



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

Kent School District No. 415

King County

For the period September 1, 2016 through August 31, 2017

Published May 31, 2018

Report No. 1021465





Office of the Washington State Auditor

Pat McCarthy

May 31, 2018

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,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Kent School District No. 415
King County
September 1, 2016 through August 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Kent School District No. 415 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the District’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

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 its major federal program.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
84.010	Title I Grants to Local Educational Agencies

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2017-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Kent School District No. 415

King County

September 1, 2016 through August 31, 2017

2017-001 The District did not have adequate internal controls to ensure compliance with Title I grant requirements for qualifications of paraprofessionals.

CFDA Number and Title:	84.010 – Title I Grants to Local Educational Agencies
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction (OSPI)
Pass-through Award/Contract Number:	202383, 2063136, 263113, 263129
Questioned Cost Amount:	\$29,422

Background

The federal Title I program's objective is to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families. During fiscal year 2017, the District spent \$7,048,171 in Title I program funds.

Federal regulations require federal-money recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls.

All paraprofessionals funded by Title I must have obtained a high school diploma or its recognized equivalent. Additionally, each paraprofessional must meet one of the following requirements:

- Have completed at least two years of study at an institution of higher education
- Have obtained an associate's or higher degree
- Have met a rigorous standard of quality and can demonstrate through a formal state or local academic assessment, knowledge of and the ability to

assist in instructing reading/language arts, writing and mathematics, or reading readiness, writing readiness and mathematics readiness

The District is responsible for ensuring all paraprofessionals it charges to the Title I program have met the qualification requirements. The District must maintain documentation to support the paraprofessionals' qualifications at the school-building or District level.

Description of Condition

The District did not have procedures in place to verify and maintain documentation to support that its paraprofessionals were qualified.

We consider this internal control deficiency to be a material weakness.

This issue was not reported as a finding in the prior audit.

Cause of Condition

The District did not have a process in place to obtain evidence of a high school diploma or its equivalent and one of the three additional requirements from its paraprofessionals when they were hired. Instead, the District relied on certification from paraprofessionals to demonstrate the federal requirements were met, without further verification.

Effect of Condition and Questioned Costs

Without adequate controls in place, the District cannot demonstrate that costs charged to the grant were allowable. Further, without documentation showing that all paraprofessionals had a high school diploma or its equivalent and had met one of the three other requirements, the District cannot demonstrate Title I students were instructed by a qualified paraprofessional.

Our audit found the District did not have evidence of a high school diploma or equivalent on file for 11 of 23 paraprofessionals it charged to the program.

During the audit, the District obtained copies of transcripts or high school diplomas for seven of the 11 paraprofessionals our audit identified.

Of the four paraprofessionals the District could not verify as having obtained a high school diploma or its equivalent, the District could not demonstrate three had met one of the three additional education requirements.

We are questioning \$29,422 in salaries and benefits the District charged to its Title I program for the four paraprofessionals it could not demonstrate were qualified.

Recommendations

We recommend the District strengthen its internal controls by verifying and maintaining supporting documentation to demonstrate all paraprofessionals meet the qualification requirements.

District's Response

The Kent School District staff have reviewed the finding and appreciate the work of the State Auditor in helping us achieve full compliance with federal regulations associated with Title 1 Funding. We acknowledge the finding regarding lack of timely documentation. The Kent school district had four individuals who were hired as paraprofessionals who have earned their high school diploma; however, in each case, the district was unable to produce a copy of that diploma for auditors. Of the four documented, one individual had a diploma in a foreign language and is currently attempting to produce a translated copy, another employee worked for the district for less than 2 weeks, and the remaining two individuals are no longer with the district. The district is changing its procedures to ensure that individuals are not permitted to start work as paraprofessionals prior to documentation of their diploma. The district has initiated an internal review of existing files to identify any other documentation needs that require follow-up.

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

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516 Audit Findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

Title 34 CFR Part 200, *Title I – Improving the Academic Achievement of the Disadvantaged*, section 58 – Qualifications of paraprofessionals, establishes requirements of paraprofessionals to work in Title I programs.

**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, 2016 through August 31, 2017**

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 Kent School District No. 415, King County, Washington, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 23, 2018. As discussed in Note 1 to the financial statements, the District has elected to change its basis of accounting from generally accepted accounting principles to a special purpose framework during the year ended August 31, 2017.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because, as described in Note 1, the *Accounting Manual for Public School Districts in the State of Washington* does not require the District to prepare the government-wide statements presenting the financial position and changes in financial position of its governmental activities as required by GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that

are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

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

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Pat McCarthy

State Auditor

Olympia, WA

May 23, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Kent School District No. 415
King County
September 1, 2016 through August 31, 2017**

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) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2017. The District's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001. 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 Award 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 the Uniform

Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001 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 Award 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 the Uniform Guidance. 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

May 23, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Kent School District No. 415 **King County** **September 1, 2016 through August 31, 2017**

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Kent School District No. 415, King County, Washington, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 21.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 account estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kent School District No. 415, as of August 31, 2017, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. GAAP requires presentation of government-wide financial statements to display the financial position and changes in financial position of its governmental activities.

As described in Note 1, the Accounting Manual does not require the District to prepare the government-wide financial statements, and consequently such amounts have not been determined or presented. We are therefore required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Kent School District No. 415, as of August 31, 2017, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the District elected to change its basis of accounting from generally accepted accounting principles to a special purpose framework during the year ended August 31, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Long-Term Liabilities is presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

May 23, 2018

FINANCIAL SECTION

Kent School District No. 415
King County
September 1, 2016 through August 31, 2017

FINANCIAL STATEMENTS

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Schedule of Expenditures of Federal Awards – 2017
Notes to the Schedule of Expenditures of Federal Awards – 2017

