



**Office of the Washington State Auditor**  
**Pat McCarthy**

# **Financial Statements and Federal Single Audit Report**

## **Auburn School District No. 408**

**King County**

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

**Published May 31, 2018**

**Report No. 1021493**





## Office of the Washington State Auditor

**Pat McCarthy**

May 31, 2018

Board of Directors  
Auburn School District No. 408  
Auburn, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on Auburn School District No. 408'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

**Auburn School District No. 408**  
**King County**  
**September 1, 2016 through August 31, 2017**

## SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Auburn School District No. 408 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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (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 identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

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

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

### **Identification of Major Federal Programs:**

The following programs were selected as major programs 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**

**Auburn School District No. 408  
King County  
September 1, 2016 through August 31, 2017**

**2017-001    The District did not have adequate internal controls to ensure compliance with requirements for qualifications of paraprofessionals, eligibility, schoolwide programs and high school graduation rate data.**

<b>CFDA Number and Title:</b>	84.010 - Title I Grants to Local Educational Agencies
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$48,001

***Background***

The federal Title I program’s objective is to improve the teaching and learning of children who are at risk of not meeting state academic standards and who reside in areas with high concentrations of children from low-income families. During fiscal year 2017, the District spent \$4,105,324 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.

***Description of Condition***

**Qualifications of paraprofessionals**

All paraprofessionals funded by Title I must have a high school diploma or its recognized equivalent. The District is responsible for ensuring all paraprofessionals it charges to the Title I program have met the qualification requirement. The District must maintain documentation to support the paraprofessionals’ qualifications at the school-building or District level.

The District did not verify and maintain documentation demonstrating the paraprofessionals it charged to the program had obtained a high school diploma or its recognized equivalent. Instead, the District relied on the applicants' attestations without further verification of appropriate documentation, such as a copy of the diploma.

We consider this deficiency in internal controls to be a material weakness.

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

### **Eligibility**

The District must allocate Title I funds to its eligible schools in rank order according to their percentage of poverty. Districts must serve schools with at least 75 percent low-income first.

The District said it uses its free and reduced-price lunch report as a poverty measure to determine school eligibility, then allocates funding in rank order by poverty percentage. However, during the audit, the District could not demonstrate where the poverty percentages it reported on its grant application came from. The number of low-income households by school from its free and reduced lunch report were significantly different from the numbers on the grant application.

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

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

### **Schoolwide programs**

Districts must have a comprehensive individual schoolwide plan for each eligible school. The plan must contain specific components that describe how the District will use its Title I funds to upgrade the school's educational program. The District must evaluate and revise the plan annually to ensure students continue to improve.

The District did not properly apply its own procedures to ensure the required plans were completed and in place for all schoolwide program schools and that each of the plans included all of the required components.

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

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

### **High school graduation rate**

Districts must report graduation rate data for all public high schools to the Office of Superintendent of Public Instruction (OSPI) annually. To do this, districts submit

a Graduation Rate Report indicating the student's enrollment status as graduated, transferred out, dropped out, migrated to another country or deceased. The District must retain adequate support showing how it classified a student's enrollment status.

The District did not have procedures in place to ensure students pursuing or completing their GED were properly classified and reported.

We consider this internal control deficiency to be a significant deficiency.

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

### *Cause of Condition*

#### **Qualifications of paraprofessionals**

The District was not aware of its responsibility to verify paraprofessionals had a high school diploma or its equivalent.

#### **Eligibility**

The District did not retain the free and reduced-price lunch reports it used to determine eligible schools and rank them by order of poverty percentage. The District asserts this was because of a clerical error.

#### **Schoolwide programs**

The District created its school-improvement-plan template and stored it on a central, network location. Multiple staff had access to the template, and the District did not protect it against further edits after it was created. The District's review of completed plans indicated all components were present, even though many of the required components were not actually included.

#### **High school graduation rate**

District staff were unaware the students pursuing their General Equivalency Diploma (GED) cannot be classified as a transfer out because the staff were following prior instruction.

### *Effect of Condition and Questioned Costs*

#### **Qualifications of paraprofessionals**

Without adequate controls in place, the District cannot ensure costs charged to the grant are allowable.



Our audit found that for the District did not have documentation to support it verified that 20 of the 48 paraprofessionals tested had a high school diploma or its equivalent.

However, during the audit, the District was able to provide documentation showing all but two of these 20 paraprofessionals had a high school diploma. We are questioning costs totaling \$48,001 related to the salaries and benefits for the two paraprofessionals for whom the District lacked required documentation.

### **Eligibility**

Without adequate support, the District cannot demonstrate that the schools to which it allocated program funding were eligible and that the funding was properly allocated based on proper ranking of each school. Further, the District cannot demonstrate it provided adequate services to the students with the greatest need.

Our audit found:

- Seven out of 22 schools tested were incorrectly ranked, including two that exceeded 75 percent and should have been funded with Title I funds first.
- Five out of 22 schools were over-allocated \$87,725 in funding.
- Five out of 22 schools tested were under-allocated \$59,290 in funding.

### **Schoolwide programs**

The District cannot demonstrate its school buildings operating as part of its schoolwide program are eligible and in compliance with Title I school improvement plan requirements, are spending program funds appropriately, and are effectively ensuring students continue to improve.

Our audit found five of the eight schools tested did not include one or more of the required elements as follows:

- Cascade Middle School, Mt. Baker Middle School, Olympic Middle School, Gildo Rey Elementary School, Pioneer Elementary School did not include identification of which federal, state and local funding sources were to be used.
- Gildo Rey Elementary School and Pioneer Elementary School did not include identification of transition plans for students moving from preschools or between grade levels, or methods to recruit and retain highly qualified instructional staff.
- Mt. Baker Middle School did not include identification of a professional development plan based on the reform strategy.

- Olympic Middle School did not identify strategies to increase parental involvement.
- Gildo Rey Elementary School did not identify what additional support it will provide to struggling learners.

### **High school graduation rate**

The District improperly classified and reported one student out of the 18 we tested as a confirmed transfer; the student was pursuing their GED.

### ***Recommendations***

We recommend the District establish and follow policies and procedures and ensure staff responsible for compliance understand federal requirements. We recommend the District implement procedures properly designed to maintain and safeguard documentation needed to show:

- All paraprofessionals meet the federal requirements for highly qualified status
- It allocated program funds to schools that are eligible to receive the funding, and that those are ranked properly based on verifiable and accurate information
- Schoolwide plans are properly evaluated and updated with all the required criteria annually
- Students who are reported as “transferred out” of the District are correctly classified to ensure the District is reporting accurate graduation rate data to OSPI

### ***District’s Response***

*The District has reviewed and understands the recent Title I audit issues regarding internal controls. These issues are very important to us and district staff have already made changes to the processes to be in compliance with requirements for the qualifications of paraprofessionals conducting a review of every file and updating the checklist to include documentation of evidence of high school graduation for all paraprofessionals. Internal controls will be strengthened for eligibility by ensuring a match between the Title Grant and percent of poverty identified by the free and reduced price lunch report. School-wide programs internal controls will be strengthened by locking required components of the school improvement template The Auditor's sample size was 5.6% of total students. They then extrapolated out the error rate to determine materiality. The District believes this instance was isolated to one student. Therefore the District feels this*

*component should not be included in the finding. High school graduation rate data will be reviewed monthly at all levels and reviewed annually to align with the P210 report. Please see the completed corrective action document for more detail.*

### ***Auditor's Remarks***

We thank the District staff for its cooperation and assistance during the audit and the steps it is taking to address the issues.

While only one student was identified during testing as being incorrectly reported, our follow up procedures indicated the District's staff had been instructed to classify students pursuing a GED as transfers, indicating additional students could be incorrectly reported.

We look forward to following up with the District next year.

### ***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 303 – Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

Title 2 CFR Part 200, Uniform Guidance, section 516 – Audit findings, establishes reporting requirements for audit findings.

### **Qualifications of Paraprofessionals:**

Title 34 CFR Part 200, *Title I – Improving the Academic Achievement of the Disadvantaged*, Subpart A – *Improving Basic Programs Operated by Local Education Agencies*, section 200.58 – Qualifications of paraprofessionals, establishes requirements of paraprofessionals to work in Title I programs.

### **Eligibility:**

Title 34 CFR Part 200, Section 78 Allocation of funds to school attendance areas and schools, describes requirements of Title I funds to be disbursed on rank order based on applicable Poverty Rate Metrics.

**Schoolwide Programs:**

Title 34 CFR Part 200, Sections 200.26 & 32 – Discusses the requirements for School Improvement Plans and required components of those plans respectively.

**Graduation Rate:**

Title 34 CFR Part 200, *Subpart A – Improving Basic Programs Operated by Local Educational Agencies*, Section 200.19 – Other academic indicators – establishes the requirement for Districts to have official written documentation to confirm a student transferred out.

**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**

**Auburn School District No. 408  
King County  
September 1, 2016 through August 31, 2017**

Board of Directors  
Auburn School District No. 408  
Auburn, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Auburn School District No. 408, 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 basic financial statements, and have issued our report thereon dated May 29, 2018. As discussed in Note 2 to the financial statements, during the year ended August 31, 2017, the District implemented Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and

corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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

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

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Pat McCarthy

State Auditor

Olympia, WA

May 29, 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**

**Auburn School District No. 408  
King County  
September 1, 2016 through August 31, 2017**

Board of Directors  
Auburn School District No. 408  
Auburn, Washington

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

We have audited the compliance of Auburn School District No. 408, 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.

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

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001 to be a significant deficiency.

## **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 style with a large, stylized initial "P".

Pat McCarthy  
State Auditor  
Olympia, WA

May 29, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Auburn School District No. 408 King County September 1, 2016 through August 31, 2017**

Board of Directors  
Auburn School District No. 408  
Auburn, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Auburn School District No. 408, 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 basic financial statements as listed on page 24.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Auburn School District No. 408, as of August 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 2 to the financial statements, in 2017, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express

an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 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 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 cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

May 29, 2018

## FINANCIAL SECTION

**Auburn School District No. 408**  
**King County**  
**September 1, 2016 through August 31, 2017**

### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position –  
2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2017

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balance to the Statement of Activities – 2017

Statement of Net Position – Fiduciary Funds – 2017

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2017

Notes to the Financial Statements – 2017

### REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund– 2017

Budgetary Comparison Schedule – Special Revenue Fund (Associated Student Body  
Fund) – 2017

Schedule of Funding Progress – 2017

Schedule of Proportionate Share of the Net Pension Liability - PERS 1, SERS 2/3, TRS 1,  
TRS 2/3 – 2017

Schedule of District Contributions - PERS 1, SERS 2/3, TRS 1, TRS 2/3 – 2017

### SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Auburn School District No. 408, we offer readers of the district's generally accepted accounting principles (GAAP) this narrative overview and analysis of the financial activities of the district for the fiscal year ended August 31, 2017.

### FINANCIAL HIGHLIGHTS

- The district's net position of governmental activities as of August 31, 2017 was \$182,201,400.
- During the year, the district had revenues that were \$11.2 million greater than the \$231.8 million in expenses incurred for all governmental activities.
- The general fund revenues exceeded expenditures by \$1,968,441.
- In November 2016, the Auburn community passed a \$456,056,000 bond to construct and equip two new elementary schools; rebuild and equip Chinook Elementary, Dick Scobee Elementary, Lea Hill Elementary, Pioneer Elementary, Terminal Park Elementary schools and Olympic Middle School. The funds may also be used to acquire sites as needed to accomplish these capital projects. In January 2017, the District issued the first UTGO bonds for \$90,535,000 of the authorized \$456,056,000.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: an introductory section, a financial section, and a statistical section. The financial section includes the independent auditor's report, management's discussion and analysis, the basic financial statements and related notes to the financial statements.

The basic financial statements consist of a series of statements that present different financial views of the district:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the district's overall financial status and activities. For district activities, these statements tell how these services were financed in the short term as well as what remains for future spending.
- All of the remaining statements are *fund financial statements* that report district operations in more detail by providing information about the district's most significant funds. Information is also provided about activities for which the district acts solely as a trustee for the benefit of those outside of the government.

### DISTRICT-WIDE FINANCIAL STATEMENTS

The district-wide financial statements are designed to provide a broad overview of district finances, similar to a private-sector business. The *statement of net position* presents information on all of the assets and liabilities of the district. The difference between the two is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

*The statement of activities* presents information showing how the district's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying financial event takes place, regardless of when the cash is actually received or disbursed. Thus, revenues and expenses are reported in this statement for some items that will result in cash receipts or disbursements in future fiscal periods. Earned but unused vacation leave and uncollected taxes are examples of these types of items.

## **FUND FINANCIAL STATEMENTS**

A fund is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The district uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All district funds can be divided into two categories: governmental funds and fiduciary funds.

### **GOVERNMENTAL FUNDS**

Governmental funds account for essentially the same functions reported as governmental activities in the *district-wide financial statements*. However, unlike these statements, *governmental fund financial statements* focus on how money flows into and out of the funds and the balances left at year-end that are available to spend. These funds use an accounting method called *modified accrual accounting* which measures cash and all other financial assets that can easily be converted to cash. Such information may be useful in evaluating the district's ability to finance the district's educational programs and support operations in the near future.

