047,719
Federal	22,663,556	-	713,678	-	-	-	23,377,234
Miscellaneous	181,612	2,433,067	-	-	-	-	2,614,679
TOTAL REVENUES	272,699,013	2,433,067	28,988,554	7,241,327	696,770	960	312,059,691
EXPENDITURES							
Current Operating:							
Regular Instruction	157,112,240	-	-	-	-	-	157,112,240
Special Instruction	34,050,495	-	-	-	-	-	34,050,495
Vocational Instruction	7,980,496	-	-	-	-	-	7,980,496
Compensatory Instruction	18,988,977	-	-	-	-	-	18,988,977
Other Instructional Programs	1,225,651	-	-	-	-	-	1,225,651
Community Services	437,755	-	-	-	-	-	437,755
Support Services	54,867,215	-	-	-	-	-	54,867,215
Student Activities	-	2,270,333	-	-	-	-	2,270,333
Miscellaneous	-	-	-	-	52	13	65
Debt Service:							
Principal	90,779	-	22,527,910	-	-	-	22,618,689
Interest and Other Charges	16,412	-	8,237,816	7,093	-	-	8,261,321
Capital Outlay:							
Technology Equipment and Others	1,113,862	-	-	15,774,761	603,648	-	17,492,271
TOTAL EXPENDITURES	275,883,882	2,270,333	30,765,726	15,781,854	603,700	13	325,305,508
Excess (Deficiency) of Revenues Over Expenditures	(3,184,869)	162,734	(1,777,172)	(8,540,527)	93,070	947	(13,245,817)
OTHER FINANCING SOURCES (USES)							
Refunding Bonds Issued	-	-	-	-	-	-	-
Bond Premium	-	-	-	-	-	-	-
Bond Discount	-	-	-	-	-	-	-
Bond Issuance Cost	-	-	-	-	-	-	-
Sale of Surplus Equipment	30,370	-	-	-	-	-	30,370
Payment to Refunding Bond Escrow Agent	-	-	-	-	-	-	-
Long-Term Financing	-	-	15,436	3,100,000	-	-	-
Transfers	(3,115,436)	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	(3,085,066)	-	15,436	3,100,000	-	-	30,370
NET CHANGE IN FUND BALANCE	(6,269,935)	162,734	(1,761,736)	(5,440,527)	93,070	947	(13,215,447)
Fund Balance - Beginning	30,005,806	1,478,115	14,212,728	15,078,348	999,482	175,066	61,949,545
Fund Balance - Ending	30,005,806	1,478,115	14,212,728	15,078,348	999,482	175,066	61,949,545
Nonspendable	723,706	10,064	-	-	-	165,000	898,770
Restricted*	2,286,131	1,630,785	12,450,992	7,573,105	1,092,552	-	25,033,565
Committed To	13,794,194	-	-	1,707,305	-	-	15,501,499
Assigned To	3,350,000	-	-	357,411	-	11,013	3,718,424
Unassigned	3,581,840	-	-	-	-	-	3,581,840
TOTAL ENDING FUND BALANCES	23,735,871	1,640,849	12,450,992	9,637,821	1,092,552	176,013	48,734,098

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

KENT SCHOOL DISTRICT NO. 415
RECONCILIATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	Total Governmental Funds	Long-Term Revenue, Expenses	Capital Related Items	Long-Term Debt Transactions	Statement of Activities Totals
REVENUES AND OTHER SOURCES					
Property Taxes & Local Non-Tax	\$ 102,020,059	\$ 289,242	\$ -	\$ -	\$ 102,309,301
State	184,047,719	-	-	-	184,047,719
Federal	23,377,234	-	-	-	23,377,234
Miscellaneous	2,614,679	-	-	-	2,614,679
Other Sources:					
Bonds Issued	-	-	-	-	-
Bonds Premium	-	-	-	-	-
Long-Term Financing	-	-	-	-	-
Sales of Non-Capitalized Assets	30,370	-	-	-	30,370
TOTAL	312,090,061	289,242	-	-	312,379,304
EXPENDITURES/EXPENSES					
Current:					
Regular Instruction	157,112,240	3,281,322	23,187,831	-	183,581,393
Special Instruction	34,050,495	711,152	1,778,504	-	36,540,151
Vocational Instruction	7,980,496	166,674	142,420	-	8,289,590
Compensatory Education	18,988,977	396,589	5,732	-	19,391,298
Other Instruction Programs	1,225,651	25,598	28,500	-	1,279,749
Community Services	437,755	9,143	-	-	446,898
Support Services	54,867,215	1,145,913	2,675,010	-	58,688,138
Student Activities	2,270,333	47,416	34,865	-	2,352,615
	-	-	-	-	-
Miscellaneous	65	-	-	-	65
Debt Service:					
Principal	22,618,689	-	-	(22,618,689)	-
Interest and Other Charges	8,261,321	-	-	(445,358)	7,815,963
Bond Discount	-	-	-	-	-
Escrow Payment	-	-	-	-	-
Bond Issuance Costs	-	-	-	-	-
Capital Outlay	17,492,271	-	(17,492,271)	-	-
TOTAL EXPENDITURES/EXPENSES	325,305,508	5,783,807	10,360,591	(23,064,047)	318,385,859
NET CHANGE FOR THE YEAR					
	\$ (13,215,447)	\$ (5,494,565)	\$ (10,360,591)	\$ 23,064,047	\$ (6,006,554)

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

KENT SCHOOL DISTRICT NO. 415
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
August 31, 2014

	Employee Benefits Trust	Private-Purpose Trust
ASSETS		
Cash and Cash Equivalents	\$ 264,490	\$ 81,849
TOTAL ASSETS	264,490	81,849
LIABILITIES		
Accounts Payable	609	500
Due to Other Funds	-	1,350
TOTAL LIABILITIES	609	1,850
NET POSITION		
Held in Trusts for Employee Benefits	263,881	-
Held in Trusts for Other Purposes	-	79,999
Total Net Position	263,881	79,999
TOTAL LIABILITIES/ NET POSITION	\$ 264,490	\$ 81,849

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

KENT SCHOOL DISTRICT NO. 415
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	Employee Benefits Trust	Private-Purpose Trust
ADDITIONS		
Employee Contributions	\$ 473,789	
Donations	-	\$ 48,848
Investment Earnings	860	304
Total Additions	474,649	49,152
DEDUCTIONS		
Benefits Claims	358,246	-
Scholarships	-	27,535
Administrative	34,124	5
Total Deductions	392,370	27,540
Change in Net Position	82,279	21,612
Net Position, Beginning of the year	181,602	58,387
Net Position, End of the year	\$ 263,881	\$ 79,999

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

**KENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kent School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the district's accounting policies are described below.

A. REPORTING ENTITY

The Kent School District is a municipal corporation organized pursuant to Title 28A Revised Code of Washington for the purpose of providing public school services to students in grades P-12. The Kent School District operates under an independently elected board of directors. Management of the district is appointed by and accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The Kent School District's financial statements include all of the district's funds. The district considered whether there were any component units or organizations controlled by or dependent on the district's board of directors or for which the district is considered to be financially accountable. There is no component unit or other organization that meets the criteria of GASB Statement 14.

B. BASIS OF PRESENTATION

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

1. GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantors have been met. The government-wide financial statements consist of the following:

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

a. Statement of 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, net of accumulated depreciation.