Kent School District No. 415

Balance Sheet

Governmental Funds

August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	3,382,616.43	1,750,861.36	11,981,312.21	79,375,886.39	1,327,377.45	180,303.68	97,998,357.52
Minus Warrants Outstanding	-2,000,251.89	-104,248.79	0.00	-1,821,264.73	0.00	0.00	-3,925,765.41
Taxes Receivable	35,310,398.68		10,696,788.60	3,847,038.44	0.00		49,854,225.72
Due From Other Funds	139,374.24	160,941.60	0.00	1,528.53	0.00	0.00	301,844.37
Due From Other Governmental Units	4,843,379.07	1,630.82	515,905.23	245,007.18	235.06	173.72	5,606,331.08
Accounts Receivable	570,409.11	65.00	0.00	0.00	0.00	0.00	570,474.11
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	611,581.27	0.00		0.00			611,581.27
Prepaid Items	58,172.38	45,874.63			0.00	0.00	104,047.01
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments/Cash With Trustee	0.00		0.00	6,014,204.15	0.00	0.00	6,014,204.15
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	42,915,679.29	1,855,124.62	23,194,006.04	87,662,399.96	1,327,612.51	180,477.40	157,135,299.82
DEFERRED OUTFLOWS OF RESOURCES:							
Deferred Outflows of Resources - Other	0.00		0.00	0.00	0.00		0.00
TOTAL DEFERRED OUTFLOWS OF RESOURCES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	42,915,679.29	1,855,124.62	23,194,006.04	87,662,399.96	1,327,612.51	180,477.40	157,135,299.82
LIABILITIES:							
Accounts Payable	851,020.85	604.99	14,861.72	130,653.62	1,387.99	204.57	998,733.74
Contracts Payable Current	141,218.65	0.00		0.00	0.00	0.00	141,218.65
Accrued Interest Payable			0.00				0.00
Accrued Salaries	668,987.34	0.00		0.00			668,987.34
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00

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

Kent School District No. 415

Balance Sheet

Governmental Funds

August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Payroll Deductions and Taxes Payable	10,753,675.97	0.00		0.00			10,753,675.97
Due To Other Governmental Units	30,270.41	0.00		0.00	0.00	0.00	30,270.41
Deferred Compensation Payable	4,153.44			0.00			4,153.44
Estimated Employee Benefits Payable	169,985.10						169,985.10
Due To Other Funds	162,490.13	7,973.55	0.00	122,383.27	0.00	0.00	292,846.95
interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	12,781,801.89	8,578.54	14,861.72	253,036.89	1,387.99	204.57	13,059,871.60
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	431,387.97	108,136.11	0.00	6,014,204.15	0.00	0.00	6,553,728.23
Unavailable Revenue - Taxes Receivable	35,310,398.68		10,696,788.60	3,847,038.44	0.00		49,854,225.72
TOTAL DEFERRED INFLOWS OF RESOURCES	35,741,786.65	108,136.11	10,696,788.60	9,861,242.59	0.00	0.00	56,407,953.95
FUND BALANCE:							
Nonspendable Fund Balance	669,753.65	45,874.63	0.00	0.00	0.00	165,000.00	880,628.28
Restricted Fund Balance	2,648,731.91	1,692,535.34	12,482,355.72	72,373,492.91	1,326,224.52	0.00	90,523,340.40
Committed Fund Balance	0.00	0.00	0.00	3,428,594.55	0.00	0.00	3,428,594.55
Assigned Fund Balance	0.00	0.00	0.00	1,746,033.02	0.00	15,272.83	1,761,305.85
Unassigned Fund Balance	-8,926,394.81	0.00	0.00	0.00	0.00	0.00	-8,926,394.81
TOTAL FUND BALANCE	-5,607,909.25	1,738,409.97	12,482,355.72	77,548,120.48	1,326,224.52	180,272.83	87,667,474.27
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	42,915,679.29	1,855,124.62	23,194,006.04	87,662,399.96	1,327,612.51	180,477.40	157,135,299.82

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

Kent School District No. 415

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	79,623,109.42	2,439,624.32	25,275,534.93	9,772,262.47	8,963.20		117,119,494.34
State	225,414,904.66		0.00	0.00	1,127,883.13		226,542,787.79
Federal	23,123,397.82		715,985.54	0.00	0.00		23,839,383.36
Federal Stimulus	672,778.39						672,778.39
Other	370,781.29			0.00	0.00	1,973.04	372,754.33
TOTAL REVENUES	329,204,971.58	2,439,624.32	25,991,520.47	9,772,262.47	1,136,846.33	1,973.04	368,547,198.21
EXPENDITURES:							
CURRENT:							
Regular Instruction	199,697,317.03						199,697,317.03
Federal Stimulus	632,846.23						632,846.23
Special Education	44,767,389.40						44,767,389.40
Vocational Education	9,205,791.67						9,205,791.67
Skill Center	0.00						0.00
Compensatory Programs	21,695,643.63						21,695,643.63
Other Instructional Programs	539,036.05						539,036.05
Community Services	402,314.34						402,314.34
Support Services	61,757,544.66						61,757,544.66
Student Activities/Other		2,421,121.27				26.71	2,421,147.98
CAPITAL OUTLAY:							
Sites				797,011.89			797,011.89
Building				6,533,668.67			6,533,668.67
Equipment				1,010,810.82			1,010,810.82
Instructional Technology				5,558,374.81			5,558,374.81
Energy				6,581.96			6,581.96
Transportation Equipment					1,090,137.06		1,090,137.06
Sales and Lease							
Other	314,398.88			2,721.12			314,398.88
DEBT SERVICE:							
Principal	148,351.44		19,867,711.16	0.00	0.00		20,016,062.60
Interest and Other Charges	77,001.48		6,558,816.89	1,000.00	0.00		6,636,818.37
Bond/Levy Issuance				1,273,480.94	0.00		1,273,480.94
TOTAL EXPENDITURES	339,237,634.81	2,421,121.27	26,426,528.05	15,183,650.21	1,090,137.06	26.71	384,359,098.11

