Notes to the Financial Statements

AUBURN
SCHOOL DISTRICT
ENGAGE • EDUCATE • EMPOWER

Auburn School District No. 408
915 4th Street NE, Auburn WA 98002

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 Assets

The *Statement of Net Assets* 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.
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> **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.
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> 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.
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> **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.
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> **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 assets and changes in net assets. Fiduciary Funds such as the private-purpose trust fund and the employee benefits trust fund are 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.

II). Employee Benefits Trust Fund (Vision Benefits) – This fund accounts for moneys held in trust for employees participating in the district's self-insured vision benefits plan. Premiums are deposited into, and vision claims are paid from this fund. The district has contracted with a service provider to administer claims payments.

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 assets 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 and the Employee Benefits Trust Fund (Vision Benefits). These funds are reported on the accrual basis of accounting.

1). <u>Encumbrances</u>

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). <u>Eliminations and Reclassifications</u>

In the process of aggregating data for the government-wide *statements of net assets* 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). <u>General Budget Policies</u>

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 anytime during the fiscal year.

2). <u>Budgetary Basis of Accounting</u>

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 ASSETS 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, 2012, cash deposits were $75,000 petty cash, lunchroom change funds and cash on hand were $37,424, the fair value of cash equivalents were $44,251,800 and warrants outstanding were $2,354,041. 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, 2012, such securities comprised 0.4% of the Pool's portfolio. As of August 31, 2012, the district's funds invested in the Pool comprised 1.01% 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$1,292,104 of receivables for federal grants of $1,104,347, state bus and vehicle sales of $8,180, and local government impact fees of $174,347. 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. Reservation of fund balance is not necessary. However, the Board of Directors has designated a portion of fund balance to replace or increase the inventories.

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. In *government-wide financial statements*, they are amortized over the life of the bond and charged to expense accounts.

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 Assets. 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 Revenue

In *governmental fund financial statements*, deferred revenues consist of amounts collected before revenue recognition criteria are met, and receivables which, under the modified accrual basis of accounting, are measurable but not yet available, e.g. unearned property tax revenues, unearned revenues from federal, state, and local grants, and unearned revenues on long-term receivables. *In government-wide financial statements,* property taxes are accrued; therefore there are no deferred property tax revenues.

10). Net Assets (*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 Assets" component reports the net assets where constraints have been placed on net asset 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 Assets" 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:

<u>Nonspendable</u> – 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.

<u>Restricted</u> – 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.

<u>Committed</u> – 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.

<u>Assigned</u> – includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. Fund balance is assigned by the District's Board as part of the annual budget resolution.

<u>Unassigned</u> – 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 an 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). <u>Sick Leave</u> –

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 Assets*. For reporting purposes, 25% of the sick leave liability (up to 180 days) for those eligible for retirement is considered accruable. The vesting method in *GASB Statement No. 16* was applied in calculating the sick leave. The amount of accrued sick leave as of August 31, 2012 was $1,902,368 and reported as a long-term liability in the *government-wide financial statements*.

b). <u>Vacation Leave</u> –

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, 2012, vacation leave payable, estimated to be $883,597 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 $44,251,800, the warrants outstanding were $2,354,041 and the petty cash, change funds and cash on hand totaled $37,424. Total district cash and cash equivalents were $42,010,182. Of this amount, $41,344,947 were in governmental funds and $665,235 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. Accordingly, the district's deposits are classified per *GASB Statement No.3* as risk level one, insured or collateralized with securities held by the entity or by its agent in the entity's name.

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, 2012, the fair value of the district investment in the pool was $44,251,800 with an effective duration of 1.24 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 increase in fair value of the district's proportionate share of the King County Investment Pool for 2011-12 was $168,282. This increase has been recognized and reported against investment income.

Impaired Investments.

As of August 31, 2012, 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 $338,725 and the District's fair value of these investments is $152,087.

Interest Rate Risk.

As of August 31, 2012, the Pool's average duration was 1.24 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, 2012, the district's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statues, 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.