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

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the *governmental fund statement of revenues, expenditures and changes in fund balance* for the General Fund, Associated Student Body (ASB) Fund, Capital Projects Fund, Transportation Vehicle Fund and the Debt Service Fund, all of which are considered major funds.

### **FIDUCIARY FUNDS**

The district is the trustee or fiduciary, for individuals, private organizations and other governments for scholarships. All of the district's fiduciary activities are reported in a separate *statement of fiduciary net position and changes in fiduciary net position* under the fiduciary financial statement section. These activities are excluded from the district's other financial statements because the district cannot use these assets to finance its operations. The district is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **STATEMENT OF NET POSITION**

The financial statements of the district present an increased financial position as reflected in the statement of net position. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash was received or paid.

These statements report the district's net position and changes in them. The district's net position (the difference between assets and liabilities/deferred inflows) may be viewed as one way to measure the district's financial health or financial position.

Auburn School District's assets exceeded liabilities by \$182,201,400 at the end of the fiscal year, August 31, 2017.

The **INCREASE** in total net position for the year was \$11,227,716. Key elements of this increase are as follows:

<b>Auburn School District's Net Position</b>			
<b>August 31, 2017 and 2016</b>			
	<b>Governmental Activities</b>		
	<b>2017</b>	<b>2016</b>	<b>Change</b>
Current and other assets	\$219,005,561	\$109,121,201	\$ 109,884,360
Capital assets	329,720,994	344,672,286	(14,951,292)
Deferred charges on refunding	3,430,077	3,939,095	(509,018)
Deferred outflows on pensions	8,532,822	12,896,195	(4,363,373)
Total Assets & Deferred Outflows	<u>\$560,689,454</u>	<u>\$470,628,777</u>	<u>\$90,060,677</u>
			-
Other liabilities	6,951,592	5,140,630	1,810,962
Long-term debt outstanding	360,090,875	292,788,400	67,302,475
Deferred inflows on pensions	11,445,587	1,726,063	9,719,524
Total Liabilities & Deferred Inflows	<u>378,488,054</u>	<u>299,655,093</u>	<u>78,832,961</u>
			-
Net Position			-
Net investment in capital assets	75,661,958	181,169,526	(105,507,568)
Restricted	142,021,982	45,415,030	96,606,952
Unrestricted	(35,482,540)	(55,610,872)	20,128,332
Total Net Position	<u><u>\$182,201,400</u></u>	<u><u>\$170,973,684</u></u>	<u><u>\$11,227,716</u></u>

The largest portion of the Auburn School District's net position (59 %) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Auburn School District uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although, the Auburn School District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Auburn School District's net position (78 %) represents resources that are subject to external restrictions on how they may be used.

**STATEMENT OF ACTIVITIES**

Governmental activities improved the district’s overall financial position, increasing the district’s net position by \$11,227,716. Key elements of the increase are as follows:

<b>AUBURN SCHOOL DISTRICT'S Changes in Net Position</b>			
<b>Governmental Activities</b>			
<b>For the Fiscal Years Ended August 31, 2017 and 2016</b>			
<b><u>Revenues</u></b>	2017	2016	Changes
Program Revenues			
Charges for services	\$5,893,554	\$ 5,587,997	\$ 305,557
Operating grants and contributions	44,786,220	52,682,617	(7,896,397)
Capital grants and contributions	3,681,477	3,119,462	562,015
General revenues			
Property taxes for levies for educational programs	40,881,803	39,871,612	1,010,191
Property taxes for levies for debt service	31,189,580	17,250,630	13,938,950
Property taxes for levies for capital improvements and technology	3,594,153	1,263,161	2,330,992
Unallocated state apportionment and other	-	-	-
Interest and investment earnings	112,003,798	104,950,853	7,052,945
Interest and investment earnings	1,070,165	580,856	489,309
Total Revenues	243,100,750	225,307,188	17,793,562
<b><u>Expenses</u></b>			
Regular instruction	133,818,795	120,063,554	13,755,241
Special instruction	25,948,721	24,574,378	1,374,343
Vocational instruction	7,363,356	7,084,268	279,088
Compensatory education	16,102,382	15,168,627	933,756
Other instructional programs	1,015,936	1,120,813	(104,877)
Community services	1,011,670	1,075,778	(64,108)
Support services	22,225,468	20,286,010	1,939,458
Child nutrition services	6,294,914	6,107,915	186,999
Pupil transportation services	8,109,756	7,732,771	376,985
Extracurricular activities (ASB)	2,132,581	2,333,145	(200,564)
Interest on long-term debt	7,377,844	5,696,997	1,680,847
Bond issuance costs	471,611	-	471,611
Total Expenses	231,873,034	211,244,255	20,628,779
Increase (decrease) in Net Position	11,227,716	14,062,933	(2,835,217)
Beginning Net Position	170,973,684	156,778,296	14,195,388
Other Prior Period Adjustments	-	132,455	(132,455)
Ending Net Position	\$ 182,201,400	\$ 170,973,684	\$ 11,227,716

The largest revenue increase of \$13.9 million was the increase in property tax levies for the current year bond issue of \$90.5 million. Also, the increase in general apportionment is due to an increase in enrollment.

The largest revenue decrease of slightly under \$7.9 million is in operating grants and contributions. This is due to the differences between the calendars levy year and the district fiscal year as well as the differences between accrual and cash basis accounting account for the lack of accrual revenue for fiscal 2016.

## GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The focus of the district's *governmental funds* is to provide information on short-term cash inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's net resources available for spending at the end of the fiscal year.

As the district completed the fiscal year, its governmental funds (as presented in the balance sheets in the Governmental Fund Financial Statement section) reported a combined fund balance of \$169,177,083 and increase of \$99,084,188 over the prior year combined fund balance of \$70,092,896. This change is primarily the result of the \$90.5 million bond issue in January 2017. The increase in enrollment also helped revenues exceed expenditures in the general fund.

### GENERAL FUND

The General Fund is the major operating fund of the district, providing the majority of the resources for educational programs and support operations.

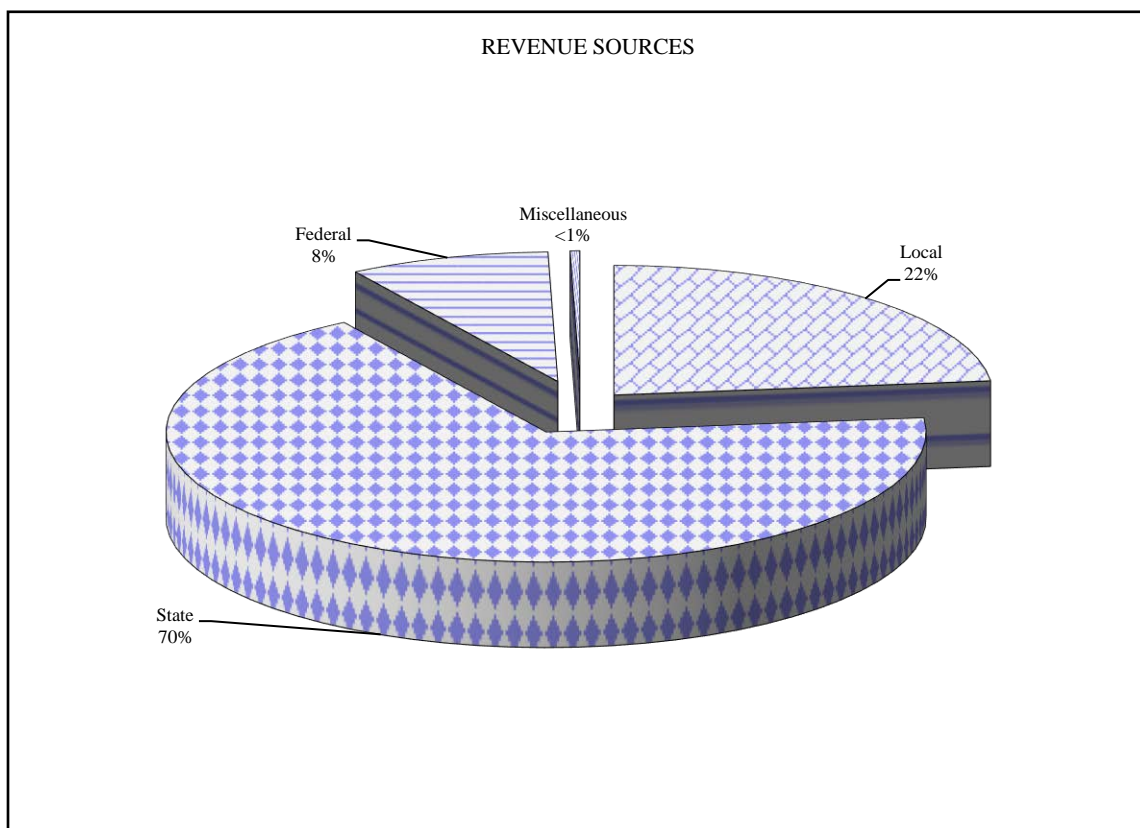
### GENERAL FUND REVENUES

Revenues for the General Fund totaled \$199,870,490 in the fiscal year ending August 31, 2017. This was \$10,998,095 or 5.8% more than the prior year. The State of Washington provides over 70% or the largest portion of the District's revenue. Local revenues from local property taxes, and local fees and charges account for over 22% of total revenues. Federal grants provide just over 8% of revenue.

#### GENERAL FUND REVENUES

<u>Revenue Source</u>	2016-17	2015-16	Increase (Decrease) Amount	Increase (Decrease) Percent
Local Taxes & Non-taxes	\$44,193,153	\$ 41,818,590	\$ 2,374,563	5.68%
State Revenues	139,023,834	130,555,954	8,467,881	6.49%
Federal Revenues	15,802,649	15,788,644	14,005	0.09%
Other Revenues	850,854	709,208	141,646	19.97%
<b>Totals</b>	<b>\$ 199,870,490</b>	<b>\$ 188,872,396</b>	<b>\$ 10,998,095</b>	<b>5.82%</b>

The increase of \$8,467,881 state revenues is due to an increase in enrollment, additional MSOC funding.



**GENERAL FUND EXPENDITURES**

Expenditures in the General Fund totaled \$197,902,049 for the fiscal year. This represents an increase of \$12,947,485 or 7% over the prior year.

<b><u>GENERAL FUND EXPENDITURES</u></b>	2016-17	2015-16	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Current</b>				
Regular Instruction	\$113,800,902	\$105,595,810	\$ 8,205,092	7.77%
Special Education	24,684,257	23,339,986	1,344,271	5.76%
Vocational Instruction	6,866,517	6,622,913	243,604	3.68%
Compensatory Education	15,161,857	14,286,026	875,831	6.13%
Other Instructional Programs	881,152	1,057,625	(176,473)	-16.69%
Community Services	971,631	1,044,885	(73,254)	-7.01%
Support Services	21,495,127	19,492,151	2,002,976	10.28%
Child Nutrition Services	6,206,085	6,011,583	194,502	3.24%
Pupil Transportation Services	7,185,911	6,878,537	307,374	4.47%
<b>Capital Outlay</b>				
Equipment	648,612	625,048	23,564	3.77%
<b>Totals</b>	<b>\$197,902,049</b>	<b>\$ 184,954,564</b>	<b>\$ 12,947,485</b>	<b>7.00%</b>



Increases of \$8.2 million in state funded regular instructional expenditures, \$1,344,271 in special education instructional expenditures and \$243,604 in vocational instruction were the result of increased student enrollments.

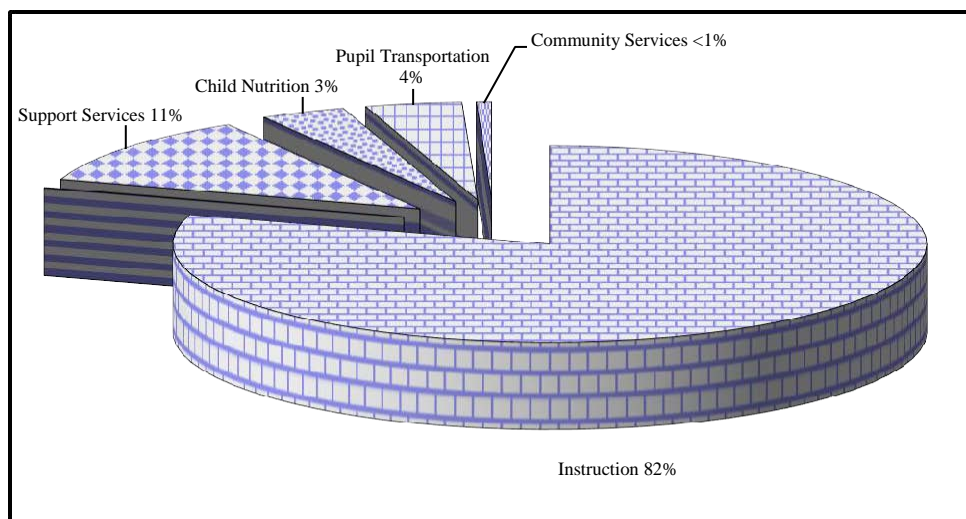
Compensatory education expenditures increased by \$875,831 due to increased federal dollars for Title I programs and increased state dollars for the state counterpart of Title I known as Learning Assistance (LAP). In addition, a continuing growing enrollment of students for whom English is not their first language generated additional state assistance to meet their educational needs.