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

Kent School District No. 415

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2017

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	-10,032,663.23	18,503.05	-435,007.58	-5,411,387.74	46,709.27	1,946.33	-15,811,899.90
OTHER FINANCING SOURCES (USES) :							
Bond Sales & Refunding Bond Sales	0.00		0.00	81,143,983.70	0.00		81,143,983.70
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	554,896.99		566,826.00	0.00	0.00		1,121,722.99
Transfers Out (GL 536)	0.00		0.00	-554,896.99	-566,826.00	0.00	-1,121,722.99
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	22,684.28		0.00	1,595,951.14	31,161.00		1,649,796.42
TOTAL OTHER FINANCING SOURCES (USES)	577,581.27		566,826.00	82,185,037.85	-535,665.00	0.00	82,793,780.12
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-9,455,081.96	18,503.05	131,818.42	76,773,650.11	-488,955.73	1,946.33	66,981,880.22
BEGINNING TOTAL FUND BALANCE	3,847,172.71	1,719,906.92	12,350,537.30	774,470.37	1,815,180.25	178,326.50	20,685,594.05
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ENDING TOTAL FUND BALANCE	-5,607,909.25	1,738,409.97	12,482,355.72	77,548,120.48	1,326,224.52	180,272.83	87,667,474.27

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

Kent School District No. 415

Statement Of Fiduciary Net Position

Fiduciary Funds

August 31, 2017

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	0.00	53,681.50
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	163,545.60	104,874.51
Minus Warrants Outstanding	0.00	0.00
Due From Other Funds	20.00	0.00
Accounts Receivable	156.16	118.66
Accrued Interest Receivable	0.00	0.00
Investments	0.00	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	
Capital Assets, Land	0.00	
Capital Assets, Buildings	0.00	
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	163,721.76	158,674.67
LIABILITIES:		
Accounts Payable	0.00	281.32
Due To Other Funds	9,017.42	0.00
TOTAL LIABILITIES	9,017.42	281.32
NET POSITION:		
Held in trust for:		
Held In Trust For Intact Trust Principal	0.00	0.00
Held In Trust For Private Purposes	154,704.34	
Held In Trust For Pension Or Other Post-Employment Benefits		158,393.35
Held In Trust For Other Purposes	0.00	0.00
TOTAL NET POSITION	154,704.34	158,393.35

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

Kent School District No. 415

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2017

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	0.00	0.00
Employer		0.00
Members		392,140.00
Other	123,284.16	0.00
TOTAL CONTRIBUTIONS	123,284.16	392,140.00
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	1,208.59	1,306.75
Less Investment Expenses	0.00	0.00
Net Investment Income	1,208.59	1,306.75
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	124,492.75	393,446.75
DEDUCTIONS:		
Benefits		388,581.63
Refund of Contributions	0.00	0.00
Administrative Expenses	16.05	36,310.00
Scholarships	6,119.75	
Other	29,032.40	0.00
TOTAL DEDUCTIONS	35,168.20	424,891.63
Net Increase (Decrease)	89,324.55	-31,444.88
Net Position--Prior Year August Beginning	65,379.79	189,838.23
Prior Year F-196 Manual Revision	0.00	0.00
Net Position - Total	65,379.79	189,838.23
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	154,704.34	158,393.35

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

Kent School District #415
Notes to the Financial Statements
September 1, 2016 through August 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kent School District is a municipal corporation organized pursuant to Title 28A of the Revised Code of Washington (RCW) for the purposes of providing public school services to students in grades K-12. Oversight responsibility for the District's operations is vested with the independently elected board of directors. Management of the District is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the Accounting Manual for Public School Districts in the State of Washington, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1) and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplementary information.
- (3) Supplementary information required by GAAP is not presented.

Fund Accounting

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

Governmental Funds

General Fund

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

Capital Projects Funds

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

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

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

Debt Service Fund

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

Special Revenue Fund

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. The ASB Fund is used to account for resources that are restricted or committed for those purposes that relate to the operation of the Associated Student Body of the District.

Permanent Funds

These funds are used to report resources that are legally restricted such that only earnings, and not principal, may be expended. Amounts in the Permanent Fund may only be spent in support of the District's programs and may not be used to the benefit of any individual. The district has one Permanent Fund (Reeploeg Permanent Fund), with a principal amount of \$165,000. Investment earnings may be used for the purposes that support the district's performing arts facilities. The district accumulates interest income and can make a distribution every 7 years. The last distribution was made in 2010. This fund was donated by the Reeploeg family.

Fiduciary Funds

Fiduciary funds include pension and other employee benefit trust funds, private-purpose trust funds, and agency funds, and are used to account for assets that are held in trust by the District in a trustee and agency capacity.

Private-Purpose Trust Fund

This fund is used to account for resources that are legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Resources in a Private-Purpose Trust Fund may not be used to support District programs, and may be used to benefit individuals, private organizations, or other governments. The *Employee Vision Benefits Trust* accounts for moneys held in trust for employees participating in the district's self-insured vision benefits plan. The *Invest ED Trust* and other miscellaneous trusts are also reported under Private-Purpose Trust.

Pension (and Other Employee Benefit) Trust Fund

This fund is used to account for resources to be held for the members and beneficiaries of a pension plan or other employee benefit plans.

Measurement focus, basis of accounting, and fund financial statement Presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but are considered to be available only if they are collected within 30 days after year-end. Categorical program claims and interdistrict billings are measurable and available and are accrued.

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

Budgets

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

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

District Policy regarding the application of restricted or unrestricted resources

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

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

Fund balance classifications policies and procedures.

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Receivables and Payables

The District's receivables (or payables) reflect current financial resources (obligations) that are expected to be collected (paid) within one year.

Inventory

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

Summary of Significant Accounting Policy Changes for 2016-2017

The District changed its financial statement reporting for the 2016-2017 fiscal year from presenting financial statements in accordance with Generally Accepted Accounting Principles (GAAP) to financial statements presented in accordance with the regulatory basis of accounting prescribed by the Washington School Accounting Manual. The accounting manual states that the F-196 (annual financial statements), using a modified accrual approach, are the legally required financial statements. A Comprehensive Annual Financial Report (CAFR) is not a required presentation for school districts in Washington. The prior year financial statements included the following elements that are not included in the current year statements:

Management's Discussion and Analysis, which provided financial highlights and an overview of the financial statements;

Government-wide Statements, which include additional information related to assets, liabilities, and deferred inflows and outflows;

Supplementary information, which includes budgetary, other post-employment benefits (OPEB), and pension information.