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

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

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

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

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

2. FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

a. **General Fund** - This fund is the general operating fund of the district. It is used to account for and report all financial resources not accounted for and reported in another fund. In keeping with the principle of as few funds as necessary, child nutrition services, maintenance, information technology, printing and transportation activities are included in this fund. These activities are legally designated in the General Fund, and also principally serve and receive their support from the General Fund.

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

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

c. **Debt Service Fund** - This fund is used to account for and report financial resources that are restricted to expenditure for principal, interest, and related expenditures. All of the district's issues are serial bonds rather than term bonds and do not require sinking funds for each issue.

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

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

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to account for assets held by the district in the capacity of trustee or agent. The district has the Employee Vision Benefits Trust, Invest ED Trust, and other miscellaneous trusts. The Employee Vision Benefit Trust accounts for moneys held in trust for employees participating in the district's self-insured vision benefits plan. Premiums are deposited into, and vision claims are paid from this fund. The fund is governed by a board of trustees who have contracted with a service provider to administer claims payments. The Invest ED Trust and other miscellaneous trusts are reported under Private-Purpose Trust.

MAJOR AND NONMAJOR FUNDS

The district considers all governmental funds as major funds.

C. GENERAL BUDGETARY POLICIES

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

Management is authorized to modify specific accounts within the overall fund appropriation. The Board may adopt a revised or supplemental budget appropriation after a public hearing anytime during the fiscal year. If the local school district budget does not comply with the budget procedures established by RCW43.09.200, the Superintendent of Public Instruction shall give written notice to the board of directors of the local school district that shall, within thirty days from the date the notice is issued, submit a revised budget which meets the requirements of RCW43.09.200. During the fiscal year 2013-2014, the district revised the capital projects expenditure budget to provide enough capacity to meet the planned expenditures.

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

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

MEASUREMENT FOCUS

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

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

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

BASIS OF ACCOUNTING

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

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

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

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

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

E. ELIMINATIONS AND RECLASSIFICATIONS

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

F. ASSETS, LIABILITIES AND NET Position

1. Cash and Cash Equivalents

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

2. Property Taxes

Property tax revenues are collected as the result of special levies passed by the voters in the district. Per Revised Code of Washington 84.60.020 the tax assessment date is January 1 of the calendar year of collection. The tax lien date is January 1 of the year of collection and taxes receivable are recognized as of that date. Current year taxes are due in full as of April 30, and are delinquent after that date. However, without incurring penalty, the taxpayer may elect to pay one half of taxes due by April 30, with the remaining one half taxes due October 31, and delinquent after that date. Typically, a little more than half of taxes due are collected on the April 30 date. The County forecloses on property following the third year of delinquency. In *governmental fund financial statements*, property tax revenue which is measurable but not available (taxes that are not expected to be collected within 60 days after the current period) is recorded as a receivable and deferred revenue. In *government-wide financial statements*, property tax revenue, net of estimated uncollectible, is accrued at year-end.

3. Accounts Receivable

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

4. Due From/To Other Funds

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

5. Due From Other Governments

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

6. Prepaids

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

G. INVENTORIES

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

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

USDA commodities consist of food donated by the United States Department of Agriculture for use in the district's child nutrition program. The commodities are valued at the prices paid by the USDA for the commodities, and are included in General Fund inventory. As of August 31, 2014, the value of USDA commodities included in the district's inventory was \$64,448.80.

H. BOND DISCOUNT, BOND PREMIUMS & ISSUANCE COST

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

I. CAPITAL ASSETS

Capital assets, which include property, buildings and improvements, and equipment, are reported in the applicable governmental activities in the *government-wide financial statements*. Capital assets, stated at historical costs or estimated historical costs, are defined by the district as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized, but are charged to expenditures in the current period. In *governmental fund financial statements*, there is no depreciation for capital assets. However, depreciation is charged to expenses and allocated to various functions/programs in *government-wide financial statements* in compliance with GASB Statement 34 (See Note 4).

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

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

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

J. DEFERRED OUTFLOW/INFLOWS OF RESOURCES

The district has adopted the provisions of GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. The objective of these statements is to enhance the usefulness of financial reporting as described below.

In addition to assets, the statement of financial position will report a separate section for the deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The district only has one item that qualifies for reporting in the category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the

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

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.

In addition to liabilities, the statement of financial position will report a separate section for the deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The district has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

K. COMPENSATED ABSENCES

1. Sick Leave

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

Under the provisions of the Revised Code of Washington, sick leave accumulated by district employees is paid at death or retirement at the rate of 25% of each day of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy-back of an amount up to the maximum annual accumulation of twelve days. To qualify for annual sick leave buy-back, the employee must have accumulated in excess of 60 days sick leave as of January 1. Sick leave is reported under long-term liabilities in the *Statement of Net Position*. For reporting purposes, 25% of the sick leave liability (up to 180 days) for those eligible for retirement is considered accruable. The vesting method in GASB Statement 16 was applied in calculating the sick leave. The amount of accrued sick leave as of August 31, 2014, was \$4.22 million and reported as long-term liabilities in *government-wide financial statements*.

2. Vacation Leave

For the employees that receive vacation leave, vacation leave is accrued according to the particular bargaining agreement. Vacation pay is recorded as an expenditure at the time of payment which occurs upon usage or upon employee termination. It is computed at 100% of the accrued amount. The amount accrued for vacation leave as of August 31, 2014, was \$1.21 million and reported as long-term liabilities in *government-wide financial statements*.

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

	Compensated Absences			
	Beginning Balance	Additions	Reductions	Ending Balance
Vacation	\$ 1,050,354	\$ 1,173,759	\$ 1,012,978	\$ 1,211,135
Sick Leave	3,820,679	3,358,994	2,957,796	4,221,877
Total	<u>\$4,871,033</u>	<u>\$ 4,532,753</u>	<u>\$3,970,774</u>	<u>\$ 5,433,012</u>

L. NET POSITION (Government-Wide Financial Statements)

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

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

The district has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes 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 reported in governmental funds. Fund balance classifications under GASB 54 are Nonspendable, Restricted, Committed, Assigned and Unassigned. These classifications reflect not only the nature of funds, but, also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance. In accordance with GASB 54, the District classified governmental fund balances as follows:

Nonspendable:

- a. Inventory and Pre-paid items (\$733,770): this amount is not in spendable form, e.g. is not expected to be converted to cash.
- b. Reeploeg permanent fund (\$165,000): the principal amount is contractually required to be maintained intact.

Restricted For:

- a. Bond, state, and levy proceeds in Capital Projects Fund (\$7,573,105): these amounts are legally imposed by laws and regulations.
- b. Grant carryover and uninsured risks (\$2,286,131): these amounts are legally imposed by laws and regulations.
- c. Special Revenue Fund (ASB) (\$1,630,785); these amounts are restricted for use for the purposes of the ASB fund.
- d. Restricted for Debt Service (\$12,450,992); these amounts represent the restriction of both fund cash and fund balance
- e. Restricted for Transportation Vehicle Fund (TVF) (\$1,092,552); these amounts are restricted for use for purposes of the TVF Fund.

