



February 20 2007

Ms. Sandy Collins, President of the Board of Directors
Members of the Board
Citizens of the Kent School District

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Kent School District for the fiscal year ended August 31, 2006. We believe the information, as presented, is accurate in all material aspects; that it is presented in a manner designed to set forth fairly, in all material respects, the financial position and results of operations of the district as measured and reported by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain an adequate understanding of the district's financial affairs have been included. It is the responsibility of the management of the district to prepare the CAFR.

The Office of the State Auditor has audited the financial records, books of account, and transactions of the school district for the fiscal year ended August 31, 2006. The scope of the audit concentrated on the following areas:

1. Management section: report on compliance with laws and regulations and report on internal control structure.
2. Financial section: report on financial statements in accordance with Generally Accepted Accounting Principles (GAAP).
3. Single audit section (revised OMB A-133): report on financial statements, internal control, compliance, audit findings, and questionable costs.

These requirements have been complied with, and the auditor's opinion has been included in this report.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Kent School District's MD&A can be found immediately following the report of the independent auditors.

To facilitate the understanding of the district's financial affairs, the CAFR is divided into three sections as described below:

The **Introductory Section** includes a table of contents, a letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting for the year ended August 31, 2005, photographs of the superintendent and board members, a list of principal officials, an organizational chart, and a list of schools. This section is intended to provide a summary of financial transactions, an overview of the district as one entity and a summary of other significant facts or trends related to the district.

The **Financial Section** of the CAFR consists of the independent auditor's report, management's discussion and analysis, basic financial statements (Government-Wide,

Governmental Fund, Fiduciary Fund Financial Statements), notes to the financial statements, required supplementary information, and additional supplemental data.

The **Statistical Section** includes trends and local area information about the school district and enhances the informative and useful nature of the CAFR.

The Reporting Entity and Its Services

The CAFR includes all the funds of the school district. The district is an independent reporting entity clearly within the criteria established in the codification of Governmental Accounting and Financial Standards, Section 2100. The district is not affiliated with the city of Kent or other government jurisdictions.

The district provides public education to preschool through twelfth-grade students. The public education provided includes a strong academic program of basic education, a comprehensive education for handicapped students, a vocational program at the secondary level, and numerous special programs for remedial and enriched education.

Long Term Planning and Major Initiatives

Kent School District continues efforts to ensure that the school district is meeting the local needs and goals for the school system during this time of financial challenge and increased performance expectations. In spring 2001, a 28-member strategic planning team comprised of parents, students, staff, and community members was formed to review the 1993-2000 Strategic Plan and to create a new plan to guide the district in the future. The team was asked to define community and district strengths and challenges and to develop a vision and goals that would serve the children of our communities through the first decade of the twenty-first century. The planning team identified curriculum, educational practices, instruction, community relationships, human resources, and learning facilities as areas of focus and created a model of what the district will look like by 2010. The team also identified five goals and core principles to guide future decision-making. As a result of this work, the KSD Board of Directors approved the Strategic Planning Team's recommendation for a new mission statement, "Successfully Prepare All Students For Their Future." The board also supported the team's recommendation that the district regularly adjust goals and strategies in order to keep pace with changing needs and priorities. The Strategic Plan has been updated for the fiscal years 2002-2008. Details can be found on the district's website: <http://www.kent.k12.wa.us/KSD/CR/strategicplan/index.html>

Recognition from the federal government, private corporations, and national and international organizations attest to the performance and innovative spirit of the Kent School District system. Our taxpayers also recognize the value of our schools, and the continuing needs of the school system. On February 7, 2006, the district's voters approved the Replacement Educational Program and Operations levy, Replacement Technology levy and Capital Improvement and School Construction Bond with 65.23%, 65.17% and 60.57% approval rates respectively. The Replacement Educational Program and Operations levy is a four-year levy which provides twenty percent (20%) of the district annual operational revenue. The Replacement Technology levy provides \$5 million per year over four years, to increase access for all students, to provide presentation stations for every classroom, and to replace outdated

computers in classrooms, libraries, and for school staff. The Capital Improvement and School Construction Bond will provide \$106 million to address repair and maintenance, additional capacity, and health and safety.

The unspent bond proceeds of the \$69.5 million authorized by the voters in February 2002, will be used during the 2006-07 fiscal year for remodeling and renovation projects identified in the 2002 bond issue.