The effect of this change on the beginning and ending fund balances is immaterial.

Property Taxes – For purposes of revenue recognition, property taxes received after the fiscal year end are not considered available for revenue accrual as defined by GASB Statement 33 and Interpretation 5. Amounts outstanding are recognized as deferred inflow of resources on the financial statements.

Tax Abatements – The Kent School District implemented provisions of GASB Statement 77, Tax Abatement Disclosure. Information about tax abatements entered into by other governmental entities that affect the district's levy rates will be disclosed in a schedule in the Property Taxes note, as applicable.

Nongovernmental Pension Plans – The Kent School District implemented provisions of GASB Statement 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Plans. Information about nongovernmental pension plans will be included in a separate note disclosure, as applicable.

NOTE 2: DEPOSITS AND INVESTMENTS

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

The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

Washington State statutes authorize the district to invest in the following types of securities:

-) Certificates, notes, or bonds of the United States, its agencies, or any corporation wholly owned by the government of the United States,
-) Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System,
-) Bankers' acceptances purchased on the secondary market,
-) Repurchase agreements for securities listed in the three items above, provided that the transaction is structured so that the public treasurer obtains control over the underlying securities,
-) Investment deposits with qualified public depositories,
-) Washington State Local Government Investment Pool, and
-) County Treasurer Investment Pools.

The District's investments as of August 31, 2017, are as follows:

Type of Investment	Fund	Carrying Amount	Fair Value
King Co. Investment Pool			
	General	\$ 2,308,607	\$ 2,306,299
	Capital Projects	85,279,447	85,194,168
	Debt Service	11,966,450	11,954,484
	Associated Student Body	1,742,547	1,740,804
	Transportation	1,325,989	1,324,663
	Trust	268,139	267,871
Total		\$ 102,891,180	\$ 102,788,289

The district's participation in the King County Investment Pool is voluntary and the pool is not rated by a nationally recognized statistical rating organization (NRSRO). The fair value of the district's investment in the pool is measured using a net asset value (NAV) as determined by the pool. The pool maintains an average effective duration of .98 years.

NOTE 3: PENSION PLANS

General Information

The Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, prepares a stand-alone comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each pension plan. The pension plan's basic financial statement is accounted for using the accrual basis of accounting. The measurement date of the pension plans is June 30. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The school district is reporting the net pension liability in the notes and on the Schedule of Long-term Liabilities calculated as the district's proportionate allocation percentage multiplied by the total plan collective net pension liability.

Detailed information about the pension plans' fiduciary net position is available in the separately issued DRS CAFR. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504-8380; or online at <http://www.drs.wa.gov/administrations/annual-report>.

Membership Participation

Substantially all school 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 DRS: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS).

Membership participation by retirement plan as of June 30, 2017, was as follows:

Plan	Active Members	Inactive Vested Members	Retirees & Beneficiaries Receiving Benefits
PERS1	2,593	663	48,268
SERS2	27,011	5,880	8,229
SERS3	33,890	8,330	7,735
TRS1	697	188	34,225
TRS2	19,133	2,532	5,076
TRS3	54,487	8,568	10,289

Source: Washington State Office of the State Actuary

Membership & Plan Benefits

Certificated employees are members of TRS. Classified employees are members of PERS (if Plan 1) or SERS. Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. TRS 1 and PERS 1 are closed to new entrants.

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability and death benefits. TRS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the average final compensation (AFC), for each year of service credit, up to a maximum of 60 percent, divided by twelve. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two. Members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

TRS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) per year of service for Plan 2 members and one percent of AFC for Plan 3 members. The AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit. Members are eligible for normal retirement at the age of 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. TRS Plan 2/3 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. TRS Plan 2/3 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

TRS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

PERS Plan 1 provides retirement, disability and death benefits. PERS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan

with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

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

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

SERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months before retirement, termination or death. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. SERS members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. SERS members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

SERS members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

Plan Contributions

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

Pension Rates

	7/01/2017 Rate	7/01/2016 Rate
<u>PERS1</u>		
Member Contribution Rate	6.00%	6.00%
Employer Contribution Rate	12.70%	11.18%
	9/01/2017 Rate	9/01/2016 Rate
<u>TRS1</u>		
Member Contribution Rate	6.00%	6.00%
Employer Contribution Rate	15.20%	13.13%
<u>TRS2</u>		
Member Contribution Rate	7.06%	5.95%
Employer Contribution Rate	15.20%	13.13%
<u>TRS3</u>		
Member Contribution Rate	varies*	varies*
Employer Contribution Rate	15.20%	13.13% **
<u>SERS2</u>		
Member Contribution Rate	7.27%	5.63%
Employer Contribution Rate	13.48%	11.58%
<u>SERS3</u>		
Member Contribution Rate	varies*	varies*
Employer Contribution Rate	13.48%	11.58% **

Note: The DRS administrative rate of .0018 is included in the employer rate.

* Variable from 5% to 15% based on the rate selected by the member.

** Defined benefit portion only.

The Collective Net Pension Liability

The collective net pension liabilities for the pension plans districts participated in are reported in the following table.

Net Pension Liability as of June 30, 2017:				
Dollars in Thousands	PERS1	SERS2/3	TRS1	TRS2/3
Total Pension Liability (TPL)	\$ 12,241,998	\$ 5,357,035	\$ 8,782,761	\$ 13,446,531
Plan Fiduciary Net Position	\$ (7,496,920)	\$ (4,863,560)	\$ (5,759,493)	\$ (12,523,588)
Participating Employers' Net Pension Liability (NPL)	\$ 4,745,078	\$ 493,475	\$ 3,023,268	\$ 922,943
Plan Fiduciary as a Percentage of the TPL	61.24%	90.79%	65.58%	93.14%

The School District's Proportionate Share of the Net Pension Liability (NPL)

At June 30, 2017, the school district reported a total liability of \$138,108,600 for its proportionate shares of the individual plans' collective net pension liability. Proportions of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2017, the district's proportionate share of each plan's net pension liability is reported below:

as of June 30, 2017:	PERS1	SERS2/3	TRS1	TRS2/3
District's Annual Contributions	\$ 2,473,485	\$ 3,330,829	\$ 9,413,195	\$ 10,034,744
Proportionate Share of the Net Pension Liability (NPL)	\$ 19,511,851	\$ 12,135,229	\$ 81,325,155	\$ 25,136,365

At June 30, 2017, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below.