Child Nutrition cost's increased by \$194,502 last year due to the new federal nutrition guidelines. New guidelines define what types of ingredients the District can purchase, and ultimately serve for student meals.

Pupil Transportation costs increased by 4.47% or \$307,374 during the year. The increase was due to hiring additional staff to transport increasing enrollment.

Special Education expenditures increase by \$1,344,271 during the year. Increased costs occurred due to an increased need to provide services for a growing special needs student population.

#### EXPENDITURE USES



### MAJOR FUND BUDGETARY HIGHLIGHTS

Appropriations are a prerequisite to expenditures in the governmental funds. Appropriations lapse at the end of the fiscal year. The fiscal year 2016-17 budget adopted by the Board of Directors for the district totaled \$267,717,533 including General Fund appropriations of \$209,728,203, Special Revenue Fund (ASB) appropriations of \$4,697,747, Debt Service Fund appropriations of \$18,111,583 Capital Projects Fund appropriations of \$32,920,000 and Transportation Vehicle Fund appropriations totaling \$2,260,000.

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

- Total actual general fund revenues were \$2,305,267 less than budgeted. Almost all of that decrease was due to an over estimation of local non tax revenue received.
  - This total includes \$284,592 of NBN premiums from plan members and \$1,346 in NBN interest earnings, as well as the net fair market value adjustments of negative \$47,110.
- Total actual general fund expenditures were \$11,826,154 less than budgeted as a result of conservative budget practices.
  - This total includes \$255,932 of NBN expenses

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

- State revenues were \$9,790,336 less than budgeted due to the District receiving less in state match revenue due to the Auburn High School project winding down.
- Expenditures were \$22,636,581 less than budgeted. Expenditures are largely based on the progress of the Auburn High School re model project.
- Revenues were less than projected in the Associated Study Body Fund by approximately \$2.4 million and expenditures were less than projected by \$2.5 million. Students and their adult advisors did an outstanding job of living within their budget.
- Transportation Vehicle expenditures were \$913,925 less than projected due to delayed plans to replace aging buses.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **CAPITAL ASSETS**

The District's investment in capital assets for its governmental type activities as of August 31, 2017 amounted to \$326,316,114 (net of accumulated depreciation of \$128,473,813). This investment in capital assets includes land, buildings, land and building improvements, furniture and equipment.

During the fiscal year, \$19,985,552 was added to buildings for improvements that met the capitalization policy of \$100,000. In addition, \$2,044,158 was added to equipment that met the capitalization policy of \$5,000 per unit, and \$22,278,546 was taken out from construction in progress primarily for projects finalized. Disposed buildings and equipment that originally cost \$20,719,068 and \$130,636 were removed from the books along with the appropriate accumulated depreciation of \$14,155,707 and \$106,223, creating a net loss on disposal of \$6,587,774. Equipment items with a market value were sent to the State of Washington Surplus Property Department to be sold at auction. All other items were sent to the King County Refuse Station.

See Note 4, Changes in Capital Assets, for more information.

<b>CAPITAL ASSETS</b>			
	<b>Capital Assets</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Land	\$42,135,223	\$ (463,631)	41,671,592
Building & Improvements	390,934,271	(111,834,583)	279,099,688
Equipment	21,720,433	(16,175,599)	5,544,834
Construction In Progress	3,404,879	-	3,404,879
<b>Total</b>	<b>\$458,194,807</b>	<b>\$ (128,473,813)</b>	<b>\$ 329,720,994</b>

### **DEBT ADMINISTRATION**

At the end of the current fiscal year, the district had \$235,650,000 in unlimited general obligation bonds outstanding. This debt is secured by a pledge of the full faith and credit of the district. \$19,210,000 of that debt is due within the next twelve months.

The Washington State Constitution and the Revised Code of Washington 39.36.015 and 39.36.020 limit the amount of general obligation (GO) debt that may be issued. With a vote of the people, debt cannot be incurred in excess of 5% of the value of the taxable property of the district, provided the indebtedness in excess of 2.5% is for capital outlay. For the fiscal year ended August 31, 2017, the maximum GO debt authorized by statutory limit was \$544 million. The district had \$235,650,000 of debt outstanding at August 31, 2017, which was subject to that limitation. With \$12.4 million of assets in the Debt Service Fund available for payment of principal, there is a legal debt margin of \$320.7 million.

The district's most recent underlying bond rating from Moody's is Aa2.

See Note 8, Long-Term Liabilities, for more information.



## **NEXT YEAR'S APPROPRIATIONS AND BUDGET RATES**

The 2016-17 appropriations for governmental funds of the district were approved at \$264,802,813, a decrease of 3% from total appropriations of \$273,109,977 million last year.

Property tax rates of \$6.30 per \$1,000 were projected for 2018, consistent with the 2017 actual tax rates of \$6.74 per \$1,000.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide the district's citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, visit [www.auburn.wednet.edu](http://www.auburn.wednet.edu) or contact

Troy Dammel  
Executive Director of Business Services  
Auburn School District No. 408  
915 4<sup>th</sup> Street NE  
Auburn, WA 98002

**AUBURN SCHOOL DISTRICT NO. 408**  
**STATEMENT OF NET POSITION**  
**August 31, 2017**

		Primary Government
	Note #	Governmental Activities
<b>ASSETS</b>		
Cash and cash equivalents	1.E.1 and 2	\$ 169,892,027
Property tax receivable	1.E.2	44,775,968
Receivables, net	1.E.3	656,261
Due from other governments	1.E.5	2,813,103
Inventories	1.E.6	868,201
Capital assets, net of accumulated depreciation, where applicable:		
Land	4	41,671,592
Buildings & Improvements		279,099,688
Equipment		5,544,834
Construction in Progress	5	3,404,879
<b>TOTAL ASSETS</b>		<b>548,726,554</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on refunding		3,430,077
Pension Plan Experience Difference	6	5,178,119
Pension Plan Assumption Changes	6	252,363
Pension Plan Changes in Proportions	6	450,286
Pension Plan Contributions	6	2,652,053
<b>TOTAL DEFERED OUTFLOWS OF RESOURCES</b>		<b>11,962,899</b>
<b>LIABILITIES</b>		
Accounts payable		4,029,982
Accrued wages and benefits payable		424,429
Due to other governments		37,874
Accrued interest		2,242,948
Unearned revenue	1.E.9	216,360
Net Pension Liability	8	82,526,959
Long-Term liabilities		
Due within one year	8	21,064,519
Due in more than one year		256,499,396
<b>TOTAL LIABILITIES</b>		<b>367,042,467</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Plan Investment Earnings & Charges in Proportion (net difference)	6	9,790,905
Pension Plan Experience Difference	6	755,725
Pension Plan Changes in Proportions	6	898,957
<b>TOTAL DEFERED INFLOWS OF RESOURCES</b>		<b>11,445,587</b>
<b>NET POSITION</b>		
Net investment in capital assets		75,661,958
Restricted for:		
Child nutrition services		3,264,119
Carryovers		238,785
Student activities		1,568,888
Debt service		12,411,281
Capital projects		100,047,401
State Proceeds		21,988,072
Acquisition of school buses		2,503,434
Unrestricted		(35,482,540)
<b>TOTAL NET POSITION</b>		<b>\$ 182,201,400</b>

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

**AUBURN SCHOOL DISTRICT NO. 408**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended August 31, 2017**

Functions/Programs	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT
					Governmental Activities
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Regular Instruction	\$ 133,818,795	\$ 505,780	\$ 335,260	\$ 2,952,431	\$ (130,025,324)
Special Instruction	25,948,721	-	15,506,752	-	(10,441,969)
Vocational Instruction	7,363,356	78,012	151,895	-	(7,133,449)
Compensatory Education	16,102,382	-	15,131,179	-	(971,204)
Other Instructional Programs	1,015,936	158,225	1,688,564	-	830,853
Community Services	1,011,670	544,079	-	-	(467,591)
Support Services	22,225,468	631,460	-	-	(21,594,008)
Child Nutrition Services	6,294,914	1,708,796	5,929,906	-	1,343,788
Pupil Transportation Services	8,109,756	-	6,042,664	729,046	(1,338,046)
Extracurricular Activities (ASB)	2,132,581	2,267,201	-	-	134,621
Interest Expense on Long-Term Debt	7,377,844	-	-	-	(7,377,844)
Bond Issuance Costs	471,611	-	-	-	(471,611)
<b>Total Governmental Activities</b>	<b>\$ 231,873,033</b>	<b>\$ 5,893,554</b>	<b>\$ 44,786,220</b>	<b>\$ 3,681,477</b>	<b>\$ (177,511,782)</b>

**General Revenues:**

Taxes:

Property taxes, levies for educational and other programs	40,881,803
Property taxes, levies for debt service	31,189,580
Property taxes, levies for capital improvements and technology	3,594,153
Unallocated State Apportionment & Others	112,003,798
Interest and Investment earnings	1,070,165

**Total General Revenues and Special Items** **188,739,498**

**Changes in Net Position** **11,227,716**

**Net Position - Beginning** **170,973,684**

**Net Position - Ending** **\$ 182,201,400**

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

**AUBURN SCHOOL DISTRICT NO. 408  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
August 31, 2017**

	GENERAL FUND	SPECIAL REVENUE FUND (ASB)	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TRANSPORTATION VEHICLE FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>						
Cash and Cash Equivalents	\$ 15,178,642	\$ 1,868,895	\$ 12,406,426	\$ 137,935,696	\$ 2,502,368	\$ 169,892,027
Property Tax Receivable	19,970,981	-	13,954,569	1,835,264	(50)	35,760,765
Accounts Receivable, Net	494,237	-	-	-	-	494,237
Interest Receivable	16,779	1,503	11,577	130,475	1,690	162,024
Interfund Receivable	34,386	-	-	-	-	34,386
Due From Other Government Units	2,489,495	-	-	323,608	-	2,813,103
Inventories at Cost	867,014	1,187	-	-	-	868,201
<b>TOTAL ASSETS</b>	<b>39,051,536</b>	<b>1,871,586</b>	<b>26,372,572</b>	<b>140,225,042</b>	<b>2,504,009</b>	<b>210,024,744</b>
<b>LIABILITIES:</b>						
Accounts Payable	1,957,909	84,927	6,722	1,980,425	-	4,029,982
Accrued Liabilities	424,429	-	-	-	-	424,429
Due to Other Governments	15,009	980	-	21,261	624	37,874
Interfund Payable	-	3,703	-	30,683	-	34,386
Unearned Revenue-Other	405	211,901	-	4,054	-	216,360
<b>TOTAL LIABILITIES</b>	<b>2,397,752</b>	<b>301,511</b>	<b>6,722</b>	<b>2,036,423</b>	<b>624</b>	<b>4,743,031</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue-Property Taxes	19,970,981	-	13,954,569	1,835,264	(50)	35,760,765
Unavailable Revenue - Other	343,865	-	-	-	-	343,865
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>20,314,846</b>	<b>-</b>	<b>13,954,569</b>	<b>1,835,264</b>	<b>(50)</b>	<b>36,104,630</b>
<b>FUND BALANCES:</b>						
<b>Nonspendable:</b>						
<b>Restricted:</b>						
Child Nutrition Federal Grant	867,014	1,187	-	-	-	868,201
Carryovers	3,264,119	-	-	-	-	3,264,119
Student Activities	238,785	-	-	-	-	238,785
Debt Service	-	1,568,888	-	-	-	1,568,888
Bond Issue Project	-	-	12,411,281	-	-	12,411,281
Impact Fee Projects	-	-	-	99,410,281	-	99,410,281
State Proceeds	-	-	-	637,120	-	637,120
Acquisition of School Buses	-	-	-	21,988,072	-	21,988,072
<b>Committed:</b>						
Capital Levy Projects	-	-	-	5,086,255	-	5,086,255
Technology Levy Projects	-	-	-	(627,309)	-	(627,309)
Held for Employee Benefits	185,950	-	-	-	-	185,950
<b>Assigned:</b>						
Other Capital Projects	-	-	-	9,858,936	-	9,858,936
Other Purposes	2,100,000	-	-	-	-	2,100,000
Unassigned	9,683,068	-	-	-	-	9,683,068
<b>TOTAL FUND BALANCES</b>	<b>16,338,938</b>	<b>1,570,075</b>	<b>12,411,281</b>	<b>136,353,355</b>	<b>2,503,434</b>	<b>169,177,083</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 39,051,536</b>	<b>\$ 1,871,586</b>	<b>\$ 26,372,572</b>	<b>\$ 140,225,042</b>	<b>\$ 2,504,009</b>	<b>\$ 210,024,744</b>

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

**AUBURN SCHOOL DISTRICT NO. 408**  
**RECONCILIATION**  
**BALANCE SHEET WITH THE STATEMENT OF NET POSITION**  
**August 31, 2017**