The four-year technology levy passed by the voters in February 7, 2006, will provide computer technology needs for all students, presentation stations for every classroom and replace outdated classroom and library computers. The district is working to provide teachers with the necessary skills to effectively leverage the use of technology to powerfully impact teaching and learning. As a result, teachers are developing instructional units that integrate new technology in meaningful ways to provide new and diverse learning opportunities for all KSD students. During 2006-07, the district expects to collect \$2,652,000, the first portion of the 2006 technology levy.

Financial Information, Management, and Control

This report includes all activities considered by the state of Washington to be a part of the public school system. The Government-Wide Financial Statements and the Fund Financial Statements (Schedules 1 through 4A), and the Notes to the Financial Statements presented in accordance with Governmental Accounting Standards Board Statements 34, provide financial data utilizing government-wide and individual fund perspectives. A more complete explanation of the financial statements is presented in the Management's Discussion and Analysis section of this report. Presented below is a brief description of financial information, management of financial resources and obligations, and control techniques applicable to financial resources and obligations.

Accounting Systems and Budgetary Control In developing and evaluating the district's accounting system, consideration is given to the adequacy of the internal control structure. The internal control structure is designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the district's internal control structure adequately safeguards assets, and provides reasonable assurance of proper recording of financial transactions.

Budgetary control is maintained at the program level by monitoring the encumbrance of estimated purchase amounts, and by finance office review and approval of all requests for personnel. Chapter 28A.505, Revised Code of Washington, and Chapter 392-123 of the Washington Administrative Code mandate school district budget policies and procedures. Total budgeted expenditures for each fund cannot be exceeded. Transfers of budget classes may be made by the district administrators with budget responsibilities, subject to restrictions

imposed by the school district board of directors. Open encumbrances are reported as reservations of fund balance at August 31.

As a recipient of federal and state financial assistance, the district is required to undergo a single audit in conformity with the provisions of the Single Audit Act of 1984, replaced by the Single Audit Act Amendment of 1996, and U.S. Office of Management and Budget Circular A-133 (revised 6/30/97), Audits of States, Local Governments, and Non-Profit Organizations. The Washington State Auditor's Office performed the annual audit of the district in compliance with the Single Audit Act and has issued an unqualified ("clean") opinion on the Kent School District's financial statements for the year ended August 31, 2006. The independent auditor's report is located at the front of the financial section of this report.

General Government Functions

Cash Management The King County Treasurer is the ex-officio treasurer for the school district. In this capacity, the county treasurer collects deposits and transacts investments on the district's behalf. As of February 1, 2002, the district participates in the King County Investment Pool, so that all cash deposits made to the county treasurer are pooled with deposits of the county and other entities and invested as authorized by state law, with interest credited back to the district's funds in proportion to the amount deposited by those funds. The district's cash management and investment procedures are described more fully in Note 1-F-1 and Note 2 to the Financial Statements.

Risk Management The district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; layoff of employees, injuries to employees; and natural disasters through the course of normal operations. The district monitors and maintains liability insurance considered to be economically justifiable for the level of coverage necessary. The probability of substantial risk for loss to the district, legal requirements and constraints, future trends, and historical experience are considered. The district's risk management policies and insurance coverage are described in detail in Note 11B to the Financial Statements.

Enrollment The Kent School District's average enrollment in 2005-06 was 25,674 students. The table below shows the average F.T.E. enrollment the last four years and the projection for fiscal year 2006-07.

FULL-TIME EQUIVALENT (FTE) ENROLLMENT					
Actual and Projected (P) Average Enrollment					
Grade	2003	2004	2005	2006	2007(P)
Total Kindergarten	872	905	917	944	916
Total 1 - 3	5,905	5,796	5,921	5,903	5,997
Total 4	2,048	2,073	2,054	2,035	1,976
Total 5 - 6	4,306	4,268	4,251	4,254	4,228
Total 7 - 8	4,422	4,547	4,458	4,487	4,475
Total 9 - 12	7,622	7,641	8,028	8,050	8,262
Total K-12	25,175	25,230	25,629	25,674	25,854

Debt Administration The ratio of net bonded debt to assessed valuation, and the amount of bonded debt per FTE (full-time equivalent) student are useful indicators of the district's debt position. These ratios for fiscal years ended 2002 through 2006 are as follows:

Bonded Debt Ratios by Year			
Fiscal year	Net Bonded Debt	Ratio of Debt to Assessed Value (100% of Actual Value)	Debt per Average FTE Student
2006	211,285,727	1.41	\$ 8,230
2005	226,097,642	1.63	8,822
2004	218,189,554	1.66	8,648
2003	204,455,222	1.64	8,121
2002	195,461,077	1.69	7,769

The limited and unlimited tax general obligation bonds outstanding as of August 31, 2006, totaled \$220,201,842. Please refer Note # 7C for more details.