Allocation Percentages:	PERS1	SERS2/3	TRS1	TRS2/3
Current Year Proportionate Share of the NPL	0.411202%	2.459138%	2.689975%	2.723501%
Prior Year Proportionate Share of the NPL	0.408103%	2.605280%	2.646186%	2.703228%
Net Difference Percentage	0.003099%	-0.146142%	0.043789%	0.020273%

Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class provided by the Washington State Investment Board. The Office of the State Actuary relied on the CMAs in the selection of the long-term expected rate of return for reporting purposes.

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2016, with the results rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary Increases	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment Rate of Return	7.5%

Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2016, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (WSIB). Those expected returns make up one component of WSIB's CMAs. The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

-) Expected annual return
-) Standard deviation of the annual return;
-) Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a fifty-year time horizon, increased slightly to remove WSIB's implicit and small short-term downward adjustment due to assumed mean reversion. WSIB's implicit short-term adjustment, while small and appropriate over a ten to fifteen-year period, becomes amplified over a fifty-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20.0%	1.7%
Tangible Assets	5.0%	4.9%
Real Estate	15.0%	5.8%
Global Equity	37.0%	6.3%
Private Equity	23.0%	9.3%

The inflation component used to create the above table is 2.20 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Kent School District's proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage-point higher (8.50 percent) than the current rate. Amounts are calculated using the school district's specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability.

Sensitivity of the Net Pension Liability to changes in the discount rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
PERS 1 - NPL	\$ 5,780,412,000	\$ 4,745,078,000	\$ 3,848,257,000
Allocation Percentage	0.411202%	0.411202%	0.411202%
District's Proportionate Share of Collective NPL	\$ 23,769,164	\$ 19,511,851	\$ 15,824,106
SERS 2/3 - NPL	\$ 1,278,921,000	\$ 493,475,000	\$ (153,665,000)
Allocation Percentage	2.459138%	2.459138%	2.459138%
District's Proportionate Share of Collective NPL	\$ 31,450,427	\$ 12,135,229	\$ (3,778,834)
TRS 1 - NPL	\$ 3,759,368,000	\$ 3,023,268,000	\$ 2,386,123,000
Allocation Percentage	2.689975%	2.689975%	2.689975%
District's Proportionate Share of Collective NPL	\$ 101,126,061	\$ 81,325,155	\$ 64,186,113
TRS 2/3 - NPL	\$ 3,134,647,000	\$ 922,943,000	\$ (873,375,000)
Allocation Percentage	2.723501%	2.723501%	2.723501%
District's Proportionate Share of Collective NPL	\$ 85,372,154	\$ 25,136,365	\$ (23,786,380)

NOTE 4: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS

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

Employers participating in the plan include the state of Washington (which includes general government agencies and higher education institutions), 60 of the state's K–12 school districts and educational service districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 237 K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2016-17, the District was required to pay the HCA \$64.39 per month per full-time equivalent employee to support the program, for a total payment of \$2,216,203. This assessment to the District is set forth in the state's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its annual required contribution nor the

net other post-employment benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements.

NOTE 5: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

In 2012, the Kent School District and Green River Community College partnered to implement a drop out recovery program. This program ("iGrad" – Individualized Graduation and Degree Program) is located in the Kent Hill Plaza. The district and college, working with the leasing agent, agreed on a two-year initial lease, with two, two-year lease extension options. The schedule for lease payment for the next three years is as follows:

	I-Grad Lease #1	I-Grad Lease #2	Total Payments
2016-17	\$102,463	\$109,546	\$212,009
2017-18	\$104,198	108,226	\$212,424
2018-19	\$109,963	108,226	\$218,189
2019-20	\$84,587	90,188	\$174,775
Total	\$401,210	\$416,186	\$817,396

The district entered into a non-cancelable operating lease arrangement with Puget Sound Energy for a fueling station for district buses that operate on natural gas. The lease payments for the next ten years are as follows:

Natural Gas Fueling Station Lease	
2017-18	\$308,652
2018-19	\$308,652
2019-20	\$308,652
2020-21	\$308,652
2021-22	\$308,652
2022-23	\$308,652
2023-14	\$308,652
2024-25	\$308,652
2025-26	\$308,652
2026-27	\$308,652
Total	\$3,086,520

The district has established capital lease agreements with Witt/Kyocera and Xerox for copiers throughout the district. The payments under these lease arrangements are as follows:

Kyocera Copier Lease		Xerox Copier Lease	
2016-17	\$160,621	2017-18	\$7,208
2017-18	\$160,621	2018-19	\$7,208
2018-19	\$160,621	2019-20	\$7,208
2019-20	\$160,621	2020-21	\$7,208
2020-21	\$120,464	2020-22	\$7,208
Total	\$762,948	Total	\$36,040

NOTE 6: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District has active construction projects as of August 31, 2017:

Project	Approved Project Budget	Expenses to Date thru 8/31/17	Balance as of 8/31/17
0000 & 2033 - FP Administration	\$ 2,993,096	\$ 1,867,325	\$ 1,125,771
2048 - Tennis Courts	500,000	12,499	487,501
2075 - JC Fire Alarm Replacement	294,616	5,135	289,481
2077 - NO EMS Upgrades	443,085	-	443,085
2092 - Fields NW, KM, KR	4,727,843	25,047	4,702,796
2094 - KR Bus Loop	175,000	221,879	(46,879)
2182 - CH Exterior Paint	350,000	1,274	348,727
2226 - Presentation Systems	1,500,000	-	1,500,000
2303 - Maintenance Storage Building	1,723,910	70,869	1,653,041
2380 - NO Flooring	1,000,000	-	1,000,000
2381 - Boilers GR & KE	163,876	163,876	-
2381 - Boilers CH & KL	1,177,040	-	1,177,040
2501 - Covington Replacement	46,027,470	3,875,749	42,151,721
2504 - Transportation Parking	1,202,764	110,039	1,092,725
2610 - ME W Building Roof	287,000	227,415	59,585
2633 - NO Heating	2,710,480	-	2,710,480
2634 - Portable Ramps CW, NO, SC, SR	-	49,175	(49,175)
2639 - 103 CV Multi-Purpose Room	3,665,671	-	3,665,671
2639 - 118 FW Multi-Purpose Room	3,665,671	-	3,665,671
2639 - 127 GL Multi-Purpose Room	3,727,671	265,892	3,461,779
2639 - 163 PO Multi-Purpose Room	3,665,671	218,869	3,446,802
2639 - 166 PT Multi-Purpose Room	-	-	-
2639 - 178 SC Multi-Purpose Room	3,665,671	-	3,665,671
Totals	\$ 83,666,535	\$ 7,115,042	\$ 76,551,493