Committed To:

- a. 5% Minimum Fund Balance Policy (\$13,794,194) required board policy #6002.
- b. Committed for Levy Proceeds (\$1,707,305); represents the amounts remaining from capital projects levies that have been allocated for specific projects or amounts remaining after the proposition projects have been completed.

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

Assigned To:

Management's decisions (\$3,350,000) to set aside for contingencies and special projects.

Assigned to Fund Purposes-Capital Projects Fund (\$357,411) and Assigned to Fund Purposes-Reeploeg Trust (\$11,013); represents after closing the budgetary, revenue, other financing sources, expenditures and the establishment of any amounts that are Nonspendable, Restricted, Committed or otherwise Assigned, this amount is equal to the ending available fund balance.

Unassigned:

This is the residual fund balance (\$3,581,840) which may be available for general operations.

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

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

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

The second section of Committed Fund Balance shall represent the resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to an established policy of the board

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

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

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

NOTE 2. DEPOSITS AND INVESTMENTS

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

Oversight of the Pool is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. The EFC consists of the Chair of the County Council, the County Executive, the Chief Budget Officer and the Director of the Finance and Business Operations Division. All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews Pool performance monthly.

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

As of August 31, 2014, the district had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King Co. Invest. Pool	\$64,449,975	1.34 Years

Cash and Cash Equivalents Reconciliation

Cash and Cash Equivalents Primary Government	65,540,737
Cash and Cash Equivalents Fiduciary Funds	346,339
Total Cash and Cash Equivalents	\$65,887,076

Cash with King County Investment Pool	64,449,975
General Fund Impress Cash	1,012,898
General Fund HSA Account	4,057
Capital Projects Impress Cash	30,000
ASB Impress Cash	4,080
Vision Trust Fund Bank Account	53,087
Primary Government Impaired Investment Retainage	332,978
Total Cash and Cash Equivalents	\$65,887,076

Impaired Investment – As of August 31, 2014, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment’s underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District’s share of the impaired investment pool principle is \$350,352 and the District’s fair value of these investments is \$209,563.

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

Interest Rate Risk – As of August 31, 2014, the Pool’s average duration was 1.34 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool’s market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. County policy mandates that all security transactions, including repurchase agreements, are settled “delivery versus payment.” This means that payment is made simultaneously with the receipt of the security. These are delivered to the County’s safekeeping bank or its tri-party bank.

Credit Risk – As of August 31, 2014, the district’s investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. Agency securities and mortgage-backed securities, municipal securities (rated at least “A” by two NRSROs), commercial paper (rated at least the equivalent of “A-1” by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer’s office.

Concentration Risk – Credit risk also can arise in the wake of a failure to adequately diversify investments. However, since Pool investments are concentrated in U.S. government obligations and obligations explicitly guaranteed by the U.S. government, this risk is minimal.

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

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

NOTE 3. INTERFUND TRANSACTIONS

As of August 31, 2014, short-term interfund receivables and payables in governmental funds that resulted from various interfund transactions in *governmental fund financial statements* were as follows:

Fund	Due from Other Funds	Due to Other Funds
General	\$ 976,617	\$ 187,592
Special Revenue (ASB)	180,147	381,484
Debt Service	-	-
Capital Projects	7,445	593,783
Transportation Vehicle	-	-
Private Purpose Trust	-	1,350
TOTAL	\$ 1,164,209	\$ 1,164,209

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

The interfund balances are liquidated on a monthly basis. Almost all of the interfund transfers are to reimburse the general fund from other funds for processing payroll and other accounts payable in the general fund. In addition, all funds collected in the district are electronically swept on a daily basis into the general fund bank account at the county treasurer. Funds are then disbursed to the appropriate fund as soon as the receipts are reconciled to the daily deposit reports. Total funds disbursed from the General fund were \$4,178,261. Of this amount \$47,700 was disbursed to fiduciary funds and \$4,130,561 was disbursed to other governmental funds.

NOTE 4. CHANGES IN CAPITAL ASSETS

Purchases of items over \$5,000 are capitalized and depreciated in *government-wide financial statements*. The district's property valuation of buildings and contents for insurance purposes is \$1,032,442,661. In the opinion of the district's insurance consultant, the amount is sufficient to adequately fund replacement of the district's assets.

	Primary Government			
	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 68,623,234	\$ -	\$ -	\$ 68,623,234
Construction in Progress	5,582,630	8,788,396	9,333,949	\$ 5,037,077
Total Capital Assets, not being depreciated	74,205,864	8,788,396	9,333,949	73,660,311
Capital assets, being depreciated:				
Land Improvements	16,687,561	3,878,779	-	20,566,340
Buildings and Improvements	557,295,476	6,746,136	22,724	564,018,888
Transportation Equipment	15,072,544	849,616	111,920	15,810,240
Equipment and Machinery*	16,905,149	1,487,180	415,807	17,976,522
Total Capital Assets, being depreciated	605,960,730	12,961,711	550,451	618,371,990
Less Accumulated Depreciation for:				
Land Improvements	1,844,149	835,952	-	2,680,101
Buildings and Improvements	193,152,505	15,636,258	21,947	208,766,816
Transportation Equipment	12,718,099	858,805	111,920	13,464,984
Equipment and Machinery	9,333,730	1,512,040	321,914	10,523,856
Total Accumulated Depreciation	217,048,483	18,843,055	455,781	235,435,757
Total Capital Assets, being depreciated, net	388,912,247	(5,881,344)	94,670	382,936,233
Governmental Activities Capital Assets, Net	\$463,118,111	\$ 2,907,052	\$ 9,428,619	\$456,596,544

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

Depreciation expense was charged to governmental activities as follow

Regular Instruction	\$ 15,687,062
Special Instruction	1,203,196
Vocational Instruction	96,350
Compensatory Education	3,878
Other Instruction Programs	19,281
Support Services	1,809,701
ASB	<u>23,587</u>
	<u>\$ 18,843,055</u>

Depreciation Adjustment-During the normal course of business it was discovered that depreciation was calculated incorrectly for fiscal years 2010 and 2011 on four projects in the building improvement category. The depreciation has been calculated correctly and the beginning balances have been adjusted to what the totals should have been. The depreciation and ending balances reconcile to what is in the financial system.

NOTE 5. CONSTRUCTION IN PROGRESS

The district reports construction in progress as capital assets when expenditures are incurred each year. Once the school board accepts a project as entirely complete, the costs are distributed to the appropriate capital asset account. Construction in progress at August 31, 2014, is shown below:

Construction in Progress August 31, 2014

Project	Funds Authorized	Total Expenditures
<u>2006 Bond Issue Projects</u>		
Door Hardware: Fairwood	\$ 15,000	\$ 11,238
Field Renovation: Kent Meridian	112,516	29,196
Kentlake Field	165,322	10,005
Field Renovation: Kentridge	3,690,091	3,599,471
New Covington Elementary	1,849,467	1,387,168
Total 2006 Bond Issue Projects	5,832,396	5,037,077
 Total Construction In Progress	 <u>\$ 5,832,396</u>	 <u>\$ 5,037,077</u>

NOTE:

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

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

PENSIONS

A. GENERAL INFORMATION

Substantially all district full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS).

The Teachers' Retirement Systems (TRS) includes certificated staff of 295 public school district employers and other public employers. As of June 30, 2013, it included 75,758 active and inactive vested members.