	Total Governmental Funds	Long-Term Assets, Liabilities *	Reclassifications and Eliminations*	Statement of Net Position Totals
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 169,892,027	\$ -	\$ -	\$ 169,892,027
Property Tax Receivable	35,760,765	9,015,203	-	44,775,968
Receivables, Net	494,237	-	-	494,237
Interest Receivable	162,024	-	-	162,024
Interfund Receivable	34,386	-	(34,386)	-
Due from Other Governments	2,813,103	-	-	2,813,103
Inventories	868,201	-	-	868,201
Capital Assets, Net	-	329,720,994	-	329,720,994
<b>TOTAL ASSETS</b>	<b>210,024,744</b>	<b>338,736,197</b>	<b>(34,386)</b>	<b>548,726,555</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Charge on Refunding	-	3,430,077	-	3,430,077
Pension Plan Experience Difference	-	5,178,119	-	5,178,119
Pension Plan Assumption Changes	-	252,363	-	252,363
Pension Plan Changes in Proportions	-	450,286	-	450,286
Pension Plan Contributions	-	2,652,053	-	2,652,053
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>11,962,899</b>	<b>-</b>	<b>11,962,899</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>210,024,744</b>	<b>350,699,096</b>	<b>(34,386)</b>	<b>560,689,454</b>
<b>LIABILITIES</b>				
Accounts Payable	4,029,982	-	-	4,029,982
Accrued Liabilities	424,429	-	-	424,429
Due to Other Governments	37,874	-	-	37,874
Interfund Payable	34,386	-	(34,386)	-
Accrued Interest	-	2,242,948	-	2,242,948
Unearned Revenue-Other	216,360	-	-	216,360
Long-Term Liabilities - Pension	-	82,526,959	-	82,526,959
Long-Term Liabilities - Non Pension	-	277,563,914.76	-	277,563,915
<b>TOTAL LIABILITIES</b>	<b>4,743,031</b>	<b>362,333,822</b>	<b>(34,386)</b>	<b>367,042,466</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue-Property Taxes	36,104,630	(36,104,630)	-	-
Pension Plan Investment Earnings & Charges in Proportion (net difference)	-	9,790,905	-	9,790,905
Pension Plan Experience Difference	-	755,725	-	755,725
Pension Plan Changes in Proportions	-	898,957	-	898,957
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>36,104,630</b>	<b>(24,659,044)</b>	<b>-</b>	<b>11,445,587</b>
<b>FUND BALANCES</b>				
Total Fund Balances	169,177,083	13,024,317.85	-	182,201,401
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 210,024,744</b>	<b>\$ 350,699,096</b>	<b>\$ (34,386)</b>	<b>\$ 560,689,454</b>

The notes to the basic financial statements are an integral part of this statement.  
 \* See Note 10A

AUBURN SCHOOL DISTRICT NO. 408  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

	GENERAL FUND	SPECIAL REVENUE FUND (ASB)	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TRANSPORTATION VEHICLE FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>						
Local Taxes	\$ 39,625,784	\$ -	\$ 22,602,324	\$ 3,667,880	\$ -	\$ 65,895,988
Local Non-Tax	4,567,368	2,280,054	58,332	3,789,910	12,093	10,707,758
State, General Purpose	110,895,901	-	-	-	-	110,895,901
State, Special Purpose	28,127,933	-	-	209,664	729,046	29,066,643
Federal, General Purpose	4,636	-	-	-	-	4,636
Federal, Special Purpose	15,798,013	-	-	-	-	15,798,013
Revenues From Other Sources	848,264	-	-	-	111,408	959,672
<b>TOTAL REVENUES</b>	<b>199,867,900</b>	<b>2,280,054</b>	<b>22,660,656</b>	<b>7,667,454</b>	<b>852,548</b>	<b>233,328,612</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
Regular Instruction	113,800,902	-	-	-	-	113,800,902
Special Instruction	24,684,257	-	-	-	-	24,684,257
Vocational Instruction	6,866,517	-	-	-	-	6,866,517
Compensatory Education	15,161,857	-	-	-	-	15,161,857
Other Educational Programs	881,152	-	-	-	-	881,152
Community Services	971,631	-	-	-	-	971,631
Support Services	21,495,127	-	-	-	-	21,495,127
Child Nutrition Services	6,206,085	-	-	-	-	6,206,085
Pupil Transportation Services	7,185,911	-	-	-	-	7,185,911
Extracurricular Activities (ASB)	2,163,637	-	-	-	-	2,163,637
<b>Debt Service:</b>						
Principal	-	-	10,635,000	-	-	10,635,000
Interest and Other Charges	-	-	7,473,583	-	-	7,473,583
Bond Issuance Costs	-	-	-	471,611	-	471,611
<b>Capital Outlay:</b>						
Sites	-	-	-	52,117	-	52,117
Buildings	-	-	-	6,817,239	-	6,817,239
Equipment	648,612	-	-	2,746,338	1,346,075	4,741,025
Energy	-	-	-	196,113	-	196,113
<b>TOTAL EXPENDITURES</b>	<b>197,902,049</b>	<b>2,163,637</b>	<b>18,108,583</b>	<b>10,283,419</b>	<b>1,346,075</b>	<b>229,803,762</b>
Excess of Revenues Over (Under) Expenditures	<b>1,965,851</b>	<b>116,417</b>	<b>4,552,073</b>	<b>(2,615,965)</b>	<b>(493,527)</b>	<b>3,524,850</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds of Long-Term Debt	-	-	-	90,535,000	-	90,535,000
Issuance of Bonds	-	-	-	-	-	-
Issuance Premium	-	1,237	-	5,020,511	-	5,021,748
Payment to Refunded Bonds Escrow Agent	-	-	-	-	-	-
Sale of Equipment	2,590	-	-	-	-	2,590
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>2,590</b>	<b>-</b>	<b>1,237</b>	<b>95,555,511</b>	<b>-</b>	<b>95,559,338</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>1,968,441</b>	<b>116,417</b>	<b>4,553,311</b>	<b>92,939,546</b>	<b>(493,527)</b>	<b>99,084,188</b>
<b>Fund Balances - September 1</b>	<b>14,370,497</b>	<b>1,453,658</b>	<b>7,857,971</b>	<b>43,413,809</b>	<b>2,996,961</b>	<b>70,092,896</b>
<b>Fund Balances - August 31</b>	<b>16,338,938</b>	<b>1,570,075</b>	<b>12,411,281</b>	<b>136,353,355</b>	<b>2,503,434</b>	<b>169,177,083</b>

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

**AUBURN SCHOOL DISTRICT NO. 408**  
**RECONCILIATION**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**STATEMENT OF ACTIVITIES**  
**August 31, 2017**

	Total Governmental Funds	Long-Term Revenue, Expenses *	Capital Related items *	Long-Term Debt Transactions *	Statement of Activities Totals
<b>REVENUES AND OTHER SOURCES</b>					
Property Taxes	\$ 65,895,988	\$ 9,769,547	\$ -	\$ -	\$ 75,665,536
Local Non-Taxes	10,707,758	-	2,590	-	10,710,348
State, General Purpose	110,895,901	-	-	-	110,895,901
State, Special Purpose	29,066,643	-	-	-	29,066,643
Federal, General Purpose	4,636	-	-	-	4,636
Federal, Special Purpose	15,798,013	-	-	-	15,798,013
Revenues From Other Sources	959,672	-	-	-	959,672
<b>TOTAL</b>	<b>233,328,612</b>	<b>9,769,547</b>	<b>2,590</b>	<b>-</b>	<b>243,100,749</b>
<b>EXPENDITURES/EXPENSES</b>					
<b>Current:</b>					
Regular Instruction	113,800,902	(3,365,324)	16,795,443	-	127,231,021
Special Instruction	24,684,257	338,693	925,772	-	25,948,721
Vocational Instruction	6,866,517	89,942	406,897	-	7,363,356
Compensatory Education	15,161,857	167,964	772,562	-	16,102,382
Other Instructional Programs	881,152	31,044	103,741	-	1,015,936
Community Services	971,631	40,039	-	-	1,011,670
Support Services	21,495,127	378,335	352,007	-	22,225,468
Child Nutrition Services	6,206,085	60,840	27,989	-	6,294,914
Pupil Transportation Services	7,185,911	107,185	816,660	-	8,109,756
Extracurricular Activities (ASB)	2,163,637	-	(31,056)	-	2,132,581
<b>Debt Service:</b>					
Principal	10,635,000	-	-	(10,635,000)	-
Interest and Other Charges	7,473,583	-	-	(95,739)	7,377,844
Bond Issuance Cost	471,611	-	-	-	471,611
<b>Capital Outlay:</b>					
Sites	52,117	-	(52,117)	-	-
Buildings	6,817,239	-	(253,878)	-	6,563,361
Equipment	4,741,025	-	(4,716,611)	-	24,413
Energy	196,113	-	(196,113)	-	-
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>229,803,762</b>	<b>(2,151,283)</b>	<b>14,951,293</b>	<b>(10,730,739)</b>	<b>231,873,033</b>
<b>EXCESS OF REVENUES OVER UNDER EXPENDITURES</b>	<b>3,524,850</b>	<b>11,920,830</b>	<b>(14,948,703)</b>	<b>10,730,739</b>	<b>11,227,716</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds of Long-Term Debt	90,535,000	-	-	(90,535,000)	-
Issuance Premium	5,021,748	-	-	(5,021,748)	-
Sale of Equipment	2,590	-	(2,590)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>95,559,338</b>	<b>-</b>	<b>(2,590)</b>	<b>(95,556,748)</b>	<b>-</b>
<b>NET CHANGE FOR THE YEAR</b>	<b>\$ 99,084,188</b>	<b>\$ 11,920,830</b>	<b>\$ (14,951,293)</b>	<b>\$ (84,826,009)</b>	<b>\$ 11,227,716</b>

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

\* See Note 10B

**AUBURN SCHOOL DISTRICT NO. 408**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**August 31, 2017**

		<b>Private Purpose Trust Fund</b>	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$	555,933	
Due From Other Funds		-	
Interest Receivable		600	
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>556,533</b>	
<b>LIABILITIES</b>			
Accounts Payable		1,105	
Due to Other Funds			
<b>TOTAL LIABILITIES</b>		<b>1,105</b>	
<b>NET POSITION</b>			
Held in Trusts for Scholarships and Student Aid		555,427	
<b>NET POSITION</b>	<b>\$</b>	<b>555,427</b>	

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



**AUBURN SCHOOL DISTRICT NO. 408**  
**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**For the Fiscal Year Ended August 31, 2017**

	<b>Private Purpose Trust Fund</b>	
<b>ADDITIONS</b>		
Donations	\$	149,949
Investment Earnings		4,606
<b>Total Additions</b>		<b>154,555</b>
<b>DEDUCTIONS</b>		
Scholarships		182,320
Loss On Investments		-
<b>Total Deductions</b>		<b>182,320</b>
<b>Change in Net Position</b>		<b>(27,765)</b>
Net Position, Beginning of the year		583,193
<b>Net Position, End of the year</b>	<b>\$</b>	<b>555,427</b>

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

**AUBURN SCHOOL DISTRICT NO. 408**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2017**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. REPORTING ENTITY**

The Auburn School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of providing public school services to students in grades P-12. Auburn School District operates under an 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, the power to set fees, levy property taxes and issue debt consistent with provisions of state statutes, also rests with the board of directors.

Based on the criteria specified in *GASB Statement No. 14, The Financial Reporting Entity*, the district has no component units. The district's Comprehensive Annual Financial Report includes all funds that are controlled by or dependent on the district's board of directors. Control by or dependence on the district was determined on the basis of budget adoption, taxing authority, outstanding debt secured by the general credit of the district, obligation of the district to finance any deficits that may occur, or receipt of significant subsidies from the district.

**B. BASIS OF PRESENTATION**

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

**1). Government – Wide Financial Statements**

Overall governmental activities are reported here without displaying individual funds or fund types and display information about the district as a whole. The Government-Wide financial statements do not include Fiduciary Funds. The government-wide financial statements consist of the following:

**a. Statement of Net Position**

The *Statement of Net Position* reports all financial and capital resources. Capital assets (land, land improvements, buildings, building improvements, vehicles, and equipment) are reported at historical cost, net of accumulated depreciation.

**b. Statement of Activities**

The operations of the district are presented net of the applicable program revenues. General revenues are divided into property taxes, interest and investment earnings, and special and extraordinary items. The expenses and revenues are reported as follows:

**I). Expenses** - Expenses are reported by function/program that includes direct and indirect expenses. Depreciation expenses are allocated to direct expenses if they can be specifically identified with a function or program. Interest expenses may be considered direct expenses when borrowing is essential to the creation or continuing existence of a program. Otherwise, interest on long-term liabilities is considered an indirect expense.

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

General revenues are revenues that are not required to be reported as program revenues, such as property tax levies for a specific purpose and all non-tax revenue such as interest and investment earnings.

## 2). Fund Financial Statements

### a. Governmental Funds

Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. It includes general fund, special revenue fund (associated student body fund), capital projects fund, transportation vehicle fund, and debt service fund. The district considers all governmental funds to be “major funds”.

**I). General Fund** - This fund is the general operating fund of the district. It accounts for all financial resources of the district, except those required to be accounted for in another fund. In keeping with the principle of as few funds as necessary, child nutrition, maintenance, information services, printing and pupil transportation activities are included in the fund.

**II). Special Revenue Fund (Associated Student Body Fund)** - This fund is used to account for the extracurricular fees and resources collected in fund-raising events for students. Disbursements require the joint approval of the appropriate student body organization and the district’s board of directors. This fund is accounted for as a special revenue fund since the financial resources legally belong to the district.

**III). Debt Service Fund** - This fund is used to account for the accumulation of resources for the payment of general long-term debt principal, interest and related expenditures. All of the district’s issues are serial bonds rather than term bonds and do not require sinking funds for each issue. Therefore, the district maintains one debt service fund for all bond issues. Also, there are no legal requirements that mandate a separate fund for each bond issue.