NOTE 3. INTERFUND RECEIVABLES AND PAYABLES

As of August 31, 2012, 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	$ 2,458	$ -
Capital Projects Fund	-	$ 139
ASB Fund	-	2,319
Total	$ 2,458	$ 2,458

The interfund balances are liquidated on a monthly basis. Almost all of the interfund transfers are to reimburse the general fund from other funds for processing payroll and other accounts payable in the general fund. In addition, all funds collected in the district are electronically swept on a daily basis into the general fund bank account at the county treasurer. Funds are then transferred to the appropriate fund as soon as the receipts are reconciled to the daily deposit reports. Total funds transferred from the General Fund were $5,779,523. Of this amount $167,958 were transferred to Fiduciary Funds and $5,611,565 were transferred 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 $316,891,876 on August 31, 2012. In the opinion of the district's insurance consultant, the amount is sufficient to adequately fund replacement of the district's assets.

	Balance 9/1/2011	Additions	Deletions	Balance 8/31/2012
Governmental Activities:				
Capital assets, not being depreciated				
Land	$ 21,377,979	$ 1,612,630	$ -	$ 22,990,609
Construction in progress	30,653,154	9,576,537		40,229,691
Total capital assets, not being depreciated	52,031,133	11,189,167	-	63,220,300
Capital assets, being depreciated:				-
Buildings and improvements	261,378,650	228,488		261,607,138
Furniture and equipment	18,628,210	171,673	(1,251,833)	17,548,050
Total capital assets, being depreciated	280,006,860	400,161	(1,251,833)	279,155,188
Less: accumulated depreciation				-
Buildings and improvements	(88,683,549)	(5,252,001)		(93,935,550)
Furniture and equipment	(12,781,279)	(1,051,035)	1,251,833	(12,580,481)
Total accumulated depreciation	(101,464,828)	(6,303,036)	1,251,833	(106,516,031)
Total capital assets, being depreciated, net	178,542,032	(5,902,875)	-	172,639,157
Governmental activities capital assets, net	$ 230,573,165	$ 5,286,292	$ -	$ 235,859,457

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.

Depreciation

Depreciation expense was charged to governmental activities as follows:

Regular instruction	$ 4,032,903
Special instruction	554,455
Vocational instruction	265,624
Compensatory education	465,161
Other instructional programs	63,012
Support services	238,260
Child Nutrition services	12,234
Transportation services	670,992
Extracurricular activities (ASB)	395
Total depreciation expense charged to governmental activities	$ 6,303,036

NOTE 5. CONSTRUCTION IN PROGRESS

Project	Authorized	Expended	Committed
Future School Sites	$ 12,772,211	$ 12,659,954	$ -
Future Middle School Site #5	8,493,737	8,493,737	-
Auburn High School Improvements	8,373,851	4,789,776	3,584,075
Auburn Stadium and Pool Improvements	3,586,359	3,586,359	-
Multi Facility Phase 2 Energy Improvements	2,974,808	2,974,808	-
Hazelwood and Rainier Modernization	2,688,572	2,688,572	-
Gildo Rey & Lakeview ES Improvements	2,252,594	2,252,594	-
Alpac Elementary Improvements	1,449,199	1,449,199	-
Multi-Facility Fiber Optic Project	612,135	612,135	-
Secondary School HVAC Improvements	317,044	317,044	-
Other Improvements	466,496	405,513	60,983
Total Construction in Progress	$ 43,987,006	$ 40,229,691	$ 3,645,058

NOTE 6. PENSIONS

A. GENERAL INFORMATION

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

The Teachers' Retirement Systems (TRS) includes certificated staff of 295 public school district employers and other public employers. As of June 30, 2011, it includes 75,407 active and inactive vested members.

The Public Employees' Retirement System (PERS) includes non-certificated staff of 295 public school district employers and other public employers. As of June 30, 2011, it includes 182,342 active and inactive vested members.

The School Employees' Retirement System (SERS) includes non-certificated staff of 295 public school district employers. As of June 30, 2011, it includes 62,594 active and inactive vested members.