In February 2014, voters approved the renewal of a General Fund Educational Programs and Operations Excess Levy. This was a 4-year levy (2015 through 2018) providing taxing authority in the amount of \$307.4 million. Also in 2014, voters passed a 4-year special capital/technology levy in the amount of \$30.0 million (2015 through 2018).

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2017:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 174,922
ASB Fund	\$ 10,809
Capital Projects Fund	\$ 28,222,013
Transportation Vehicle Fund	\$ 0

NOTE 7: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of \$1,051,391,667 for fiscal year 2016-17. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 8: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

General Obligation Bonds

In November 8, 2016, voters approved a Capital Improvement and School Construction Bond. This \$252 million bond authorization will fund construction of two new elementary schools and twenty additional classrooms to accommodate projected student growth and meet the state's class-size reduction levels in grades K-3. The bonding capacity will also provide funding for numerous other projects throughout the district. These bonds replace expiring bonds without raising overall tax rates.

Bonds payable at August 31, 2017, are comprised of the following individual issues:

OUTSTANDING GENERAL OBLIGATION BONDS					
	Amount Authorized and Issued	Issue Dates	Maturity Dates	Interest Rates	Amount Outstanding
					-
2005 Refunding	69,265,000	5/2/05	12/1/18	5.00%	11,020,000
2007 Building Fund	15,000,000	11/7/07	12/1/26	4.00 - 3.375%	1,080,000
2008 Building Fund	25,000,000	11/1/08	12/1/27	4.00-5.125%	2,435,000
2008 LGO Bonds	1,800,000	5/8/2008	6/1/18	4.27%	216,676
2010 Refunding	12,995,000	11/4/2010	12/1/22	2.00%-3.00%	8,430,000
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%	10,085,000
2012A Refunding	19,370,000	10/25/2012	12/1/24	2.00-4.00%	14,280,000
2013 Building Fund	14,620,000	5/1/2012	12/1/32	2.00-5.00%	13,725,000
2015 LGO Bonds	5,000,000	6/11/2015	12/1/25	2.55%	4,555,000
2015 Refunding	37,995,000	11/19/2015	12/1/27	3-5%	37,995,000
2017 Building Fund	74,906,000	2/7/2017	12/1/36	3-5%	74,906,000
	<u>\$ 305,551,000</u>				<u>\$ 193,727,676</u>

The following is a schedule of annual requirements to amortize debt at August 31, 2017:

Debt Service Requirement to Maturity			
Year Ending	General Obligation Bonds		
August 31,	Principal	Interest	Total
2018	16,371,676	7,916,071	24,287,747
2019	20,215,000	7,134,214	27,349,214
2020	15,860,000	6,365,545	22,225,545
2021	16,470,000	5,664,727	22,134,727
2022	13,765,000	5,012,191	18,777,191
2023	13,990,000	4,415,698	18,405,698
2024	8,830,000	3,911,210	12,741,210
2025-2037	88,226,000	19,534,907	107,760,907
	<u>\$ 193,727,676</u>	<u>\$ 59,954,563</u>	<u>\$ 253,682,239</u>

NOTE 9: INTERFUND BALANCES AND TRANSFERS

Interfund transactions consist of: 1) reimbursement due to the General Fund for salary, inventory issues, and work-order expenditures budgeted, and properly chargeable to other funds, recorded as reductions in expenditures to the General Fund, and expenditures in the reimbursing fund; 2) transfers to Debt Service Fund for debt payments and 3) other interfund transfers as authorized.

The following table depicts interfund transfer activity:

Fund	Due From Other Funds	Due To Other Funds
General	\$ 139,374	\$ 162,490
Special Revenue (ASB)	160,942	7,973
Debt Service	1,529	122,385
Private Purpose Trust	20	9,017
	<u>\$ 301,865</u>	<u>\$ 301,865</u>

The following table depicts interfund loan activity:

Debtor Fund	Lending Fund	Balance at 9/1/2016	Loan Activity		Balance at 8/31/2017
			New Loans	Repayments	
General	Capital Projects	\$ -	\$ 10,000,000	\$ (10,000,000)	\$ -
General	Capital Projects	-	15,000,000	(15,000,000)	-
Totals		<u>\$ -</u>	<u>\$ 25,000,000</u>	<u>\$ (25,000,000)</u>	<u>\$ -</u>

In February 2017, the school board approved an interfund loan from the Capital Projects Fund to the General Fund in the amount of \$10,000,000 to assist with cash flow requirements. This loan was intended to be a short-term loan, to be repaid by July 1, 2017. The board approved the renewal of this interfund loan in July of 2017, in the amount of \$15,000,000, to be repaid by April 30, 2018. For accounting purposes, this loan was repaid on August 31, 2017, and subsequently re-borrowed on September 1, 2017. The repayment of this loan, including interest, is a priority and will be continually evaluated as fund balance improves.

NOTE 10: ENTITY RISK MANAGEMENT ACTIVITIES

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

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 program or organization for the joint purchasing of insurance, and/or

joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, 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 program was formed on September 1, 1995, when seven mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW has 37 member districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Acts Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: Property, Earthquake, General Liability, Automotive Liability, Equipment Breakdown, Crime, and Wrongful Acts Liability.