**IV). Capital Projects Fund** – This fund is used to account for the financial resources to be used for the construction or acquisition of major capital assets. This fund must be used when projects are financed wholly or in part by bond issues, intergovernmental resources, major private donations, special levies or insurance recoveries. This fund is also used to account for energy capital improvements.

**V). Transportation Vehicle Fund** – This fund is used to account for the purchase, major repair, rebuilding and debt service expenditures related to pupil transportation equipment. The major sources of revenue in this fund include the state reimbursement for pupil transportation equipment and special levies.

## **b. Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary Funds such as the private-purpose trust fund is used by a district in its fiduciary capacity as trustee for assets held for individuals, private organizations, and other governments.

**I). Private-Purpose Trust Fund** - All of the income and principal in the private-purpose trust may be disbursed in the course of its operation. It includes money for scholarships donated by community supporters and funds for student aid provided by InvestED, a public charity formerly known as the Saul Haas Foundation.

## **C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The *government-wide financial statements* measure and report all financial and capital assets, liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and accrual basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position or cost recovery, and financial position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Governmental fund financial statements* include the General Fund, Special Revenue Fund, Debt Service Fund, Capital Projects Fund and Transportation Vehicle Fund. They are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

*Fiduciary fund financial statements* include the Private-Purpose Trust Fund. This fund is reported on the accrual basis of accounting.

### **1). Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances are liquidated at the end of the year; therefore, there are no outstanding encumbrances at year-end.

### **2). Eliminations and Reclassifications**

In the process of aggregating data for the government-wide *statements of net position* and the *statement of activities*, the inter-fund receivables and payables within governmental funds, except those with fiduciary funds, were eliminated.

## **D. BUDGETS AND BUDGETARY ACCOUNTING**

### **1). General Budget Policies**

The Auburn School District budgets its funds in accordance with the Revised Code of Washington Chapter 28A.505 and Chapter 392-123 of the Washington Administrative Code (WAC). The School District Board adopts the budget after a public hearing. An appropriation is a prerequisite to expenditure. Appropriations lapse at the end of the fiscal period. Annual appropriated budgets are adopted at the fund level. Each governmental fund's total expenditures cannot, by law, exceed its formal fund appropriation. Management is authorized to modify specific accounts within the overall fund appropriation. However, only the Board has the authority to increase or decrease a given fund's annual budget. The Board may adopt a revised or supplemental budget appropriation after a public hearing at any time during the fiscal year.

**2). Budgetary Basis of Accounting**

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

Formal budgetary accounting is employed as a management control for all governmental funds. Budgets are adopted on the same basis of accounting used to reflect actual revenues and expenditures on a generally accepted accounting principles basis.

**E. ASSETS, LIABILITIES, NET POSITION AND FUND BALANCES**

**1). Cash and Cash Equivalents**

The district's cash and cash equivalents consist of cash balances, net of warrants outstanding, and cash equivalents with original maturities of three months or less. At August 31, 2017, total district cash and cash equivalents were \$170,447,961. Of that amount, \$169,892,027 was in the governmental funds and \$555,933 was in the fiduciary funds. At August 31, 2017 total district imprest funds were \$93,683, total district cash on hand was \$0, total district warrants outstanding were \$4,133,311 and the fair market value of the districts funds in the King County Investment Pool was \$170,447,961. In accordance with authorized investment laws, the district's cash equivalents are deposited in the King County Investment Pool. The Pool invests in U.S. Agency mortgage-backed securities to enhance yield. As of August 31, 2017, such securities comprised 0.1% of the Pool's portfolio. As of August 31, 2017, the district's funds invested in the Pool comprised 2.63% of the Pool's portfolio. (See Note 2)

**2). Property Taxes**

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

**3). Accounts Receivable**

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

**4). Due From/To Other Funds**

Interfund receivables and payables and the associated revenues and expenditures/expenses are recorded in the respective funds in *governmental fund financial statements*. Interfund receivables and payables are eliminated in *government-wide financial statements*, except those with fiduciary funds.

**5). Due From Other Governments**

This account represents \$2,813,103 of receivables for federal grants of \$2,489,495, and local government impact fees of \$323,608. Grant revenues are recorded in the year in which the related expenditures are incurred.

## 6). Inventories

Inventories of instructional materials are valued at cost using the first-in first-out method. Warehoused inventories of food and maintenance and food service supplies are valued at cost using the weighted average method perpetual inventory system. Inventory is charged as an expenditure when it is issued for consumption

## 7). Bond Discounts, Premiums, Issuance Costs and Refunding Losses

In governmental fund types, bond discounts, premium, issuance costs and refunding losses are recognized in the period of issuance.

## 8). Capital Assets

Capital Assets, which include property, buildings and improvements, and equipment are reported in the applicable governmental activities in the *government-wide financial statements*. Capital assets are defined by the district as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year for land, furniture, equipment, vehicles and school buses and \$100,000 for buildings, building improvements and depreciable land improvements with an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized, but are charged to expenditures in the current period. In *governmental fund financial statements*, there is no depreciation for capital assets. However, depreciation is charged to expenses and allocated to various functions/programs in *government-wide financial statements* in compliance with *GASB Statement No. 34* (See Note 4).

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

Buildings	50 years
Building Improvements	20 years
Depreciable Land Improvements	20 years
School Buses	8-18 years
Equipment and Vehicles	4-10 years

## 9). Deferred Outflows/Inflows of Resources

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

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

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

#### **10). Net Position (Government-wide Financial Statements)**

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

#### **11). Fund Balances (Governmental Fund Financial Statements)**

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

**Nonspendable** – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid items and long term receivables.

**Restricted** – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes the child nutrition program, retirement of long term debt, construction programs and other federal and state grants.

**Committed** – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the District’s Board of Directors.

**Assigned** – includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. For funds other than the General Fund, the amount of residual fund balance that is spendable after all restrictions, commitments, and other assignments have been made is classified as assigned in accordance with the *Accounting Manual for Public School Districts for the State of Washington*.



**Unassigned** – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

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

## 12). Compensated Absences

### a). **Sick Leave** –

Full-time 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 paid at death or retirement at the rate of 25% of each day of accrued leave, limited to 180 accrued days. This statute also provides for an annual buy-back of an amount up to the maximum annual accumulation of twelve days. To qualify for annual sick leave buy-back, the employee must have accumulated an excess of 60 days sick leave as of January 1. Sick leave is reported under long-term liabilities in the *Statement of Net Position*. For reporting purposes, 25% of the sick leave liability (up to 180 days) for those eligible for retirement is considered accrualable. The vesting method in *GASB Statement No. 16* was applied in calculating the sick leave. The amount of accrued sick leave as of August 31, 2017 was \$2,363,929 and reported as a long-term liability in the *government-wide financial statements*.

### b). **Vacation Leave** –

Vacation leave is accrued according to bargaining agreement rules for those employees eligible. Annual leave accumulated by district employees is paid upon retirement at 100% of per diem value. In addition, annual leave accumulated by classified employees represented by the Public School Employees of Washington bargaining groups is paid upon termination at 100% of per diem value. As of August 31, 2017, vacation leave payable, estimated to be \$1,825,330 is reported as a long-term liability in the *government-wide financial statements*.

## NOTE 2. DEPOSITS AND INVESTMENTS

By law, the King County Treasurer is the ex-officio treasurer for the district. In this capacity, the County Treasurer receives, deposits and transacts investments on the district's behalf.

### A. DEPOSITS

At year-end, the carrying amounts of the district's deposits with financial institutions and with the King County Treasurer were respectively \$75,000 and \$174,487,589, the warrants outstanding were \$4,133,311 and the petty cash, change funds and cash on hand totaled \$11,355. Total district cash and cash equivalents were \$170,447,961. Of this amount, \$169,892,027 were in governmental funds and \$555,933 were in fiduciary funds. (See Note 1). In addition to FDIC insurance, the district's deposits are protected by the Washington Public Deposit Protection Commission (a multiple financial institution collateral pool). The provision for guaranteed coverage against loss applies not only to demand deposits, but also to certificates of deposit, money market deposit accounts, and savings deposits as well as accrued interest through the date of repayment.



## **B. INVESTMENTS**

In accordance with state investment laws, the district's governing body has entered into a formal inter-local agreement with the district's *ex officio* treasurer, King County, to have all of its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). All non-invested cash is held in this external investment pool administered by King County, Washington and consequently is not subject to categorization. At August 31, 2017, the fair value of the district investment in the pool was \$174,487,589 with an effective duration of 0.98 years. The pool is not registered by the SEC and does not operate in a manner consistent with the SEC's rule 2a7 which would allow it to be treated as a money market fund for basis of presentation.

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

All investments in cash equivalents are stated at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Fair value for the King County Investment Pool is provided by the County's safekeeping bank or Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing. The net decrease in fair value of the district's proportionate share of the King County Investment Pool for 2016-17 was \$170,250. This decrease has been recognized and reported against investment income.

### ***Impaired Investments.***

As of August 31, 2017, all impaired commercial paper assets have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcements events, where the Impaired Pool accepted the cash-out option. The district's share of the impaired investment pool principal is \$105,398 and the District's fair value of these investments is \$170,250.

### ***Interest Rate Risk.***

As of August 31, 2017, the Pool's average duration was 0.98 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

### ***Custodial Credit Risk.***

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

### ***Credit Risk.***

As of August 31, 2017, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

### ***Concentration Risk***

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

**NOTE 3. INTERFUND RECEIVABLES AND PAYABLES**

As of August 31, 2017, short-term interfund receivables and payables in governmental funds that resulted from various interfund transactions in governmental fund financial statements were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 34,386	\$ -
Capital Projects Fund	-	\$ 30,683
ASB Fund	-	3,703
Tran Vehicle	-	-
<b>Total</b>	<b>\$ 34,386</b>	<b>\$ 34,386</b>

The interfund balances are liquidated to zero on a monthly basis. Almost all of the interfund transfers are to reimburse the general fund from other funds for processing payroll and other accounts payable in the general fund. In addition, all funds collected in the district are electronically swept on a daily basis into the general fund bank account at the county treasurer. Funds are then disbursed to the appropriate fund as soon as the receipts are reconciled to the daily deposit reports. Total funds disbursed from the General Fund were \$8,542,795. Of this amount \$168,315 was disbursed to the Fiduciary funds and the difference to other Governmental Funds.

**NOTE 4. CHANGES IN CAPITAL ASSETS**

Purchases of equipment over \$5,000 and building and depreciable land improvements over \$100,000 are capitalized and depreciated in the government-wide financial statements. Land is excluded from depreciation. The district’s property valuation of buildings and contents for insurance purposes was \$331,406,577 on August 31, 2016. In the opinion of the district’s insurance consultant, the amount is sufficient to adequately fund replacement of the district’s assets.

	Balance 9/1/2016	Additions	Deletions	Balance 8/31/2017
<b>Governmental Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 40,494,475	\$ 1,640,748	\$ -	\$ 42,135,223
Construction in progress	25,683,425	10,283,419	(32,561,964)	3,404,879
Total capital assets, not being depreciated	66,177,900	11,924,166	(32,561,964)	45,540,102
Capital assets, being depreciated:				
Buildings and improvements	391,667,787	19,985,552	(20,719,068)	390,934,272
Furniture and equipment	19,806,913	2,044,158	(130,636)	21,720,434
Total capital assets, being depreciated	411,474,700	22,029,710	(20,849,705)	412,654,705
Less: accumulated depreciation				
Buildings and improvements	(117,829,240)	(8,624,682)	14,155,707	(112,298,214)
Furniture and equipment	(15,151,073)	(1,130,750)	106,223	(16,175,599)
Total accumulated depreciation	(132,980,313)	(9,755,431)	14,261,931	(128,473,813)
Total capital assets, being depreciated, net	278,494,387	12,274,279	(6,587,774)	284,180,892
<b>Governmental activities capital assets, net</b>	<b>\$ 344,672,286</b>	<b>\$ 24,198,445</b>	<b>\$ (39,149,738)</b>	<b>\$ 329,720,994</b>

The increases to buildings and improvements include completed projects transferred from construction in progress less those portions of the projects classified as capitalized and non-capitalized equipment. Only those building improvements and depreciable land improvements that are greater than \$100,000 are capitalized. Additions to equipment include only those capital outlay purchases with a unit cost greater than \$5,000 in accordance with the district’s capitalization policy. Decreases to equipment were the result of the sale or trade-in of obsolete equipment. Decreases in buildings and improvements include the removal of the Auburn High School that was replaced with a new building.