The employer contribution rates for PERS, TRS and SERS are established each biennium by the state
actuary. The employee contribution rate for Plan I is set by statute at six percent and does not vary from year to year. The employer rate is the same for all plans in a system. The method used to determine the contribution requirements are established under Chapter 41.40 and 41.32 Revised Code of Washington (RCW) for PERS and TRS, respectively.

Plan III for TRS was established effective July 1, 1996. This plan is a combination defined benefit, defined contribution plan. Employer contribution rates are established each biennium by the legislature. The state actuary calculates the rates, the economic revenue forecast council adopts the rates and the legislature enacts the rates for the defined benefit portion of the plan. Employee rates are established each biennium by the legislature as well. These rates fund the defined contribution portion of the plan.

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

Employee contribution rates for Plan I and Plan II for both systems have been set at rates reflective of amounts that have been appropriated by the state legislature.

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

B. GENERAL SYSTEM INFORMATION BY BENEFIT PLANS

Certificated public employees are members of TRS. Non-certificated public employees are members of PERS if Plan I or SERS.

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

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

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

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

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

C. CONTRIBUTIONS

Employee contribution rates as of August 31, 2012:

Plan I TRS	6.00%	Plan I PERS	6.00%
Plan II TRS	4.69%	Plan II SERS	4.09%
Plan III TRS	5.00-15.00%	Plan III SERS	5.00-15.00%

Employer contribution rates as of August 31, 2012:

			9/1/12-3/31/12	4/1-6/30/12	7/1-8/31/12
Plan I TRS	8.04%	Plan I PERS	7.25%	7.08%	7.21%
Plan II TRS	8.04%	Plan II SERS	7.59%	7.58%	7.58%
Plan III TRS	8.04%	Plan III SERS	7.59%	7.58%	7.58%

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions were as follows:

Plan		2011-12		2010-11		2009-10
Plan I TRS	$	224,295	$	172,161	$	200,629
Plan II TRS		646,951		479,856		466,332
Plan III TRS		4,200,070		3,195,200		3,091,177
Plan I PERS		27,893		24,953		28,727
Plan II SERS		547,304		380,236		372,394
Plan III SERS		1,132,934		833,641		814,260

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 2012, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

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

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 month rates for pre-65 Medical coverage for 2012:

	Type of Coverage			
Descriptions	Non-Medicare Retiree	Non-Medicare Retiree & Spouse	Medicare Retiree	Medicare Retiree & Spouse
Group Health Classic	$ 550.48	$ 1,095.43	$ 131.86	$ 258.19
Group Health Value	501.58	997.63		
Kaiser Permanente Classic	538.18	1,070.83	149.23	292.93
Uniform Medical Plan	531.11	1,056.69	213.87	422.21
Premera Blue Cross Plan F			99.77	270.17

For 2012, 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).

Determination of Annual Required Contribution	August 31, 2012
Normal Cost at Year End	$ 2,291,115
Amortization of UAAL	1,198,094
Interest on Normal Cost and Amortization Payment	157,014
Annual Required Contribution (ARC)	$ 3,646,223

Determination of Net OPEB Obligation	
Annual Required Contribution	$ 3,646,223
Interest on Prior year Net OPEB Obligation	42,222
Adjustment to ARC	(312,754)
Annual OPEB Cost	3,375,691
Contributions Made*	(2,009,731)
Increase in Net OPEB Obligation	1,365,960
Net OPEB Obligation - Beginning of Year	8,444,355
Net OPEB Obligation - End of Year*	$ 9,810,315

*estimated

The District's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Years 2009 to 2012 were as follows:

OPEB COST					
Fiscal Year Ended		Annual OPEB Cost	Percentage of OPEB Cost Contributed		Net OPEB Obligation
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
8/31/2009	$	3,554,516	21.36%	$	2,795,263

Funded Status and Funding Progress

As of August 31, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $35.9 million, and actuarial value of assets was $0, resulting in a UAAL of $35.9 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
2011-12	7.00%	3.50%
2010-11	7.00%	3.50%
2011-12	6.50%	3.50%
2012-13	6.00%	3.50%
2013-14	5.50%	3.00%

In the August 31, 2011 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 $89,476,306 is 40%.