The Public Employees' Retirement System (PERS) includes noncertificated staff of 295 public school district employers and other public employers. As of June 30, 2013, it included 181,753 active and inactive vested members.

The School Employees' Retirement System (SERS) includes noncertificated staff of 295 public school district employers. As of June 30, 2013, it included 63,883 active and inactive vested members.

The employer contribution rates for Plan I and Plan II (for PERS, TRS and SERS) are established by the Pension Funding Council based upon advice from the Office of the State Actuary. The employee contribution rate for Plan II in each system is also established by the Pension Funding Council, based upon advice from the Office of the State Actuary. The employee contribution rate for Plan I in PERS and TRS is set by statute at six (6) percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under chapters 41.40 and 41.32 RCW for PERS and TRS respectively, and 41.35 RCW for SERS.

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

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

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

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

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

B. GENERAL SYSTEM INFORMATION BY INTERNAL BENEFITS PLANS

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

Plan 1 (employment on or before September 30, 1977) members of TRS and PERS are eligible to retire with full benefits after 5 years of credited service and attainment of age 60, or after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

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

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

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

Average final compensation (AFC) of Plan 1 TRS and PERS members is the greatest average salary during any 2 consecutive years. For Plan 2 TRS and PERS members it is the greatest average salary during any 5 consecutive years.

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

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

C. CONTRIBUTIONS

Pension contribution rates are summarized in the table below:

	8/31/2013		8/31/2014	
	Employee	Employer	Employee	Employer
TRS 1	0.0600	0.0805	0.0600	0.1039
TRS 2	0.4690	0.0805	0.0496	0.1039
TRS 3*	-	0.0805	-	0.1039
PERS 1	0.0600	0.0919	0.0600	0.0921
SERS 2	0.0490	0.0759	0.0464	0.0982
SERS 3*	-	0.0759	-	0.0982

*5.00% minimum employee contribution-15% maximum

Employer required contribution in dollars contributed:

Plan	FY 2013-14	FY 2012-13	FY 2011-12
Plan 1 TRS	\$ 268,712	\$ 239,159	\$ 311,529
Plan 2 TRS	2,264,949	1,529,682	1,348,736
Plan 3 TRS	9,777,217	7,017,408	6,927,888
Plan 1 PERS	80,131	75,692	76,821
Plan 2 SERS	1,469,220	1,025,024	977,572
Plan 3 SERS	\$ 2,624,497	\$ 1,924,186	\$ 1,827,586

Historical trend information showing TRS and PERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 2014, comprehensive annual financial report. Refer to said report for detailed trend information. It is available from:

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

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The state, through the Health Care Authority (HCA), administers an agent multiple-employer other post-employment benefit plan. The Public Employees Benefits Board (PEBB) created within the HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include medical, dental, life and long-term disability. Employers participating in the plan include the state (which includes general government agencies and higher education institutions), 52 of the state's K-12 school and educational service districts (ESDs), and 200 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 249 K-12 school districts and ESDs. The Kent School District's retirees (approximately 800) are eligible to participate in the plan under this arrangement.

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

Plan Description

Eligibility

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

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

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical and life insurance benefits after pension benefit commencement. Survivors of covered members who die are eligible for medical benefits.

Medical and Life Benefits

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

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

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The district's annual other post-employment benefits (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of September 1, 2008 (level cost method). The following table shows the components of the district's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in district's net OPEB.

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

Determination of Annual Required Contribution	August 31, 2012	August 31, 2013	August 31, 2014
Normal Cost at Year End	\$ 3,710,428	\$ 3,710,428	\$ 3,931,643
Amortization of UAAL	2,801,638	2,801,638	3,439,317
Annual Required Contribution (ARC)	6,512,066	6,512,066	7,370,960

Determination of Net OPEB Obligation			
Annual Required Contribution	6,512,066	6,512,066	7,370,960
Interest on Prior year Net OPEB Obligation	1,054,753	1,219,171	1,391,832
Adjustment to ARC	(1,081,798)	(1,300,449)	(1,546,480)
Annual OPEB Cost	6,485,021	6,430,788	7,216,312
Less Contribution Made*	2,100,543	1,826,490	1,994,484
Increase in Net OPEB Obligation	4,384,478	4,604,298	5,221,828
Prior Year Ending OPEB Balance	28,126,741	32,511,219	37,115,517
Net OPEB Obligation - End of Year	\$ 32,511,219	\$ 37,115,517	\$ 42,337,345

* Estimated based on retiree benefit amounts

The district's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
8/31/2012	\$ 6,485,021	32.39%	\$ 32,511,219
8/31/2013	\$ 6,430,788	28.40%	\$ 37,115,517
8/31/2014	\$ 7,216,312	27.64%	\$ 42,337,345

Funded Status and Funding Progress

As of August 31, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The accrued liability for benefits was \$82.5 million, and the actuarial value of assets was \$0, resulting in a UAAL of \$82.5 million. The covered payroll amounted to \$168,408,005 and the UAAL as of a percentage of covered payroll is 49%.

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

Actuarial Methods and Assumptions

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

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

In the August 31, 2014 Actuarial Valuation, the Projected Unit Credit actuarial cost method was used. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation are accrued as they are earned by active members, rather than on a pay-as-you-go basis. The actuarial assumptions used included a 3.75% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payments of benefits.

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

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

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

Year Ending August 31	Life Trend
2015+	3.5%

The UAAL is being amortized as a level percentage of pay on a closed basis at the assumed discount rate. Payroll is assumed to increase at 3.75%. The remaining amortization period at August 31, 2014 was 24 years.

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

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

NOTE 7 LONG-TERM DEBT

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

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

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

A. Changes in Long-Term Liabilities

During the year ended August 31, 2014, the following changes occurred in liabilities reported in the *government-wide financial statements*.

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
GOVERNMENT ACTIVITIES					
Bonds Payable:					
2001B UTGO Bonds	6,920,000	-	2,185,000	4,735,000	2,305,000
2003 UTGO Bonds	1,250,000	-	1,250,000	-	-
2004 UTGO Bonds	2,200,000	-	935,000	1,265,000	1,265,000
2005 UTGO Bonds	45,455,000	-	7,985,000	37,470,000	8,365,000
2006 UTGO Bonds	29,505,000	-	2,375,000	27,130,000	3,460,000
2007 UTGO Bonds	15,000,000	-	-	15,000,000	-
2008 UTGO Bonds	19,415,000	-	1,005,000	18,410,000	1,045,000
2007 Refunding bonds	3,080,000	-	3,080,000	-	-
2010 Refunding bonds	12,995,000	-	800,000	12,195,000	1,230,000
2010 QSCB	15,000,000	-	-	15,000,000	-
2012 Refunding bonds	14,600,000	-	-	14,600,000	1,470,000
2012A Refunding bonds	19,370,000	-	2,265,000	17,105,000	-
2013 UTGO Bonds	14,620,000	-	-	14,620,000	260,000
Sub-Total UTGO BONDS	199,410,000	-	21,880,000	177,530,000	19,400,000
2005 LGO Bonds	21,391	-	14,476	6,915	6,915
2008 LGO Bonds	997,369	-	182,984	814,385	190,881
Sub-Total LGO BONDS	1,018,760	-	197,460	821,300	197,796
TOTAL BONDS	200,428,760	-	22,077,460	178,351,300	19,597,796
Other Liabilities:					
Capital Leases	450,450	-	450,450	-	-
Non-Cancellable Operating Leases	388,084	39,796	146,983	280,897	157,462
Unamortized Net Bond Premium/Discount	8,456,457	-	1,696,157	6,760,300	1,377,663
Net OPEB	37,115,517	7,216,312	1,994,484	42,337,345	-
Compensated Absences	4,871,033	4,532,753	3,970,774	5,433,012	3,473,810
Total Other Liabilities	51,281,541	11,788,861	8,258,848	54,811,554	5,008,935
GRAND-TOTAL	\$ 251,710,301	\$ 11,788,861	\$ 30,336,308	\$ 233,162,854	\$ 24,606,731