The program acquires Liability insurance through their administrator, Clear Risk Solutions, which is subject to a per-occurrence self-insured retention (SIR) of \$100,000. Members are responsible for a standard deductible of \$2,500 for each claim (some member deductibles vary), while the program is responsible for the \$100,000 SIR. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 SIR. The program also purchases a Stop Loss Policy with an attachment point of \$3,036,316, which it fully funds in its annual budget.

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

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

The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending August 31, 2017 were \$3,233,172.

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

The district paid \$1,724,922 in premiums to the Schools Insurance Association of Washington for insurance coverage from September 1, 2016, through August 31, 2017.

NOTE 11: PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended

August 31. Property taxes receivable are measurable but are considered to be available only if they are collected within 30 days after year-end.

NOTE 12: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by signing Articles of Agreement dated May 29, 1974, and has remained in the joint venture ever since. The District's current equity of \$296,778 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

Purchases for the calendar year 2017 totaled \$642,998. Financial reports of the purchasing cooperative may be obtained from the King County Director's Association, 18639 80th Avenue S., Kent, WA 98064

NOTE 13: FUND BALANCE CLASSIFICATION DETAILS

The District's financial statements include the following amounts presented in the aggregate.

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund	Permanent Fund
Nonspendable Fund Balance						
Inventory & Prepaid Items	669,754	45,875	-	-	-	-
Permanent Fund Principal	-	-	-	-	-	165,000
Restricted Fund Balance						
Fund Purposes	-	1,692,535	-	-	1,326,225	-
Debt Service	-	-	-	12,482,356	-	-
Bond Service	-	-	72,032,922	-	-	-
State Proceeds	-	-	218,626	-	-	-
Carryover of Restricted Revenues	1,455,427	-	-	-	-	-
Self-Insurance, Uninsured Risks	1,193,305	-	-	-	-	-
Other Proceeds	-	-	121,945	-	-	-
Committed Fund Balance						
Levy Proceeds	-	-	3,428,594	-	-	-
Assigned Fund Balance	-	-	1,746,033	-	-	15,272
Unassigned Fund Balance	(8,926,395)	-	-	-	-	-
Total Fund Balance	\$ (5,607,909)	\$ 1,738,410	\$ 77,548,120	\$ 12,482,356	\$ 1,326,225	\$ 180,272

The School Board and district management are committed to maintaining General Fund fund balance sufficient to provide stability of programs and to maintain sound financial practices. On June 1, 2009, the School Board adopted Policy No. 6002 – Minimum Fund Balance, which provides a target of minimum fund balance equal to 5% of the previous year general fund expenditures. The 2017-2018 budget was adopted with a budgeted ending fund balance of \$1,195,541 or 0.34% of budgeted General Fund expenditures. The August 31, 2017 actual General Fund fund balance was -\$5,607,909. The district is currently collaborating with the Puget Sound Educational District (PSESD) and the Office of Superintendent of Public Instruction (OSPI) to improve the district's financial condition.

NOTE 14: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS

457 Plan – Deferred Compensation Plan

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

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

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by TSA Consulting. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements. For the year ended August 31, 2017, the District made \$114,490 in employer matching contributions to the plan.

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 premiums. 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.

NOTE 15: TERMINATION BENEFITS

Compensated Absences

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

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

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using 25% of per diem value of all accumulated sick leave of the employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments, plus related Security and Medicare taxes.

Vacation pay, including benefits, that is expected to be liquidated with expendable available financial resources is reported as expenditures and a fund liability of the governmental fund that will pay it.

NOTE 16: OTHER DISCLOSURES

The District ended the 2016-2017 fiscal year with a negative ending fund balance of -\$5,607,909. The 2017-2018 adopted budget was prepared using very conservative revenue projections and includes significant expenditure reductions in order to return to a positive fund balance position. The District is working collaboratively with staff from the Puget Sound Educational District (PSESD) and the Office of the Superintendent of Public Instruction (OSPI) to improve the financial condition of the district.

Kent School District No. 415
Schedule of Long-Term Liabilities
For the Year Ended August 31, 2017

Description	Beginning Outstanding Debt September 1, 2016	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2017	Amount Due Within One Year
Voted Debt					
Voted Bonds	133,265,000.00	74,906,000.00	19,215,000.00	188,956,000.00	15,700,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt and Liabilities					
Non-Voted Bonds	5,424,386.00	0.00	652,711.00	4,771,675.00	671,676.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Capital Leases	762,948.45	36,040.00	160,621.00	638,367.45	167,829.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	3,402,726.00	501,190.00	520,661.00	3,383,255.00	521,076.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	5,995,818.00	4,713,460.00	4,668,202.00	6,041,076.00	4,668,199.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt					
Net Pension Liabilities:	0.00	0.00	0.00	0.00	0.00
Net Pension Liabilities TRS 1	90,347,046.00	0.00	9,021,891.00	81,325,155.00	
Net Pension Liabilities TRS 2/3	37,123,349.00	0.00	11,986,983.00	25,136,366.00	
Net Pension Liabilities SERS 2/3	17,110,622.00	0.00	4,975,393.00	12,135,229.00	
Net Pension Liabilities PERS 1	21,917,069.00	0.00	2,405,218.00	19,511,851.00	
Total Long-Term Liabilities	315,348,964.45	80,156,690.00	53,606,680.00	341,898,974.45	21,728,780.00

Kent School District #415
Schedule of Expenditures of Federal Awards
Fiscal Year Ending August 31, 2017