Special Revenue Fund - ASB

The Associated Student Body Fund (ASB) is established for the purpose of supporting extra-curricular student activities. The funds are generated through students' fundraising, donations, and student fees.

ASB revenues were under budget by \$.80 million and expenditures were under budget by \$1.20 million, resulting in a net increase in fund balance of \$.05 million.

A recap of changes in the fund balances for the fiscal year ended August 31, 2006, is presented below:

	Amount
Fund Balance 9/1/05	\$ 1,499,384
Revenues:	
General ASB	1,252,069
Athletics	411,387
Classes	127,408
Clubs	1,335,482
Private Monies	43,565
Total Revenues	3,169,911
Expenditures:	
General ASB	857,721
Athletics	716,226
Classes	115,164
Clubs	1,389,303
Private Monies	38,208
Total Expenditures	3,116,621
Fund Balance 8/31/06	\$ 1,552,674

Capital Projects Fund

The proceeds from the sales of unlimited general obligation bonds and state matching monies for construction of major capital facilities are accounted for in the Capital Projects Fund. Completed construction projects are capitalized and depreciated in the government-wide statement of net assets and statement of activities.

The completed construction projects and the additional construction in progress in 2005-06, were \$10.52 million and \$12.15 million respectively.

Transportation Vehicle Fund

The fund receives its revenues from the state allocation based on the depreciation of district-owned buses. Revenue in this fund is to be used for the purchase, major repair, rebuilding, and related debt service incurred for pupil transportation equipment. During the 05-06 fiscal year, the district used the state allocation (match) and investment earnings to purchase eight additional new buses. The Transportation Vehicle Fund ended the fiscal year with a fund balance of \$23,091.

Service Efforts and Accomplishments

- The Washington Assessment of Student Learning (WASL) tests students' skills in reading, writing, math, and listening. This test is given each spring to 4th, 7th, and 10th grade students throughout the state of Washington.
During the Spring of 2006, Kent School District students outperformed their state peers in Math for grade levels from grade 3 to grade 10.
- The Kent School District's Transportation Department was featured as one of the "Ten Great Fleets Across America" in the October 2005 issue of School Bus Fleet magazine. The article focused on "10 top-notch pupil transportation programs" relating to daily operation, best practices, etc.
- Four Kent School District students have been named winners of the Follow-A-Leader essay contest sponsored by Macy's, the Seattle Times, and King 5 Television. This program encourages students to begin thinking about their future by writing about a community leader that they would like to follow for a day. Winners spend a day shadowing their leaders and receive a \$1,000 U.S. Savings Bond.
- Kent School District was honored with a 2006 Excellence in Education Award in recognition of the dramatic increase in math scores on the state's standardized test at the National Council of Teachers of Mathematics annual conference.

Awards and Acknowledgments

The Association of School Business Officials International awarded the district its Certificate of Excellence in Financial Reporting for the year ended August 31, 2005. The Association's Panel of Review judged that "the report substantially conforms to the principles and standards of ASBO's Certificate of Excellence Program." The district has received the award each year since 1985. We believe that the current comprehensive annual financial report continues to meet the Certificate of Excellence Program requirements and will submit it to ASBO International to determine its eligibility for another certificate. A great deal of effort is put forth to prepare this report, but the information reflecting the last fiscal year and historical trends not only provides the board and community with complete financial accountability, it

provides financial and bonding institutions the information needed to evaluate the financial resources of the district.

The Washington Association of School Business Officials, which includes representatives of the State Auditor's office and Superintendent of Public Instruction, continues to contribute to the district's ability to prepare the report. The cooperation and professional advice of the State Auditor's staff is greatly appreciated.

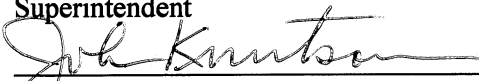
We wish to give recognition to the contributing business services staff for their exceptional efforts and the quality product that resulted. Each person interrupted existing heavy work schedules to do the additional work necessary to create and publish this caliber of comprehensive annual financial report. The 2006 CAFR is yet one more sign of the professionalism and dedication that reside in the Kent School District.

Sincere appreciation goes to you and the school board for your continued support in helping employees of the district progress to higher levels of attainment.

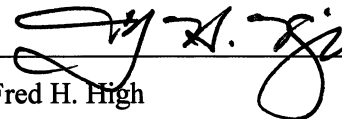
Respectfully submitted,



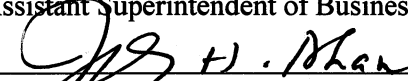
Barbara Grohe, Ph.D.
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Director of Accounting and Payroll