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

B. Unamortized Bond Issuance Costs

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

Unamortized Bond Issuance Costs						
Bond Issue	Issue Date	Issuance Costs	Beginning Balance	Additions	Amortization FY 13-14	Ending Balance
2001B	10/11/01	169,997	33,268	-	2,697	30,571
2002	11/13/02	283,807	131,655	-	10,675	120,980
2003	11/12/03	229,049	111,976	-	9,079	102,897
2004	12/1/04	178,740	104,674	-	8,487	96,187
2005	1/20/05	1,088	155	-	13	142
2005	5/2/05	360,977	142,659	-	11,567	131,092
2006	11/1/06	226,016	114,632	-	9,294	105,338
2007(R)	11/7/07	74,183	6,130	-	497	5,633
2007	11/7/07	67,500	20,416	-	1,655	18,761
2008	11/8/08	159,659	149,608	-	12,130	137,478
2010(R)	11/4/10	179,761	175,685	-	19,521	156,164
2010(QSCB)	11/4/10	151,950	149,336	-	11,947	137,389
2012®	3/28/12	211,379	207,920	-	23,991	183,929
2012 A ®	10/25/12	173,827	171,547	-	16,736	154,811
2012	5/1/13	125,518	123,994	-	6,332	117,662
		\$ 2,593,450	\$ 1,643,655	\$ -	\$ 144,621	\$ 1,499,034

C. Bond Premium/Discount

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

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

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

D. General Obligation Debt

Outstanding general obligation debt as of August 31, 2014, consisted of the following:

OUTSTANDING GENERAL OBLIGATION BONDS					
	Amount Authorized and Issued	Issue Dates	Maturity Dates	Interest Rates	Amount Outstanding
Governmental Activities:					
2001B Building Fund	18,350,000	10/1/01	6/1/16	3.50 - 5.50%	4,735,000
2004 Building Fund	24,500,000	12/1/04	12/1/24	2.10 - 4.59%	1,265,000
2005 Refunding	69,265,000	5/2/05	12/1/18	5.00%	37,470,000
2006 Building Fund	35,000,000	11/1/2006	12/1/20	4.00 - 4.25%	27,130,000
2005 LGO Bonds	115,500	1/20/2005	1/1/15	5.99%	6,915
2007 Building Fund	15,000,000	11/7/07	12/1/26	4.00 - 3.375%	15,000,000
2008 Building Fund	25,000,000	11/1/08	12/1/27	4.00-5.125%	18,410,000
2008 LGO Bonds	1,800,000	5/8/2008	6/1/18	4.27%	814,385
2010 Refunding	12,995,000	11/4/2010	12/1/22	2.00%-3.00%	12,195,000
2010 QSCB	15,000,000	11/4/2010	12/1/26	5.127%	15,000,000
2012 Refunding	14,600,000	3/28/2012	12/1/22	4.00-4.625%	14,600,000
2012A Refunding	19,370,000	10/25/2012	12/1/24	2.00-4.00%	17,105,000
2013 Building Fund	14,620,000	5/1/2012	12/1/32	2.00-5.00%	14,620,000
	<u>\$ 265,615,500</u>				<u>\$ 178,351,300</u>

E. Debt Service Requirement to Maturity

Year Ending August 31,	Debt Service Requirement to Maturity General Obligation Bonds		
	Principal	Interest	Total
2014	-	-	-
2015	19,597,796	7,251,588	26,849,384
2016	21,949,118	6,365,656	28,314,774
2017	19,522,711	5,410,166	24,932,877
2018	16,281,675	4,650,905	20,932,580
2019	16,960,000	3,956,616	20,916,616
2020	11,885,000	3,374,791	15,259,791
2021	11,680,000	2,925,191	14,605,191
2022	8,860,000	2,529,570	11,389,570
2023	9,140,000	2,175,150	11,315,150
2024	6,000,000	1,859,351	7,859,351
2025	5,520,000	1,599,096	7,119,096
2026	8,880,000	1,254,455	10,134,455
2027	12,960,000	708,088	13,668,088
2028	2,665,000	319,850	2,984,850
2029	1,190,000	234,200	1,424,200
2030	1,240,000	185,600	1,425,600
2031	1,285,000	135,100	1,420,100
2032	1,340,000	82,600	1,422,600
2033	1,395,000	27,900	1,422,900
	<u>\$ 178,351,300</u>	<u>\$ 45,045,873</u>	<u>\$ 223,397,173</u>

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

F. Advance Refunding Bonds

In prior years the district completed defeasance of certain other general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Debt service on these bonds is met by cash and investments held by the refunding trustee. Accordingly, the trust account assets and corresponding liabilities are not included in the district's financial statements. As of August 31, 2014, the refunded bonds were paid off.

G. Capital and Operating Leases

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

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

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

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

H. Arbitrage Rebate

The Tax reform Act of 1986 requires the district to rebate the earnings on the investment of bond and revenue anticipation note proceeds, in excess of their yield, to the federal government. The districts contracted with Willdan Financial Services to perform the calculations to determine if the district had an arbitrage rebate liability. As of August 31, 2014 the district did not incur a liability.

NOTE 8. RISK MANAGEMENT

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

A. Association Insured Coverage

Kent School District became a member of the Schools Insurance Association of Washington (SIAW) on September 1, 2001. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1995, when seven mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW has 37 member districts.

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

The pool acquires liability insurance through their Administrator, Canfield that is subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$2,500 of the deductible amount of each claim, while the pool is responsible for the remaining \$100,000 self insurance retention. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self insured retention portion. The pool, however, purchases a stop loss policy with an attachment point of \$3,400,000, which it fully funds in its annual budget.

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

Equipment breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

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

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, Inc., which has been contracted to perform pool administration, claims adjustment and administration, and loss prevention for the pool. Fees paid to the third party administrator under this arrangement were \$2,956,786 for the fiscal year 2013-14.

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

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

The district paid \$1,437,840 in premiums to the Schools Insurance Association of Washington for insurance coverage from September 1, 2013, through August 31, 2014.