## Depreciation

Depreciation expense was charged to governmental activities as follows:

Regular instruction	\$ 6,425,574
Special instruction	923,196
Vocational instruction	414,478
Compensatory education	772,562
Other instructional programs	103,741
Support services	277,718
Child Nutrition services	17,545
Transportation services	816,660
ASB	3,958
Total depreciation expense	
charged to governmental activities	<u>\$ 9,755,431</u>

## NOTE 5. CONSTRUCTION IN PROGRESS

Project	Authorized	Expended
Olympic MS Reconstruction	\$ 95,930,352	\$ 1,856,133
Alpac ES Fire Sprinkler Project	40,000	1,088
Chinook ES Replacement	58,272,273	2,911
Dick Scobee ES Replacement	51,387,117	24,046
Pioneer ES Replacement	57,600,532	2,967
Terminal Park ES Replacement	54,600,532	2,911
Evergreen Heights ES Site Improvements	4,657,768	5,435
Transportaion Center Improvements	201,558	2,520
Support Services Mech. Improvements	329,877	101,759
Elementary School #15	63,947,548	182,040
Elementary School #16	63,648,504	17,024
Multi-Facility Portable Classroom Buildings & Electrical	400,000	290,881
Wireless and Core Network Improvements - 2017	1,223,172	856,609
Replace Schools Planning 2016	100,000	58,558
Totals Contruction in Progress	\$ 452,339,233	<u>\$ 3,404,879</u>

## NOTE 6. 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.

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of pension plans administered by DRS and additions to/deductions from the plans' net position have been determined on the same basis as they are reported by the plans.

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	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	48,268	663	2,593
SERS 2	8,229	5,880	27,011
SERS 3	7,735	8,330	33,890
TRS 1	34,225	188	697
TRS 2	5,076	2,532	19,133
TRS 3	10,289	8,568	54,487

### 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 41.34 and 41.40 RCW for PERS, 41.34 and 41.35 RCW for SERS, and 41.32 and 41.34 RCW for TRS. 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			
	7/1/17 Rate	7/1/16 Rate	
<b>PERS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	12.70%	11.18%	
Pension Rates			
	9/1/17 Rate	9/1/16 Rate	
<b>TRS 1</b>			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	15.20%	13.13%	
<b>TRS 2</b>			
Member Contribution Rate	7.06%	5.95%	
Employer Contribution Rate	15.20%	13.13%	
<b>TRS 3</b>			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	15.20%	13.13%	**
<b>SERS 2</b>			
Member Contribution Rate	7.27%	5.63%	
Employer Contribution Rate	13.48%	11.58%	
<b>SERS 3</b>			
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 rate selected by the member.

\*\* = Defined benefit portion only.

**The Collective Net Pension Liability**

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

The Net Pension Liability as of June 30, 2017:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	\$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	\$4,745,078	\$493,475	\$3023,268	\$922,943
Plan fiduciary net position as a percentage of the total pension liability	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 \$82,526,959 for its proportionate shares of the individual plans' collective net pension liability. The district's proportionate share of the collective 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:

June 30, 2017	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	1,500,575	2,045,807	5,604,834	5,913,706
Proportionate Share of the Net Pension Liability	11,837,143	7,453,500	48,422,876	14,813,440

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

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.249462%	1.510411%	1.601673%	1.605022%
Prior year proportionate share of the Net Pension Liability	0.243299%	1.565491%	1.623871%	1.622560%
Net difference percentage	0.006162%	-0.055080%	-0.022198%	-0.017538%

### Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class are 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	7.50%

### 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 and the 2015 Economic 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 CMA. The CMA contains 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 CMA 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:

TRS1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.90%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.30%
Private Equity	23.00%	9.30%

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 table below presents the Auburn School District’s proportionate share of the net pension liability calculated using the discount rate of 7.50%, 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%) or one percentage point higher (8.50%) than the current rate. Amounts are calculated by plan using the district’s allocation percentage.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
<b>PERS1 NPL</b>	\$5,780,412,000	\$4,745,078,000	\$3,848,257,000
Allocation Percentage	0.249462%	0.249462%	0.249462%
Proportionate Share of Collective NPL	\$ 14,419,903	\$ 11,837,143	\$ 9,599,920
<b>SERS2/3 NPL</b>	\$1,278,921,000	\$493,475,000	(\$153,665,000)
Allocation Percentage	1.510411%	1.510411%	1.510411%
Proportionate Share of Collective NPL	\$ 19,316,962	\$ 7,453,500	\$ (2,320,973)
<b>TRS1 NPL</b>	\$3,759,368,000	\$3,023,268,000	\$2,386,123,000
Allocation Percentage	1.601673%	1.601673%	1.601673%
Proportionate Share of Collective NPL	\$ 60,212,793	\$ 48,422,876	\$ 38,217,895
<b>TRS2/3 NPL</b>	\$3,134,647,000	\$922,943,000	(\$873,375,000)
Allocation Percentage	1.605022%	1.605022%	1.605022%
Proportionate Share of Collective NPL	\$ 50,311,780	\$ 14,813,440	\$ (14,017,863)

**Pension Expense**

The District recognizes a pension expense for its proportionate share of the collective pension expense. This is determined by using the district’s proportion share of the collective net pension liability. For the year ending August 31, 2017, the district recognized a total pension expense as follows:

	Pension Expense
PERS 1	\$ (473,559)
SERS 2/3	\$ (68,740)
TRS 1	\$ (3,266,992)
TRS 2/3	\$ (654,180)
<b>TOTAL</b>	<b>\$ (4,463,470)</b>

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The Pension Plans reported collective Deferred Outflows of Resources and collective Deferred Inflows of resources related to the individual plans. At August 31, 2017, the District reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$0	\$0
Net difference between projected and actual earnings on pension plan investments	\$0	\$(441,729)
Changes in assumptions or other inputs	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$260,768	\$0
TOTAL	\$260,768	\$(441,729)
SERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$1,484,145	\$0
Net difference between projected and actual earnings on pension plan investments	\$0	\$(1,936,770)
Changes in assumptions or other inputs	\$77,801	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$90,810	\$(332,448)
Contributions subsequent to the measurement date	\$355,582	\$0
TOTAL	\$2,008,338	\$(2,269,218)
TERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$0	\$0
Net difference between projected and actual earnings on pension plan investments	\$0	\$(2,051,439)
Changes in assumptions or other inputs	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$989,852	\$0
TOTAL	\$989,852	\$(2,051,439)

TERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$3,693,975	\$(755,725)
Net difference between projected and actual earnings on pension plan investments	\$0	\$(5,360,967)
Changes in assumptions or other inputs	\$174,562	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$359,476	\$(566,509)
Contributions subsequent to the measurement date	\$1,045,851	\$0
TOTAL	\$5,273,864	\$(6,683,200)

\$2,652,053 reported as Deferred Outflows of Resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31	PERS 1	SERS 2/3	TRS 1	TRS 2/3
2018	(298,580)	(509,527)	(1,509,838)	(2,171,910)
2019	94,267	420,535	564,109	802,148
2020	(21,888)	(62,916)	(50,148)	(275,514)
2021	(215,527)	(686,896)	(1,058,562)	(2,081,991)
2022	-	158,813	-	265,018
Thereafter	-	63,528	-	1,007,061

**NOTE 7. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

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

Employers participating in the plan include the state (which includes general government agencies and higher education institutions), 57 of the state's K-12 school and educational service districts (ESDs), and 206 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 244 K-12 school districts and ESDs. The Auburn School District's retirees are eligible to participate in the plan under this arrangement.

## Plan Description

### Eligibility

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

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

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

### Medical and Life Benefits

Upon retirement, members are permitted to receive medical benefits. Retirees pay the following monthly rates for pre-65 Medical coverage for 2017:

Descriptions	Type of Coverage			
	Non-Medicare Retiree	Non-Medicare Retiree & Spouse	Medicare Retiree	Medicare Retiree & Spouse
Kaiser Permanente WA (formerly Group Health) Classic	\$ 676.52	\$ 1,348.32	\$ 176.17	\$ 347.62
Kaiser Permanente WA (formerly Group Health) Value	598.81	1,192.90		
Kaiser Permanente WA (formerly Group Health) CDHP	563.28	1,115.34		
Kaiser Permanente WA (formerly Group Health) SoundChoice	575.80	1,146.88		
Kaiser Permanente NW Classic	661.10	1,317.48	163.63	322.54
Kaiser Permanente NW CDHP	564.83	1,117.94		
Uniform Medical Plan Classic	623.65	1,242.58	278.13	551.54
Uniform Medical Plan CDHP	562.91	1,114.60		
Premera Blue Cross Plan F			109.59	316.14
Uniform Dental Plan	45.07	90.14	45.07	90.14
DeltaCare	39.53	79.06	39.53	79.06
Willamette Dental	42.37	84.74	42.37	84.74

For 2017, after age 65, retired members receive a subsidy of 50 percent of their monthly medical premiums up to \$150.

### Funding Policy

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

### **Annual OPEB Cost and Net OPEB Obligation**

The district's annual other post-employment benefits (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a period not to exceed thirty years. The following tables show the components of the district's annual OPEB cost for the year, the amount actually contributed to the plan and changes in district's Net OPEB Obligation. (NOO).

<b>Determination of Annual Required Contribution</b>	<b>August 31, 2017</b>
Normal Cost at Year End	\$ 1,795,887
Amortization of UAAL	1,165,875
Interest on Normal Cost and Amortization Payment	133,279
Annual Required Contribution (ARC)	<u>\$ 3,095,041</u>

<b>Determination of Net OPEB Obligation</b>	
Annual Required Contribution	\$ 3,095,041
Interest on Prior year Net OPEB Obligation	785,629
Adjustment to ARC	(608,138)
Annual OPEB Cost	<u>3,272,532</u>
Contributions Made	<u>(1,415,328)</u>
Increase in Net OPEB Obligation	1,857,204
Net OPEB Obligation - Beginning of Year	<u>17,458,418</u>
Net OPEB Obligation - End of Year*	<u>\$ 19,315,622</u>

The District's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Years 2010 to 2017 were as follows:

<b>OPEB COST</b>			
<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
8/31/2017	\$ 3,272,532	43.25%	\$ 19,315,622
8/31/2016	\$ 3,569,226	38.84%	\$ 17,458,418
8/31/2015	\$ 3,580,493	38.48%	\$ 15,275,396
8/31/2014	\$ 2,847,966	42.51%	\$ 13,072,748
8/31/2013	\$ 2,799,464	41.95%	\$ 11,435,502
8/31/2012	\$ 3,375,691	59.93%	\$ 9,810,315
8/31/2011	\$ 3,702,701	21.98%	\$ 8,444,355
8/31/2010	\$ 3,583,915	22.99%	\$ 5,555,388

#### **Funded Status and Funding Progress**

As of August 31, 2017 the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$34.9 million, and actuarial value of assets was \$0, resulting in a UAAL of \$34.9 million.

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

## Actuarial Methods and Assumptions

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

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

Year	Medical Trend	Life Trend
2010-11	7.00%	3.50%
2011-12	6.50%	3.50%
2012-13	6.00%	3.50%
2013-14	5.50%	3.00%
2014-15	5.00%	3.00%
2015-16	5.00%	3.00%
2016-17	5.00%	3.00%

In the August 31, 2017 actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions used included a 4.5% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payments of benefits.

The UAAL is being amortized as a level percentage of pay on an open basis over a period of 30 years. The UAAL as a percentage of the covered payroll of \$106,865,582 is 32.7%.

For further information on the results the actuarial valuation of the employer provided subsidies associated with state's PEGB plan refer to: [http://osa.leg.wa.gov/Actuarial\\_services/OPEB/OPEB.htm](http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm).

## NOTE 8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended August 31, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
Bonds Payable:					
2004 UTGO Refunding Bonds	\$ 3,890,000	\$ -	\$ 3,890,000	\$ -	\$ -
2004 UTGO Bonds	-	-	-	-	-
2010 UTGO Refunding Bonds	35,450,000	-	-	35,450,000	6,100,000
2012 UTGO Refunding Bonds	8,855,000	-	100,000	8,755,000	100,000
2013 UTGO and Refunding Bonds	70,195,000	-	3,305,000	66,890,000	2,685,000
2014 UTGO and Refunding Bonds	37,360,000	-	3,340,000	34,020,000	1,830,000
2017 UTGO Bonds	-	90,535,000	-	90,535,000	8,495,000
Total Bonds Payable	155,750,000	90,535,000	10,635,000	235,650,000	19,210,000
Unamortized Bond Premium	14,772,383	5,021,748	1,385,096	18,409,035	1,454,305
Net Bonds Payable	170,522,383	95,556,748	12,020,096	254,059,035	20,664,305
Net Pension Liabilities:					
PERS Plan 1	13,066,316	-	1,229,172	11,837,144	-
SERS Plans 2/3	10,281,628	-	2,828,128	7,453,500	-
TRS Plan 1	55,442,817	-	7,019,941	48,422,876	-
TRS Plans 2/3	22,282,564	-	7,469,124	14,813,440	-
Total Net Pension Liabilities	101,073,324	-	18,546,365	82,526,959	-
Other Liabilities:					
Compensated Absences	3,734,275	4,189,258	3,734,275	4,189,258	400,214
Net OPEB Obligation	17,458,418	1,857,204	-	19,315,622	-
GRAND TOTAL	\$ 292,788,400	\$ 101,603,210	\$ 34,300,736	\$ 360,090,875	\$ 21,064,519

The debt service fund is established to redeem the outstanding bonds. Compensated Absences payments are liquidated by the general fund.