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other ID / Award Number	Expenditures		Passed Through to Subrecipients	Notes Ref.
					Direct Award	Pass - Through		
U.S. Dept of Agriculture								
Child Nutrition Cluster								
	WA OSPI	School Breakfast Program - Cash Assistance	10.553	N/A		\$1,250,301	\$1,250,301	2
	WA OSPI	National School Lunch Program - Cash Assistance	10.555	N/A		\$6,033,150	\$6,033,150	2
	WA OSPI	National School Lunch Program - Commodities	10.555	N/A		\$904,812	\$904,812	3
	WA OSPI	Summer Food Service Program for Children - Cash Assistance	10.559	N/A		\$166,151	\$166,151	2
	WA OSPI	Summer Food Service Program for Children - Commodities	10.559	N/A		\$5,190	\$5,190	3
Subtotal Child Nutrition Cluster					\$0	\$8,359,604	\$8,359,604	\$0
	WA OSPI	Child and Adult Care Food Program - Cash Assistance	10.558	N/A		\$55,525	\$55,525	2
	WA OSPI	Child Nutrition Discretionary Grants Limited Availability	10.579	710181		\$17,662	\$17,662	
	WA OSPI	Fresh Fruit and Vegetable Program	10.582	N/A		\$171,247	\$171,247	2
Total U.S. Dept of Agriculture					\$0	\$8,604,037	\$8,604,037	\$0
U. S. Dept of Defense								
		JROTC Program	12.UNKNOWN	N/A	\$86,998		\$86,998	2
		JROTC Program	12.M6701999A0014	M67019-99-A-0014	\$964		\$964	
Total U.S. Dept of Defense					\$87,962	\$0	\$87,962	\$0

Kent School District #415
Schedule of Expenditures of Federal Awards
Fiscal Year Ending August 31, 2017

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other ID / Award Number	Expenditures		Passed Through to Subrecipients	Notes Ref.
					Direct Award	Pass - Through	Total	
Institute of Museum and Library Services								
	WA State Office of Secretary of State	Grants to States	45.310			\$4,896	\$4,896	
Total Institute of Museum and Library Services					\$0	\$4,896	\$4,896	\$0
National Science Foundation								
	Green River College	Education and Human Resources	47.076	F420897		\$66,218	\$66,218	5
Total National Science Foundation					\$0	\$66,218	\$66,218	\$0
U. S. Dept of Education								
Special Education Cluster (IDEA)								
	WA OSP1	Special Education - Grants to States	84.027	305793		\$4,983,383	\$4,983,383	5
	WA OSP1	Special Education - Grants to States	84.027	337942		\$661,004	\$661,004	
	WA OSP1	Special Education - Preschool Grants	84.173	363789		\$129,779	\$129,779	5
	WA OSP1	Special Education - Preschool Grants	84.173	385407		\$4,470	\$4,470	
Subtotal Special Education Cluster (IDEA)					\$0	\$5,778,636	\$5,778,636	\$0
	WA OSP1	Title I Grants to Local Educational Agencies	84.010	202383		\$6,999,818	\$6,999,818	4, 5
	WA OSP1	Title I Grants to Local Educational Agencies	84.010	263136		\$16,268	\$16,268	5

Kent School District #415
Schedule of Expenditures of Federal Awards
Fiscal Year Ending August 31, 2017

Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other ID / Award Number	Expenditures		Passed Through to Subrecipients	Notes Ref.
					Direct Award	Pass - Through		
	WA OSPJ	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	887390		\$7,809	\$7,809	
	WA OSPJ	English Language Acquisition State Grants	84.365	402379		\$500,063	\$500,063	5
	WA OSPJ	Supporting Effective Instruction State Grant	84.367	524017		\$578,347	\$578,347	5
	Puget Sound ESD	Race to the Top - District Grants	84.416	8749		\$282,632	\$282,632	5
	Puget Sound ESD	Race to the Top - District Grants	84.416	9391		\$68,044	\$68,044	5
	Puget Sound ESD	Race to the Top - District Grants	84.416	9390		\$100,644	\$100,644	5
	Puget Sound ESD	Race to the Top - District Grants	84.416	8966		\$154,815	\$154,815	5
	Puget Sound ESD	Race to the Top - District Grants	84.416			\$66,644	\$66,644	
Total U.S. Dept of Education					\$0	\$14,553,719	\$14,553,719	\$0
U. S. Dept of Health and Human Services								
WA DSHS Schools Out Washington		Refugee and Entrant Assistance - Discretionary Grants	93.576	SS170902CGR		\$95,000	\$95,000	5
Total U.S. Dept Health/Human Services					\$0	\$95,000	\$95,000	\$0
Total Federal Awards Expended					\$87,962	\$23,323,870	\$23,411,832	\$0

Kent School District #415
Notes to the Schedule of Expenditures of Federal Awards
Year Ending August 31, 2017

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Kent School 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 CONSTRUCTION

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 federal amount received from the grantor.

NOTE 3 - NON-CASH AWARDS

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 the U.S. Department of Agriculture.

NOTE 4 - SCHOOLWIDE PROGRAMS

Kent School District operates a "schoolwide program" in twenty elementary buildings and one middle school. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students rather than limit 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 amount was expended by the Kent School District in its schoolwide program: Title I-A (84.010) \$2,573,856

NOTE 5 - FEDERAL INDIRECT RATE

The Kent School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

The Kent School District used their 16-17 federal restricted indirect rate of 7.06% with the following exceptions:

CFDA 47.076 National Science Foundation - Education and Human Resources used 7% indirect rate
CFDA 84.048 US Dept of Ed - Career and Technical Education Basic Grants to States indirect rate capped at 5%
CFDA 84.365 US Dept of Ed - English Language Acquisition State Grants indirect rate capped at 2%
CFDA 84.416 US Dept of Ed - Race to the Top District Grants used 8% indirect rate



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Kent School District No. 415

King County

September 1, 2016 through August 31, 2017

This schedule presents the corrective action planned by the District for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2017-001	Finding caption: The District did not have adequate internal controls to ensure compliance with Title I grant requirements for qualifications of paraprofessionals.
Name, address, and telephone of District contact person: Jaime Frazier, Human Resources Kent School District 253-373-7533	
Corrective action the auditee plans to take in response to the finding: <i>The Kent School District has initiated an internal review of current paraprofessional personnel files to identify any documentation needs that require follow-up.</i> <i>Once the review is complete, KSD will begin the process of requesting the documentation needed, from the identified individuals, to ensure they meet the Title I requirements for highly qualified paraprofessional.</i> <i>To ensure compliance moving forward, KSD is changing the procedures to ensure that newly hired individuals into a paraprofessional position will not be permitted to start work until all required documentation has been verified.</i>	
Anticipated date to complete the corrective action: Complete internal review & restructure process for new hires: September, 2018 Complete CAP with documentation for existing employees: August, 2019	

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