**SCHOOLS INSURANCE ASSOCIATION OF WASHINGTON
COVERAGE AS OF AUGUST 31, 2014**

Policy Number	Type of Coverage	Amount of Coverage
	Property	
SIAW131434025	All Risk per Occurance excluding Flood and Equipment Breakdown	150,000,000
	Flood each Occurrence and Annual Aggregate except zones V, A or SFHA	25,000,000
	Flood each Occurrence and Annual Aggregate Property in zones V, A or SFHA	1,000,000
	Flood Pool per Occurrence and Annual Aggregate Property in zones V, A or SFHA	15,000,000
	Deductible Flood	25,000
	Flood Zone A & Z Each Building	\$500,000
	Flood Zone A & Z Personal Property	\$500,000
	Deductible All Perils except Auto Physical Damage	25,000
	Deductible Auto Physical Damage	2500
	NOTE: Earthquake coverage is not provided for Kent School District #415, Renton School District #303, Wenatchee School District #246, and Toppenish School District #202.	
	Extra Expense/Business Interruption	10,000,000
	Transit and Off Premises	1,000,000
	Additionally Acquired Property	2,500,000
	Personal Effects	150,000
	Any One Teacher	5,000
	Electronic Data Processing (Per Occurrence)	10,000,000

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

Company and Policy Number	Type of Coverage	Amount of Loss
	Liability	
SIAW131434025	General Liability, Auto Liability or all combined (Each Occurrence).	25,000,000
	General Aggregate (Per School District)	31,000,000
	Employee Benefits Liability	
	Per Occurance and Member Aggregate	25,000,000
	Products Liability Per Occurance	25,000,000
	Products Liability Aggregate	30,000,000
	Garage-Keepers Legal Liability Limit	1,000,000
	Sexual Abuse/Molestation (per Occurance)	10,000,000
	Sexual Abuse/Molestation (Aggregate)	10,000,000
	Sexual Abuse/Molestation Pool Maximum	30,000,000
	Deductible Each Occurrence	2,500
	Auto Liability and UIM deductible	1,000
	Wrongful Acts Liability Claims Made	
SIAW131434025	Each Wrongful Act	25,000,000
	Aggregate Limit (Per District)	25,000,000
	Deductible Each Wrongful Act	2500
	Crime	
SIAW131434025	Employee Dishonesty (Per Loss)	1,000,000
	Money and Securities	50,000
	Forgery and Alteration (per Occurance)	500,000
	Deductible	5,000
	Boiler and Machinery	
SIAW131434025	Boiler and Machinery	100,000,000
	Comprehensive form - Including Protection Machinery - Includes Joint Loss Agreement	
	Hazardous Substance	1,000,000
	Perishable Goods	500,000
	CFC Refrigerants	included
	Deductible Each Accident	10,000
	Deductible Perishable Goods (10% of loss \$10,000 minimum)	

B. UNEMPLOYMENT

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

The school district, by board action, elected the reimbursement (self-insurance) method for claim payment. The district reimburses the Washington State Employment Security Department on a quarterly basis for claims approved and paid. The district paid a total of \$86,692 in unemployment claims for the fiscal year ended August 31, 2014.

Fiscal Year	Unemployment			
	Beg. Balance	Additions	Reductions	End. Balance
13-14	\$ 958,481	\$ 158,892	\$ 657,432	\$ 459,941
12-13	749,398	359,948	150,865	958,481

C. INDUSTRIAL INSURANCE

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

For the self-insured program coverage from September 1, 2013, through August 31, 2014, the loss paid out to claimants was \$\$552,341. The estimated incurred but not reported claims (IBNR) for the district are approximately \$212,500.

Fiscal Year	Industrial Insurance-Incurred and IBNR Claims			
	Beg. Balance	Additions	Reductions	End. Balance
13-14	\$ 989,695	1,182,142	1,972,162	\$ 199,675
12-13	1,808,316	950,349	1,768,970	989,695

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

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

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

1. Cost of Capital Assets \$692,032,301
 Accumulated Depreciation (235,435,757)
 \$456,596,544

2. **\$1,499,034** – Deferred Charges (Unamortized Bond Issue Costs) – In governmental funds, bond issuance costs were charged to expenditures, while the unamortized bond issuance costs are shown as deferred charges on the *statement of net position*. Refer to Note 7B (Unamortized Bond Issuance Costs).

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

3. Long-term liabilities of **\$233,162,854** (due within one year: \$24,606,731, due more than one year: \$208,556,123, applicable to the district's *governmental activities* are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the *statement of net position*.
4. Unearned Revenue (Property tax levies) - **\$46,315,254** - that will not be collected for several months after year-end are not considered "available." Therefore they are reported as unavailable revenue in *governmental funds*. They are accrued as property tax revenue in the *Statement of Activities*.
5. Due To and Due From (**\$1,164,210**) - Internal transfers between *governmental funds* were eliminated in *government-wide statement* to avoid the "doubling-up" effect.
6. **\$1,903,703**- Accrued interest on long-term debt due within one year.

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

1. **\$289,242** - Property tax levies, which do not provide current financial resources, are reported as unavailable revenue in *governmental funds*, but as revenues in *government-wide financial statements*.
2. The amount of **\$5,783,807** represents the current year compensated absences (\$561,979) and net OPEB obligation (\$5,221,828). The compensated absences and net OPEB are not reported as expenditures in *governmental funds*. However, it is reported in the *statement of activities* as an expense, allocated to various applicable programs. The balances of compensated absences increased from last year.
3. a. When capital assets (land, buildings, equipment) are purchased or constructed to be used in *governmental activities*, the cost of those assets are reported as expenditures in *governmental funds*. However, the *statement of net position* includes those capital assets among the assets of the district as a whole.

Capital Outlay	\$ 17,492,271
Depreciation Expense	(18,843,055)
Net Effect of Sales & Retirement of CA	<u>(9,009,807)</u>
Difference	<u>\$ (10,360,591)</u>

- b. *Governmental funds financial statements* report capital outlay as expenditures while *government-wide financial statements* report depreciation expense (\$18,843,055), allocated to various applicable programs.
4. Repayment of total principal - **\$22,618,689** (Unlimited Tax General Obligation Bonds, Limited Tax General Obligation Bonds, and Capital Leases) was reported as expenditure in *governmental funds*, and thus has the effect of reducing fund balance. For the district as a whole, however, the principal payments reduce the liabilities in the *statement of net position*.

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

5. **\$445,358** - The current year amortizations of bond premium (\$326,783), issuance costs (\$144,621), and accrued interest payable (\$263,196) are to be charged to expenditure in *government-wide financial statements*.

Current Year Bond Premium/Disc Amortization	\$	326,783
Current Year Bond Issuance Costs Amortization		(144,621)
Accrued Interest Payable		263,196
	\$	<u>445,358</u>

NOTE 10. FUND EQUITY (GOVERNMENTAL FUNDS)

A. Changes in Unassigned Fund Balances

The following table shows the increases or decreases in undesignated fund balance

	Changes in Unassigned Fund Balances						
	General Fund	Special Revenue Fund (ASB)	Debt Service	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	
Unassigned Fund Balance 8/31/13	\$ 6,197,843	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Decrease/(Increase) Nonspendable Fund Balance	(198,350)	(10,064)					
Decrease/(Increase) Restricted Fund Balances	(167,409)	(152,670)	(1,761,736)	6,012,711	(93,070)	(947)	
Decrease/(Increase) in Committed To	(1,330,308)			(289,910)			
Decrease/(Increase) in Assigned To	5,350,000			(282,274)			
<i>Changes in Fund Balances</i>	<i>(6,269,936)</i>	<i>162,734</i>	<i>1,761,736</i>	<i>(5,440,527)</i>	<i>93,070</i>	<i>947</i>	
Unassigned Fund Balances 8/31/13	\$ 3,581,840	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NOTE 11. CONTINGENT LIABILITIES

Litigation

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

The district assigned \$500,000 in the General Fund Fund Balance for a property settlement with the heirs of Isaac Parmenter. In 1906 Isaac Parmenter deeded one acre of land to the Panther Lake Elementary School District. When Mr. Parmenter deeded the property to the Panther Lake School District, he did so on the condition that "This land is given only under consideration that it be used for school (public) purposes and should such land not be used for same it immediately reverts to Grantor (Isaac Parmenter) or his heirs, given said School District right to move all their buildings there from".