**General Obligation Bonds**—The annual requirements to amortize all general obligation bonds outstanding as of August 31, 2017, including interest payments, are listed as follows:

<b>Year Ending August 31, 2017</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	19,210,000	9,270,037	28,480,037
2019	19,370,000	8,621,963	27,991,963
2020	12,355,000	8,007,900	20,362,900
2021	12,685,000	7,455,988	20,140,988
2022	12,735,000	6,862,031	19,597,031
2023-2027	54,820,000	27,337,875	82,157,875
2028-2032	54,175,000	16,520,800	70,695,800
2033-2036	50,300,000	3,877,425	54,177,425
<b>Total</b>	<b>\$ 235,650,000</b>	<b>\$ 87,954,019</b>	<b>\$ 323,604,019</b>

General obligation school building bonds payable at August 31, 2017, with their outstanding balances are comprised of the following individual issues:

**OUTSTANDING BONDS**

\$27,785,000 2004 general obligation refunding bonds, due in installments of \$175,000 to \$4,010,000, beginning December 1, 2004 through December 1, 2016, interest from 2.00% to 5.00%	\$ -
\$36,025,000 2010 general obligation refunding bonds, due in installments of \$575,000 to \$8,215,000 beginning December 1, 2010 to December 1, 2021, interest 2% to 5.00%	35,450,000
\$9,290,000 2012 general obligation refunding bonds, due in installments of \$135,000 to \$8,210,000 beginning December 1, 2012 to December 1, 2022, interest 2% to 3.00%	8,755,000
\$78,855,000 2013 general obligation and refunding bonds, due in installments of \$570,000 to \$10,280,000 beginning December 1, 2013 to December 1, 2032, interest 1.5% to 4.00%	66,890,000
\$43,555,000 2014 general obligation and refunding bonds, due in installments of \$775,000 to \$4,275,000 beginning December 1, 2014 to December 1, 2033, interest 1.00% to 5.00%	34,020,000
\$90,535,000 2017 general obligation bonds, due in installments of \$475,000 to \$16,000,000 beginning December 1, 2017 to December 1, 2036, interest 2.25% to 5.00%	90,535,000
	<u>\$ 235,650,000</u>

## **2017 BOND ISSUE**

On January 24, 2017, the District issued \$90,535,000 in bonds to provide moneys that are necessary to pay the cost and expenses to construct and equip two new elementary schools; rebuild and equip Chinook Elementary, Dick Scobee Elementary, Lea Hill Elementary, Pioneer Elementary, Terminal Park Elementary schools and Olympic Middle School. The funds may also be used to acquire sites as needed to accomplish these capital projects. The bonds bear interest rates from 2.25 to 5.00 percent and will be redeemed over the next 20 years with proceeds from property tax levy.

This is the first issue in a series of bonds authorizing the District to issue \$456,056,000 of general obligation bonds in total.

## **LEGAL DEBT MARGIN**

RCW 39.36.015 and RCW 39.36.020 provide that debt cannot be incurred in excess of the following percentages of the value of the taxable property of the district:

- 0.375% Without a vote of the people (Non-bonded debt only per RCW 28A51.010)
- 2.5% With a vote of the people
- 5.0% With a vote of the people, if the indebtedness in excess of 2.5% is for capital outlay.

Assessed valuation of taxable property for 2016 tax collection for bond purposes is \$10.8 billion.

## **NOTE 9. RISK MANAGEMENT**

### **A. UNEMPLOYMENT**

Auburn School District self-insures for unemployment compensation for all of its employees. Actual employee claims are paid by the State of Washington, Department of Employment Security and then reimbursed by the district. This self-insurance program costs the district less than full participation in the state unemployment compensation program. Since actual claims paid during the fiscal year were only \$52,702, it is clear that all of the major prior year claims have been completely paid.

### **B. INDUSTRIAL INSURANCE**

For the fiscal year ended August 31, 2017, Auburn School district made payments totaling \$1,417,172 to the Workers' Compensation Trust administered by Puget Sound Educational Service district No. 121 for industrial insurance for all district employees. This trust is operated for the benefit of several neighboring school districts in-lieu-of districts making monthly premium payments to the State of Washington for industrial insurance. This practice enables these districts to pay industrial insurance claims as they occur and minimizes the districts' costs for the program.

### **C. RISK MANAGEMENT POOL**

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. In order to obtain general liability insurance at a cost it considered to be economically justifiable, the district joined the Washington Schools Risk Management Pool administered by Puget Sound Educational Service District No. 121. This pool is a public entity risk pool currently operating as a common risk management and insurance program. It provides coverage for property, liability, vehicle, public official liability, crime, employment practices, machinery breakdown and network security. The district pays an annual premium to the pool for its general insurance coverage. For the fiscal year ended August 31, 2017, the district contributed \$890,717 to the pool.



The agreement for formation of the Washington School Risk Management Pool in 1986 provides that the pool will be self-sustaining through member premiums and reinsure through commercial companies for claims in excess of \$1 million for each property loss. The Pool maintains an excess reinsurance contract with Lexington Insurance Company which provides \$500 million limit of coverage over the Pool's self-insured retention (SIR) limit of \$1 million. This includes boiler and machinery coverage insurance through Hartford Steam Insurance Company with a Pool retention of \$25,000. The Pool purchased liability reinsurance coverage from Alterra for \$2 million excess of \$1 million SIR per occurrence; United Educators for \$7 million excess of \$3 million per occurrence; and excess liability insurance coverage through Chartis for \$10 million excess of \$10 million per occurrence. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Washington School risk Management Pool has published its own financial report for the year ended August 31, 2017. This report can be obtained from:

Washington Schools Risk Management Pool  
320 Andover Park East  
P. O. Box 88700  
Tukwila WA 98138-2700

**NOTE 10. EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND FINANCIAL STATEMENTS AND GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**A. RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**

Total fund balances for governmental funds	\$ 169,177,083
Total net position for governmental activities in the statement of net position differs because:	
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land, net of \$463,631 applicable accum. depreciation	\$ 41,671,592
Construction in progress	3,404,879
Buildings and improvements, net of \$112,298,214 accum. depreciation	279,099,688
Furniture and equipment, net of \$ 16,175,599 accumulated depreciation	5,544,834
	329,720,993
Property taxes that are deferred in government funds since not available soon enough to pay for the current period's expenditures.	44,775,968
	343,865
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is recognized.	(2,242,948)
Long-term liabilities and deferred outflows of resources that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities or deferred outflows of resources. All liabilities and deferred outflows of resources, both current and long-term are reported in the statement of net position. Balances at year-end are:	
Deferred Outflows of Resources:	
Deferred Outflow on Refunding	3,430,077
Deferred Outflow on Pension Plans	8,532,822
Liabilities:	
Bonds Payable	(\$235,650,000)
Unamortized bond premiums	(18,409,035)
Compensated Absences	(4,189,258)
Net OPEB Obligation	(19,315,622)
Net Pension Liability - all plans	(82,526,959)
	(360,090,874)
Deferred Inflows of Resources:	
Deferred Inflow on Pension Plans	(11,445,587)
Total net position of governmental activities	<u><u>\$ 182,201,400</u></u>

**B. RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**Net change in fund balances-total governmental funds** \$ 99,084,188

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 for furniture and equipment and \$100,000 for buildings and improvements are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period (Schedule 4A):

Capital outlays	\$	1,391,912	
Depreciation expense		(9,755,431)	
Loss on disposal of assets		(6,587,774)	\$ (14,951,293)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. The repayment of principal reduces the liability. Governmental funds expend issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. However, interest expense is recognized as it accrues, regardless of when it is due. The effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	\$	10,635,000	
Interest and other charges - general obligation bonds		95,739	
Bond Sale		<u>(95,556,748)</u>	(84,826,009)

Property tax revenues received prior to the year for which they are being levied are reported as unavailable revenue in the governmental funds.

They are, however, recorded as revenues in the statement of activities. Unavailable property tax revenues increased this year. 9,769,547

In the statement of activities, certain operating expenses such as compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. During this year, accrued vacation and sick leave payable increased by

(454,983)

Net Pension Expense 4,463,470

Net OPEB Obligation (1,857,204)

**Change in net position of governmental activities** \$ 11,227,716

**NOTE 11. SUMMARY OF SIGNIFICANT CONTINGENCIES**

**LITIGATION**

Auburn School District is party to various pending legal actions arising from its normal educational activities. It is the opinion of the administration that these will be resolved without any material impact on the operations or the financial position of the district.

**CLAIMS AND JUDGMENTS**

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

**NOTE 12. FUND BALANCE (GOVERNMENTAL FUNDS)**

**CHANGES IN FUND BALANCES**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund
Total Fund Balance 8/31/16	\$ 14,370,497	\$ 1,453,658	\$ 7,857,971	\$ 43,413,809	\$ 2,996,961
Nonspendable: Inventories	471,664	936	-	-	-
Restricted:					
Child Nutrition Services	730,906	-	-	-	-
Student Activities	-	115,482	-	-	-
Debt Service	-	-	4,553,310	-	-
Capital Projects	-	-	-	91,851,612	-
Acquisition of Buses	-	-	-	-	(493,527)
Carryovers	(150,832)				
Committed:					
Capital Levy Projects	-	-	-	(1,751,379)	-
Held for Employee Benefits	29,638	-	-	-	-
Assigned:					
Other Capital Projects	-	-	-	2,839,313	-
Unassigned	887,064	-	-	-	-
Total Fund Balance 8/31/17	\$ 16,338,938	\$ 1,570,075	\$ 12,411,281	\$ 136,353,355	\$ 2,503,434

**NOTE 13. OTHER DISCLOSURES**

**KING COUNTY DIRECTORS' ASSOCIATION**

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. This association serves 294 public school districts. District purchases for the calendar year 2016 totaled \$1,377,048. Auburn School District's equity in KCDA totaled \$201,217 as of December 31, 2016. This equity is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. The district may withdraw inventory at a maximum rate of ten (10) percent per year for a ten year period, or the district may withdraw cash equally over a fifteen-year period.

**NOTE 14. SIGNIFICANT EFFECT OF SUBSEQUENT EVENTS**

There were no subsequent events as of the date of this financial report.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**AUBURN SCHOOL DISTRICT NO. 408**  
**BUDGETARY COMPARISON SCHEDULE\***  
**GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED AUGUST 31, 2017**

	BUDGETED AMOUNTS		ACTUAL AMOUNT	VARIANCE
	ORIGINAL	FINAL		
<b>REVENUES</b>				
Local	\$ 47,260,163	\$ 47,260,163	\$ 44,193,152	\$ (3,067,011)
State	137,654,735	137,654,735	139,023,835	1,369,100
Federal	16,633,159	16,122,280	15,802,649	(319,631)
Other	627,700	1,138,579	848,264	(290,315)
<b>TOTAL REVENUES</b>	<b>202,175,757</b>	<b>202,175,757</b>	<b>199,867,900</b>	<b>(2,307,857)</b>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
Regular Instruction	118,949,723	118,949,723	113,800,902	5,148,821
Special Education	25,389,715	25,389,715	24,684,257	705,458
Vocational Instruction	6,835,926	6,835,926	6,866,517	(30,591)
Compensatory Education	14,643,285	14,643,285	15,161,857	(518,572)
Other Instructional Programs	4,560,157	4,560,157	881,152	3,679,005
Community Services	1,382,601	1,382,601	971,631	410,970
Support Services	22,023,795	22,023,795	21,495,127	528,668
Child Nutrition Services	7,746,702	7,746,702	6,206,085	1,540,617
Pupil Transportation Services	7,593,855	7,593,855	7,185,911	407,944
<b>CAPITAL OUTLAY</b>				
Equipment	602,444	602,444	648,612	(46,168)
<b>TOTAL EXPENDITURES</b>	<b>209,728,203</b>	<b>209,728,203</b>	<b>197,902,049</b>	<b>11,826,154</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(7,552,446)</b>	<b>(7,552,446)</b>	<b>1,965,851</b>	<b>9,518,297</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Equipment	-	-	2,590	2,590
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>2,590</b>	<b>2,590</b>
<b>Excess of Revenues &amp; Other Financing Sources Over (Under) Expenditures &amp; Other Uses</b>	<b>(7,552,446)</b>	<b>(7,552,446)</b>	<b>1,968,441</b>	<b>9,520,887</b>
<b>FUND BALANCE-September 1</b>	14,000,000	14,000,000	14,370,497	370,497
<b>FUND BALANCE -August 31</b>	<b>\$ 6,447,554</b>	<b>\$ 6,447,554</b>	<b>\$ 16,338,938</b>	<b>\$ 9,891,384</b>

\* Prepared on the GAAP Budgetary Basis of Accounting

**REQUIRED SUPPLEMENTARY INFORMATION**  
**AUBURN SCHOOL DISTRICT NO. 408**  
**BUDGETARY COMPARISON SCHEDULE\***  
**SPECIAL REVENUE FUND (ASSOCIATED STUDENT BODY FUND)**  
**FOR THE FISCAL YEAR ENDED AUGUST 31, 2017**