For further information on the results the actuarial valuation of the employer provided subsidies associated with state's PEBB plan refer to: 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, 2012 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
Bonds Payable:					
2004 UTGO Refunding Bonds	$ 21,270,000	$ -	$ 3,625,000	$ 17,645,000	$ 1,795,000
2004 UTGO Bonds	13,450,000	-	8,710,000	4,740,000	355,000
2005 UTGO Bonds	20,000,000	-	-	20,000,000	-
2006 UTGO Bonds	500,000	-	500,000	-	-
2010 UTGO Refunding Bonds	35,450,000		-	35,450,000	-
2012 UTGO Refunding Bonds	-	9,290,000	-	9,290,000	135,000
Total Bonds Payable	90,670,000	9,290,000	12,835,000	87,125,000	2,285,000
Unamortized Bond Premium	6,084,331	707,004	745,720	6,045,615	685,204
Unamortized Refunding Adjustment	(3,248,285)	(1,108,516)	(309,362)	(4,047,439)	(414,936)
Net Bonds Payable	93,506,046	8,888,488	13,271,358	89,123,176	2,555,268
Other Liabilities:					
Compensated Absences	2,449,186	2,785,966	2,449,186	2,785,966	137,033
Net OPEB Obligation	8,444,355	1,365,960	-	9,810,315	-
GRAND TOTAL	$ 104,399,587	$ 13,040,414	$15,720,544	$ 101,719,457	$ 2,692,301

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, 2012, including interest payments, are listed as follows:

Principal	Interest	Total
$ 2,285,000	$ 3,812,290	$ 6,097,290
6,395,000	3,643,328	10,038,328
2,840,000	3,411,362	6,251,362
5,225,000	3,227,703	8,452,703
5,725,000	2,951,441	8,676,441
36,445,000	10,659,356	47,104,356
28,210,000	2,123,150	30,333,150
$ 87,125,000	$ 29,828,630	$ 116,953,630

General obligation school building bonds payable at August 31, 2012, 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%	$	17,645,000
$18,000,000 2004 general obligation school building bonds, due in installments of $125,000 to $8,300,000, beginning December 1, 2008 through December 1, 2022, interest from 3.25% to 5.375%		4,740,000
$20,000,000 2005 general obligation school building bonds, due in installments of $10,000,000 beginning December 1, 2023 through December 1, 2024, interest 5.00%		20,000,000
$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%		9,290,000
	$	87,125,000

ADVANCE REFUNDING OF 2004 BONDS

On May 7, 2012, the district sold $9,290,000 unlimited tax general obligation refunding bonds with a true interest cost of 2.13% to advance refund $8,710,000 of outstanding 2004 series bonds with an average interest rate of 4.97%. The bonds were sold at a premium of $707,004. Net proceeds of $9,935,303 were used to purchase United State Treasury State and Local Government Securities (SLGS). Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. As a result, these bonds are considered to be defeased.

The District advance refunded these bonds to reduce its total debt service payments. On May 7, 2012, the total net savings of $1,429,020 had a net present value of $1,253,832, or 14.39% of the bonds being refunded.

PRIOR-YEAR DEFEASANCE OF DEBT

In prior years, the district defeased other general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the bonds defeased in the current year as well as those defeased in prior years are not included in the district's financial statements. At August 31, 2012, $ 64,210,000 of bonds outstanding are considered defeased.

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:

- .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 2012 tax collection for bond purposes is $8,146,014,682.

NOTE 9. OPERATING LEASES (NON-CAPITALIZED)

The district is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the district's Capital Assets. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms of one year or more as of August 31, 2012.

Year Ending August 31,	Copiers
2013	84,682
2014	35,284
Total	$ 119,966

NOTE 10. 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 less than the anticipated $331,421 at the end of the prior year, no additional expense was accrued for the fiscal year ended August 31, 2012. In addition, no adjustment was made to reduce the estimated compensation payable of $208,775 at year end due to the continued requirement to pay claims based on prior year service.