The acre deeded to the Panther Lake School District became part of a larger assemblage of property that became a part of the Kent School District and the site of old Panther Lake Elementary School. In 2009 the district opened new Panther Lake Elementary School and thus ended the educational use of the property and the one acre donated by Mr. Parmenter.

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

The district reached out to the forty-four (44) heirs of Isaac Parmenter and reached a tentative agreement with the heirs regarding the reverter acre. On May 14, 2014 the Board of Directors of the Kent School District approved in principle and subject to obtaining all the family signatures on the Nonjudicial Binding Agreement, the purchase of the one acre from the Isaac and Nellie Parmenter family. The district fully expects for this settlement to occur in the 2014-2015 fiscal year.

Claims and Judgments

The district participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Since these have not been completed, the amount, if any, of expenditures that may be disallowed by the granting agencies has not yet been determined. The district believes that disallowed expenditures, if any, will not have a material effect on any of the governmental funds or the overall financial position of the district.

NOTE 12.

OTHER DISCLOSURES

A. King County Directors' Association

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

Purchases for the calendar year 2013 totaled \$1,762,420. The district's equity in the cooperative as of December 31, 2013, was \$368,863.

The district's equity is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against administrative fees.

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

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

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

B. Flexible Spending Plan

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

C. 403(b) – Tax Shelter Annuity

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

REQUIRED SUPPLEMENTARY INFORMATION
KENT SCHOOL DISTRICT NO. 415
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	BUDGETED AMOUNTS		ACTUAL AMOUNT	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Local	\$ 66,968,662	\$ 66,968,662	\$ 66,548,689	\$ (419,973)
State	189,899,142	189,899,142	183,305,155	(6,593,987)
Federal	27,704,553	27,704,553	22,663,556	(5,040,997)
Other	305,000	305,000	181,612	(123,388)
TOTAL REVENUES	284,877,357	284,877,357	272,699,012	(12,178,345)
EXPENDITURES				
CURRENT				
Regular Instruction	155,675,246	155,675,246	157,112,240	(1,436,994)
Special Education	35,530,504	35,530,504	34,050,495	1,480,009
Vocational Instruction	7,128,642	7,128,642	7,980,496	(851,854)
Compensatory Education	20,770,446	20,770,446	18,988,977	1,781,469
Other Instructional Programs	10,542,004	10,542,004	1,225,651	9,316,353
Community Services	373,372	373,372	437,755	(64,383)
Support Services	56,506,475	56,506,475	54,867,215	1,639,260
CAPITAL OUTLAY				
Other	995,098	995,098	1,113,862	(118,764)
DEBT SERVICE				
Interest and Other Charges	-	-	-	-
Principal	-	-	-	-
DEBT SERVICE				
Principal	2,790	2,790	90,779	(87,989)
Interest and Other Charges	832	832	16,412	(15,580)
TOTAL EXPENDITURES	287,525,409	287,525,409	275,883,882	11,641,527
Excess of Revenues Over (Under) Expenditures	(2,648,052)	(2,648,052)	(3,184,870)	(536,818)
OTHER FINANCING SOURCES (USES)				
Sales of Surplus Vehicles	35,000	35,000	30,370	(4,630)
Non-Voted Bond Issued	-	-	-	-
Long-Term Financing	-	-	-	-
Transfers	(15,436)	(15,436)	(3,115,436)	(3,100,000)
Total Other Financing Sources (Uses)	19,564	19,564	(3,085,066)	(3,104,630)
CHANGE IN FUND BALANCE	(2,628,488)	(2,628,488)	(6,269,936)	(3,641,448)
FUND BALANCE-September 1	30,890,761	30,890,761	30,005,807	(884,954)
FUND BALANCE -August 31				
Nonspendable	425,000	425,000	723,706	298,706
Restricted	4,325,000	4,325,000	2,286,131	(2,038,869)
Committed	14,126,270	14,126,270	13,794,194	(332,076)
Assigned	6,350,000	6,350,000	3,350,000	(3,000,000)
Unassigned	3,036,003	3,036,003	3,581,840	545,837
TOTAL FUND BALANCE	\$ 28,262,273	\$ 28,262,273	\$ 23,735,871	\$ (4,526,402)

Note: Budget Statements conform to GAAP.

REQUIRED SUPPLEMENTARY INFORMATION

**KENT SCHOOL DISTRICT NO. 415
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND (ASSOCIATED STUDENT BODY FUND)
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014**

	BUDGETED AMOUNTS		ACTUAL AMOUNT	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
General	\$ 1,492,421	\$ 1,492,421	\$ 922,556	\$ (569,865)
Athletics	853,085	853,085	486,260	(366,825)
Classes	241,420	241,420	99,601	(141,819)
Clubs	2,208,212	2,208,212	878,849	(1,329,363)
Private Monies	153,450	153,450	45,801	(107,649)
Total Revenues	4,948,588	4,948,588	2,433,067	(2,515,521)
EXPENDITURES				
General	1,117,248	1,117,248	584,391	532,857
Athletics	1,275,823	1,275,823	726,106	549,717
Classes	223,500	223,500	86,688	136,812
Clubs	2,268,638	2,268,638	830,602	1,438,036
Private Monies	153,950	153,950	42,546	111,404
Total Expenditures	5,039,159	5,039,159	2,270,333	2,768,826
Changes in Fund Balance	(90,571)	(90,571)	162,734	253,305
FUND BALANCE - September 1	1,270,098	1,270,098	1,478,115	208,017
FUND BALANCE - Restated	-	-	1,478,115	1,478,115
FUND BALANCE - August 31				
RESTRICTED	\$ 1,179,527	\$ 1,179,527	\$ 1,640,849	\$ 461,322

Note: Budget Statements conform to GAAP.

**KENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2014**

NOTE 1: GENERAL BUDGETARY POLICIES

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION
KENT SCHOOL DISTRICT NO. 415
ACTUARIAL VALUATION OF POST EMPLOYMENT BENEFITS
OTHER THAN PENSION
SCHEDULE OF FUNDING PROGRESS
AUGUST 31, 2014

Schedule A-3

Fiscal Year Ended August 31	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As a Percentage of Covered Payroll
8/31/2008	August 31, 2008	\$ -	\$ 78,868,089	\$ 78,868,089	0%	\$ 132,095,958	60%
8/31/2010	August 31, 2010	\$ -	\$ 106,976,797	\$ 106,976,797	0%	\$ 154,723,623	69%
8/31/2012	August 31, 2012	\$ -	\$ 72,842,578	\$ 72,842,578	0%	\$ 155,171,345	47%
8/31/2014	August 31, 2014	\$ -	\$ 82,543,598	\$ 82,543,598	0%	\$ 168,408,005	49%

GASB Statement #45 was implemented for the fiscal year ended August 31, 2008. No information prior to August 31, 2008 is available.