	BUDGETED AMOUNTS		ACTUAL AMOUNT	VARIANCE
	ORIGINAL	FINAL		
<b>REVENUES</b>				
General	\$ 1,824,512	\$ 1,824,512	\$ 658,595	\$ (1,165,917)
Athletics	\$ 278,570	278,570	203,195	(75,375)
Classes	\$ 254,250	254,250	116,303	(137,947)
Clubs	\$ 2,214,885	2,214,885	1,251,025	(963,860)
Private Monies	\$ 134,000	134,000	50,937	(83,063)
<b>Total Revenues</b>	<b>4,706,217</b>	<b>4,706,217</b>	<b>2,280,054</b>	<b>(2,426,163)</b>
<b>EXPENDITURES</b>				
General	1,341,435	1,341,435	494,983	846,452
Athletics	425,193	425,193	239,824	185,369
Classes	276,575	276,575	121,418	155,157
Clubs	2,520,444	2,520,444	1,260,623	1,259,821
Private Monies	134,100	134,100	46,789	87,311
<b>Total Expenditures</b>	<b>4,697,747</b>	<b>4,697,747</b>	<b>2,163,637</b>	<b>2,534,110</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>8,470</b>	<b>8,470</b>	<b>116,417</b>	<b>107,947</b>
<b>FUND BALANCE - September 1</b>	<b>1,032,671</b>	<b>1,032,671</b>	<b>1,453,658</b>	<b>420,987</b>
<b>FUND BALANCE - August 31</b>	<b>\$ 1,041,141</b>	<b>\$ 1,041,141</b>	<b>\$ 1,570,075</b>	<b>\$ 528,934</b>

\*Prepared on the GAAP Budgetary Basis of Accounting.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**AUBURN SCHOOL DISTRICT NO. 408**  
**ACTUARIAL VALUATION OF POST EMPLOYMENT BENEFITS**  
**OTHER THAN PENSION**  
**SCHEDULE OF FUNDING PROGRESS**

<b>Fiscal Year Ended August 31</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liabilities (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL As a Percentage of Covered Payroll</b>
2009	August 31, 2009	\$ -	\$ 39,459,390	\$ 39,459,390	0%	\$ 86,000,573	46%
2010	August 31, 2009	\$ -	\$ 39,459,390	\$ 39,459,390	0%	\$ 87,724,325	45%
2011	August 31, 2011	\$ -	\$ 35,942,820	\$ 35,942,820	0%	\$ 78,871,163	46%
2012	August 31, 2011	\$ -	\$ 35,942,820	\$ 35,942,820	0%	\$ 89,476,306	40%
2013	August 31, 2013	\$ -	\$ 30,118,346	\$ 30,118,346	0%	\$ 81,582,322	36.9%
2014	August 31, 2013	\$ -	\$ 30,118,346	\$ 30,118,346	0%	\$ 84,845,614	35.5%
2015	August 31, 2015	\$ -	\$ 38,509,601	\$ 38,509,601	0%	\$ 92,928,939	41.4%
2016	August 31, 2015	\$ -	\$ 38,509,601	\$ 38,509,601	0%	\$ 97,110,516	39.7%
2017	August 31, 2017	\$ -	\$ 34,976,240	\$ 34,976,240	0%	\$ 106,865,582	32.7%

Note 1: The provisions of the Governmental Accounting Standards Board for the actuarial valuation of post employment benefits were adopted for the fiscal year ended August 31, 2009, therefore only eight years of data are shown.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**AUBURN SCHOOL DISTRICT NO. 408**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**AS OF JUNE 30, 2017**  
**LAST 10 FISCAL YEARS\***

	2017	2016	2015
<b>Plan: PERS 1</b>			
District's Proportion of the net pension liability (percentage)	0.249462%	0.243299%	0.235030%
District's proportionate share of the net pension liability (amount)	11,837,143	13,066,316	12,294,252
District's covered-employee payroll	31,117,271	29,293,377	26,627,617
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	38.04%	44.61%	46.17%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%
<b>Plan: SERS 2/3</b>			
District's Proportion of the net pension liability (percentage)	1.510411%	1.565491%	1.527114%
District's proportionate share of the net pension liability (amount)	7,453,500	10,281,628	6,202,389
District's covered-employee payroll	30,856,255	28,969,671	26,284,813
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	24.16%	35.49%	23.60%
Plan fiduciary net position as a percentage of the total pension liability	90.79%	86.52%	90.92%
<b>Plan: TRS 1</b>			
District's Proportion of the net pension liability (percentage)	1.601673%	1.623871%	1.563259%
District's proportionate share of the net pension liability (amount)	48,422,876	55,442,817	49,526,279
District's covered-employee payroll	88,949,650	81,961,169	75,062,155
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	54.44%	67.65%	65.98%
Plan fiduciary net position as a percentage of the total pension liability	65.58%	62.07%	65.70%
<b>Plan: TRS 2/3</b>			
District's Proportion of the net pension liability (percentage)	1.605022%	1.622560%	1.567497%
District's proportionate share of the net pension liability (amount)	14,813,440	22,282,564	13,226,568
District's covered-employee payroll	88,002,945	80,831,106	73,340,017
District's proportionate share of the net pension liability (amount) as a percentage of its covered payroll	16.83%	27.57%	18.03%
Plan fiduciary net position as a percentage of the total pension liability	93.14%	88.72%	92.48%

\*This schedule is to be built prospectively until it contains 10 years of data.



**REQUIRED SUPPLEMENTARY INFORMATION**  
**AUBURN SCHOOL DISTRICT NO. 408**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS**  
**AS OF AUGUST 31, 2017**  
**LAST 10 FISCAL YEARS\***

	2017	2016	2015
<b>Plan: PERS 1</b>			
Contractually required contribution	\$ 1,500,575	\$ 1,379,743	\$ 1,080,193
Contributions in relation to the contractually required contributions	\$ 1,500,575	\$ 1,379,743	\$ 1,080,193
Contribution deficiency (excess)	0	0	0
District's covered-employee payroll	\$ 31,429,235	\$ 29,688,039	\$ 27,045,866
Contribution as a percentage of covered-employee payroll	4.77%	4.65%	3.99%
<b>Plan: SERS 2/3</b>			
Contractually required contribution	\$ 2,045,807	\$ 1,872,865	\$ 1,484,686
Contributions in relation to the contractually required contributions	\$ 2,045,807	\$ 1,872,865	\$ 1,484,686
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	\$ 31,171,337	\$ 29,372,449	\$ 26,710,560
Contribution as a percentage of covered-employee payroll	6.56%	6.38%	5.56%
<b>Plan: TRS 1</b>			
Contractually required contribution	\$ 5,604,834	\$ 4,935,204	\$ 3,498,213
Contributions in relation to the contractually required contributions	\$ 5,604,834	\$ 4,935,204	\$ 3,498,213
Contribution deficiency (excess)	0	0	0
District's covered-employee payroll	\$ 89,873,171	\$ 83,219,448	\$ 76,034,791
Contribution as a percentage of covered-employee payroll	6.24%	5.93%	4.60%
<b>Plan: TRS 2/3</b>			
Contractually required contribution	\$ 5,913,706	\$ 5,296,086	\$ 4,165,580
Contributions in relation to the contractually required contributions	\$ 5,913,706	\$ 5,296,086	\$ 4,165,580
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	\$ 88,963,252	\$ 82,150,225	\$ 74,410,975
Contribution as a percentage of covered-employee payroll	6.65%	6.45%	5.60%

\*This schedule is to be built prospectively until it contains 10 years of data.

**AUBURN SCHOOL DISTRICT NO. 408  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ending August 31, 2017**

1	2	3	4	5	6	7	8	9	10
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number/Award Number	From Direct Awards	From Pass Through Awards	Total	Passed Through to Subrecipients	Foot note
<i>Child Nutrition Services Cluster:</i>									
U.S. Dept. of Agriculture	WA OSPI	School Breakfast Program	10.553		\$	1,238,274	1,238,274	No	
	WA OSPI	National School Lunch Program	10.555			4,353,239	4,353,239	No	3
	WA OSPI	Summer Food Service Program for Children	10.559			177,299	177,299	No	
		<b>Subtotal U.S. Department of Agriculture</b>				<b>5,793,176</b>	<b>5,793,176</b>		
<i>Non-Clustered</i>									
	WA OSPI	Fresh Fruit and Vegetable Program	10.582			19,728	19,728	No	
	WA OSPI	Schools and Roads - Grants to States	10.665			4,636	4,636	No	
		<b>Subtotal U.S. Department of Agriculture</b>				<b>5,793,176</b>	<b>5,793,176</b>		
U.S. Dept. of Defense		JROTC Program	12.999		80,594	-	80,594	No	
		<b>Subtotal U.S. Department of Defense</b>			<b>80,594</b>	<b>-</b>	<b>80,594</b>		
<i>Special Education Cluster:</i>									
U.S. Dept. of Education	WA OSPI	Special Education Grants to States	84.027	305858 (2400)		2,661,337	2,661,337	No	5
	WA OSPI	Special Education Grants to States	84.027	337905 (2402)		440,086	440,086	No	5
		Total CFDA 84.027				3,101,423	3,101,423		
	WA OSPI	Special Education - Preschool Grants	84.173	363850 (2480)		59,466	59,466	No	5
	WA OSPI	Special Education - Preschool Grants	84.173	385401 (2402)		7,694	7,694	No	5
		Total CFDA 84.027				67,160	67,160		
<i>Non-Clustered</i>									
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	202508	\$	4,040,371	4,040,371	No	4,5
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	261152 (5188/203)		30,000	30,000	No	5
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	263170 (5188/202)		17,873	17,873	No	5
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	263171 (5188/206)		17,080	17,080	No	5
		Subtotal CFDA 84.010:				4,105,323	4,105,323		
	WA OSPI	Career & Technical Education - Basic Grants to States	84.048	173748 (3860)		151,895	151,895	No	5
		Subtotal CFDA 84.0248				151,895	151,895		
	WA OSPI	Indian Education - Grants to Local Educational Agencies	84.060	S060A0		176,847	176,847	No	5
	WA OSPI	English Language Acquisition State Grants	84.365	402355 (6400)		440,904	440,904	No	5
		Improving Teacher Quality State Grants	84.367	524180 (5237)		573,459	573,459	No	5
	Puget Sound Educational Service District	Race to the Top - District Grants	84.416	1811,1820,1830,183		335,260	335,260	No	5
		<b>Subtotal U.S. Department of Education</b>				<b>8,775,425</b>	<b>8,952,272</b>		
U.S. Dept. of Health and Human Services	Puget Sound Educational Service District	Head Start	93.600	6100 - E. 6361 - R	\$	619,500	619,500	No	2
	WA HCA	Medical Assistance Program	93.778			213,383	213,383	No	
		<b>Subtotal U.S. Dept. of Health and Human Services</b>				<b>832,883</b>	<b>832,883</b>		
		<b>TOTAL FEDERAL AWARDS EXPENDED</b>				<b>257,441</b>	<b>15,401,484</b>		
The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.									

**AUBURN SCHOOL DISTRICT No. 408**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the 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 district's financial statements. The district uses the 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 - PROGRAM COSTS/MATCHING CONTRIBUTIONS

The awarded Federal Budget of \$642,440.00 for program costs, including the district's local matching share, exceeded the current year expenditures represented by the amount shown.

NOTE 3 - NONCASH AWARDS

The amount of commodities reported on the schedule is the value of commodities distributed by the district during the current year and priced as prescribed by OSPI.

NOTE 4 - SCHOOLWIDE PROGRAMS

The district operates a "schoolwide" program" in nine elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amount was expended by the district in its schoolwide program: Title I (84.010A)(84.389A) \$4,100,228.00.

NOTE 5 - FEDERAL INDIRECT RATE

The district claimed indirect costs under this grant using its federal restricted rate of 2.43%. The district has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.



**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER  
UNIFORM GUIDANCE**

**Auburn School District #408  
King County  
September 01, 2016 through August 31, 2017**

This schedule presents the corrective action planned by the auditee 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).

<b>Finding ref number:</b> 2017-001	<b>Finding caption:</b> The District did not have adequate internal controls to ensure compliance with requirements for qualifications of paraprofessionals, eligibility, schoolwide programs and high school graduation rate data.
<b>Name, address, and telephone of auditee contact person:</b> Troy Dammel, 253-887-3988	
<b>Corrective action the auditee plans to take in response to the finding:</b> <b>High School Graduation Rate:</b> <ol style="list-style-type: none"> <li><b>Monthly review.</b> A review will be part of our monthly enrollment routine. Assigned school staff will print a report of both unconfirmed transfers and confirmed transfers. School staff should then try to find out if the unconfirmed can be confirmed as well as make sure we have documentation for anything confirmed.  We will be doing this at all grade levels, even though grad data is just for 9-12. This is because the accuracy of our withdrawal records affects other data reports. Also, following this practice even at our elementary schools will provide consistency throughout the district.</li> <li><b>Annual review.</b> In the spring, lists will be sent out to building principals for their review. A second review will happen in the fall once the P210 window opens giving schools a final chance to make any changes/updates.</li> </ol> <b>Qualifications of Paraprofessionals:</b> <ol style="list-style-type: none"> <li><b>Proof of High School Diploma.</b> Human Resources has now included the requirement that all Para Paraprofessionals submit proof of a High School Diploma or GED before being hired. In addition, HR has added this requirement to a checklist that is attached to the employees file.</li> </ol>	

***Eligibility:***

- 1. The Assistant Director of Department of Student Learning will review the Free and Reduced Lunch report used to determine eligible schools and rank order in accordance with school poverty rankings. Hard copy documentation matching the free and reduced report in i-grants will be kept on file by the Assistant Director. The Assistant Director will monitor rank order to ensure compliance.*

***Schoolwide Programs:***

- 1. The Department of Student Learning will use a school improvement plan template and lock required components so they cannot be removed or changed. The Assistant Superintendent of Department of Student Learning will review the school improvement plans to ensure required components are complete.*

**Anticipated date to complete the corrective action:** Immediately

## ABOUT THE STATE AUDITOR'S OFFICE

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

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<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>