B. INDUSTRIAL INSURANCE

For the fiscal year ended August 31, 2012, Auburn School district made payments totaling $978,456 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. The district pays an annual premium to the pool for its general insurance coverage. For the fiscal year ended August 31, 2012, the district contributed $915,424 to the pool.

The agreement for formation of the Washington School Risk Management Pool 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. For each liability loss up to $100 million per occurrence, the pool will reinsure for claims in excess of $2 million plus 50% quota share on losses from $2 million to $10 million, for a maximum of $6 million on a $10 million claim. The Pool maintains an excess insurance contract with Royal Insurance Company for property and machinery and boiler coverage, which provides a $100 million limit of coverage over the Pool's self-insured retention limit. 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, 2012. This report can be obtained from:

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

NOTE 11. 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 ASSETS

Total fund balances for governmental funds		$ 38,111,714
Total net assets for governmental activities in the statement of net assets 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	$ 22,990,609	
Construction in progress	40,229,691	
Buildings and improvements, net of $93,935,550 accum. depreciation	167,671,588	
Furniture and equipment, net of $ 12,580,481 accumulated depreciation	4,967,569	
		235,859,457
Property taxes that are deferred in government funds since not available soon enough to pay for the current period's expenditures.		29,907,877
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.		(822,387)
Bond issuance costs are reported as expenditures in the governmental funds.		252,230
Long-term liabilities 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. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at year-end are:		
Bonds payable	$ (87,125,000)	
Unamortized premiums	(6,045,615)	
Unamortized Refunding Loss	4,047,439	
Compensated Absences	(2,785,966)	
Net OPEB Obligation	(9,810,315)	
		(101,719,457)
Total net assets of governmental activities		$ 201,589,434

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		$ 1,155,224
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	$ 11,473,006	
Depreciation expense	(6,303,036)	$ 5,169,970
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, 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	$ 4,125,000	
Interest and other charges - general obligation bonds	420,805	
Refunding Bond Sale	(61,701)	
		4,484,104
Property tax revenues received prior to the year for which they are being levied are reported as deferred revenue in the governmental funds. They are, however, recorded as revenues in the statement of activities. Deferred property tax revenues increased this year.		(2,349,314)
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		(336,780)
Net OPEB Obligation		(1,365,960)
Change in net assets of governmental activities		**$ 6,757,244**

NOTE 12. **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 13. **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 8/31/11	$ 11,441,962	$ 1,375,404	$ 2,083,365	$ 21,105,379	$ 950,380
Nonspendable-Inventories	(205,775)	10,873	-	-	-
Restricted					
Child Nutrition Services	512,245	-	-	-	-
Student Activities	-	46,800	-	-	-
Debt Service	-	-	(39,219)	-	-
Capital Projects	-	-	-	1,699,824	-
Buses	-	-	-	-	704,480
Unassigned	(1,574,004)	-	-	-	-
Total Fund Balance 8/31/12	$ 10,174,428	$ 1,433,077	$ 2,044,146	$ 22,805,203	$ 1,654,860

NOTE 14. **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 2011 totaled $775,069. Auburn School District's equity in KCDA totaled $247,053 as of December 31, 2011. 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.

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NOTE 15 **SUBSEQUENT EVENTS**

On November 6, 2012, Auburn voters approved the $110 million Auburn High School Modernization and Reconstruction Bond Issue. Plans call to issue the bonds in three separate sales, one in each of the next three years, to provide construction funds as needed by the construction schedule. Construction will start in 2013 and be completed in phases with the last phase finished in 2016. The project will replace all of the buildings on campus except for the Performing Arts Center and the Auto Shop.

On January 8, 2013, the district sold $78,855,000 in unlimited tax general obligation and refunding bonds at a premium of $8,880,051. The new money potion of the bonds of $59,265,000 par value and $6,013,364 premium represents the first series of bonds issued under the $110 million bond authorized as described above. The balance of the issue of $19,590,000 advance refunded $20 million of the 2005 bonds. The total net refunding savings of $3,013,853 had a net present value of $2,601,687 as of January 22, 2013 the bond sale settlement date. The percentage savings of the refunded bonds was 13.02%. The net interest cost was 2.74%.