Kent School District #415
Schedule of Expenditures of Federal Awards
Fiscal Year Ending August 31, 2014

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA #	Other ID Number	Expenditures		Notes Ref.	Indirect Amt. (included in Exp. Total)	District Prog. #	
					Direct Award	Pass - Through				
					Total					
U. S. Dept of Agriculture	WA OSPI	School Breakfast Program (Cash Assistance)	10.553	N/A		\$1,149,925	\$1,149,925			
	WA OSPI	National School Lunch Program (Cash Assistance)	10.555	N/A		\$6,035,468	\$6,035,468			
	WA OSPI	National School Lunch Program (Non-Cash Assistance - Commodities)	10.555	N/A		\$833,330	\$833,330	4		
	WA OSPI	Child and Adult Care Food Program (Cash Assistance)	10.558	17-14-1496		\$101,548	\$101,548			
	WA OSPI	Summer Food Service Program for Children (Cash Assistance)	10.559	N/A		\$197,068	\$197,068		8909	
	WA OSPI	Summer Food Service Program for Children (Non-Cash Assistance - Commodities)	10.559	N/A		\$742	\$742	4		
	Office of State Treasurer	School & Roads - Grants to States	10.665	N/A		\$15,039	\$15,039	2		
					Subtotal U.S. Dept of Agriculture	\$8,333,120	\$8,333,120			
U. S. Dept of Defense		JROTC Program	12.999	N/A		\$80,669	\$80,669	1	6900 6902	
						Subtotal U.S. Dept of Defense	\$0	\$80,669		
U. S. Dept of Labor	Workforce Dev. Council of Seattle KC	WIA Youth Activities	17.259	13/139-YTH		\$35,173	\$35,173		7963	
						Subtotal U.S. Dept of Labor	\$0	\$35,173		
U. S. Dept of Education				0201510						
				0228590						
				0228639						
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	0228640		\$5,576,577	\$5,576,577	3, 5	5150-61 5175 5177	
				0228646						
			0229544							
			0229531							

Kent School District #415
Schedule of Expenditures of Federal Awards
Fiscal Year Ending August 31, 2014

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA #	Other ID Number	Expenditures		Notes Ref.	Indirect Amt. (Included in Exp. Total)	District Prog. #
					Direct Award	Pass - Through Total			
	WA OSPI	Special Education - Grants to States	84.027	0304646 0337637		\$5,421,950	\$5,421,950	5	2450 2452
	WA OSPI	Career and Technical Education - Basic Grants to States	84.048	0173173		\$207,223	\$207,223	5	3860
		Indian Education - Grants to Local Education Agencies	84.060	S060A131032	\$72,878		\$72,878	5	6899
	WA OSPI	Special Education - Preschool Grants	84.173	0364646 0385356		\$154,051	\$154,051	5	2451 2453
	WA OSPI	Advanced Placement Program	84.330	0887342		\$7,520	\$7,520	1	5104
	WA OSPI	English Language Acquisition Grants	84.365	0401885		\$1,031,582	\$1,031,582	3, 5	6418
	WA OSPI	Improving Teacher Quality State Grants	84.367	0523398		\$829,191	\$829,191	5	5213-14
	Puget Sound ESD	Race to the Top - District Grants	84.416	8207 8422 8370 8369 8283 8247 8465 8518 8287 8468		\$532,870	\$532,870	5, 6	1801 1803 1811 1812 1831 1832 1833 1861 1871 1881
		Subtotal U.S. Dept of Education			\$72,878	\$13,760,964	\$13,833,842		
U. S. Dept Health / Human Services	WA DSHS Schools Out Washington	Refugee and Entrant Assistance Discretionary Grants	93.576	N/A		\$155,000	\$155,000	5	7914
	Seattle Children's Hospital	PPHF 2012: Community Transformation Grants - Small Communities Program	93.737	415084 436150		\$56,218	\$56,218	5	7962 7998
		Subtotal U.S. Dept Health/Human Services			\$0	\$211,218	\$211,218		
		Total Federal Awards Expended			\$153,547	\$22,340,475	\$22,494,022		Total 13-14 Federal Indirects \$649,137

Kent School District #415
Notes to the Schedule of Expenditures of Federal Awards
Year Ending 8-31-14

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - UNIT COST CONTRACTS

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

NOTE 3 - SCHOOLWIDE PROGRAMS

Kent School District operates a "Schoolwide program" in twenty elementary buildings. Using federal funding, Schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the Kent School District in Schoolwide programs:
Title I-A (84.010) \$3,610,202; English Language Acquisition (84.365) \$130,407

NOTE 4 - NON-CASH AWARDS FOOD COMMODITIES

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

NOTE 5 - FEDERAL INDIRECT RATE

The Kent School District used the federal restricted Indirect rate of 5.33%, except where limited by program.

NOTE 6 - American Recovery and Reinvestment Act (ARRA)

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

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER OMB CIRCULAR A-133**

**Kent School District No. 415
King County
September 1, 2013 through August 31, 2014**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Kent School District No. 415.

<p>Finding ref number: 2014-001</p>	<p>Finding caption: The District did not have adequate internal controls to ensure compliance with federal procurement and suspension and debarment requirements for its Race to the Top program.</p>
<p>Name, address, and telephone of auditee contact person: Ralph Fortunato, Director of Fiscal Services 12033 S.E. 256th Street Kent WA 98031 (253) 373-7297</p>	
<p>Corrective action the auditee plans to take in response to the finding: <i><u>SUSPENSION & DEBARMENT</u> Prior to entering into a contract, a purchase order is a contract, for the expenditure of federal funds for goods and services, federal regulations require a suspension and debarment review to be completed on the intended company, corporation or individual with whom the district intends to enter into the contract for the goods and services. The district's Purchasing Department will assist in conducting the suspension and debarment review and will provide the department making the procurement the necessary paperwork, e.g., Suspension & Debarment clause, certification, or EPLS search printout, to be included in the procurement paper work.</i></p> <p><i><u>SOLE SOURCE</u> The federal threshold for obtaining competitive quotes is \$3,000, which is more stringent than state law. Therefore, any procurement of \$3,000 or more requires either multiple quotes or sole source documentation. Federal regulations only permit a sole source procurement to be made for one of the following three reasons:</i></p> <p><i>(1) the purchase is for a rare or unique good or service that has documented proof that there is no other provider(s) that can provide the good or service (lack of competition);</i></p> <p><i>(2) an emergency situation exists that makes the sole source procurement necessary;</i></p>	

(3) the funding agency indicates that they want and approve the procurement of the good(s) or service(s) made through a sole source from a specific company, corporation or individual.

Prior to completing a sole source procurement, the purchaser is required to complete a sole source justification that demonstrates how it determined no other vendor(s) could provide similar goods and services. This sole source determination must be included as part of the procurement paper work. The district's Purchasing Department will assist in conducting the sole source justification for the department making the procurement.

Final comment, when expending federal funds, the district will not finalize any procurement action without the required suspension and debarment review being completed, and, if a sole source procurement action is planned, the sole source justification must be completed as well.

Anticipated date to complete the corrective action: March 27, 2015

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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.

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