

Notes to the Financial Statements



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

AUBURN SCHOOL DISTRICT NO. 408
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

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 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.

D). 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 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 and the Employee Benefits Trust Fund (Vision Benefits). These funds are 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 anytime 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, 2013, total district cash and cash equivalents were \$101,416,025. Of that amount, \$100,777,818 was in the governmental funds and \$638,207 was in the fiduciary funds. At August 31, 2013 total district imprest funds were \$81,071, total district cash on hand was \$12,869, total district warrants outstanding were \$2,193,328 and the fair market value of the districts funds in the King County Investment Pool was \$103,515,413. 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, 2013, such securities comprised 0.3% of the Pool's portfolio. As of August 31, 2013, the district's funds invested in the Pool comprised 2.26% 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 \$1,486,512 of receivables for federal grants of \$1,082,755, state grants of \$19,830 and local government impact fees of \$383,927. 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. 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 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, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

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 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, 2013 was \$2,097,497 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, 2013, vacation leave payable, estimated to be \$894,525 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 \$103,515,413, the warrants outstanding were \$2,193,328 and the petty cash, change funds and cash on hand totaled \$18,940. Total district cash and cash equivalents were \$101,416,025. Of this amount, \$100,777,817 were in governmental funds and \$638,208 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, 2013, the fair value of the district investment in the pool was \$103,515,413 with an effective duration of 1.45 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 2012-13 was \$381,287. This decrease has been recognized and reported against investment income.

Impaired Investments.

As of August 31, 2013, 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 \$263,782 and the District's fair value of these investments is \$155,765.

Interest Rate Risk.

As of August 31, 2013, the Pool's average duration was 1.45 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, 2013, 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, 2013, 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	\$ 2,642	\$ 8,708
Capital Projects Fund	3,442	-
ASB Fund	-	2,642
Tran Vehicle	5,266	-
Total	\$ 11,350	\$ 11,350

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 \$6,327,397. Of this amount \$205,102 was disbursed to Fiduciary Funds and \$6,122,295 was disbursed 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 \$316,181,134 on August 31, 2013. In the opinion of the district's insurance consultant, the amount is sufficient to adequately fund replacement of the district's assets.

	Balance 9/1/2012	Additions	Deletions	Balance 8/31/2013
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 22,990,609	\$ -	\$ -	\$ 22,990,609
Construction in progress	40,229,691	26,040,379	(11,631,143)	54,638,927
Total capital assets, not being depreciated	<u>63,220,300</u>	<u>26,040,379</u>	<u>(11,631,143)</u>	<u>77,629,536</u>
Capital assets, being depreciated:				
Buildings and improvements	261,607,138	9,966,369	(212,065)	271,361,442
Furniture and equipment	17,548,050	1,462,859	(331,811)	18,679,098
Total capital assets, being depreciated	<u>279,155,188</u>	<u>11,429,228</u>	<u>(543,876)</u>	<u>290,040,540</u>
Less: accumulated depreciation				
Buildings and improvements	(93,935,550)	(5,330,369)	212,065	(99,053,854)
Furniture and equipment	(12,580,481)	(964,207)	331,811	(13,212,877)
Total accumulated depreciation	<u>(106,516,031)</u>	<u>(6,294,576)</u>	<u>543,876</u>	<u>(112,266,731)</u>
Total capital assets, being depreciated, net	<u>172,639,157</u>	<u>5,134,652</u>	<u>-</u>	<u>177,773,809</u>
Governmental activities capital assets, net	\$ 235,859,457	\$ 31,175,031	\$ (11,631,143)	\$ 255,403,345

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 improvements made for a special education program that the district no longer operates.

Depreciation

Depreciation expense was charged to governmental activities as follows:

Regular instruction	\$ 3,596,091
Special instruction	762,273
Vocational instruction	259,336
Compensatory education	358,791
Other instructional programs	91,271
Support services	725,136
Child Nutrition services	230,382
Transportation services	271,296
Total depreciation expense charged to governmental activities	<u><u>\$ 6,294,576</u></u>

NOTE 5. CONSTRUCTION IN PROGRESS

Project	Authorized	Expended	Committed
Auburn High School Modernization	\$ 60,000,000	\$ 23,932,008	\$ 36,067,992
Future School Sites	13,485,799	13,373,542	-
Future Middle School Site #5	8,493,737	8,493,737	-
Multi Facility Phase 2 Energy Improvements	3,707,609	3,707,609	-
Lakeview Elementary Improvements	2,074,410	2,074,410	-
Evergreen Heights and Ilalko Improvements	933,342	933,342	-
Multi-Facility Fiber Optic Project	621,798	621,798	-
Alpac Elementary Improvements	393,153	393,153	-
Secondary School HVAC Improvements	317,653	317,653	-
Auburn Mountainview High Improvements	285,372	285,372	60,983
Other Improvements	506,303	506,303	-
Total Construction in Progress	<u><u>\$ 90,819,176</u></u>	<u><u>\$ 54,638,927</u></u>	<u><u>\$ 36,128,975</u></u>

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, 2012, it includes 74,902 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, 2012, it includes 181,105

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, 2012, it includes 62,478 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+

D.

Employee contribution rates as of August 31, 2013:

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, 2013:

Plan I TRS	8.05%	Plan I PERS	7.21%
Plan II TRS	8.05%	Plan II SERS	7.59%
Plan III TRS	8.05%	Plan III SERS	7.59%

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

Plan	2012-13	2011-12	2010-11
Plan I TRS	\$ 197,797	\$ 224,295	\$ 172,161
Plan II TRS	761,790	646,951	479,856
Plan III TRS	4,260,404	4,200,070	3,195,200
Plan I PERS	29,183	27,893	24,953
Plan II SERS	561,908	547,304	380,236

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, 2013, 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 monthly rates for pre-65 Medical coverage for 2013:

Descriptions	Type of Coverage			
	Non-Medicare Retiree	Non-Medicare Retiree & Spouse	Medicare Retiree	Medicare Retiree & Spouse
Group Health Classic	\$ 584.66	\$ 1,163.14	\$ 135.60	\$ 265.02
Group Health Value	535.22	1,064.26		
Group Health CDHP	513.77	1,018.40		
Kaiser Permanente Classic	567.06	1,127.94	151.67	297.16
Kaiser Permanente CDHP	545.83	1,085.48		
Uniform Medical Plan Classic	545.83	1,085.48	219.24	432.30
Uniform Medical Plan CDHP	499.95	990.26		
Premiera Blue Cross Plan F			109.10	212.02
Uniform Dental Plan	46.34	92.68	46.34	92.68
DeltaCare	39.53	79.06	39.53	79.06
Willamette Dental	40.20	80.40	40.20	80.40

For 2013, 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, 2013
Normal Cost at Year End	\$ 1,579,527
Amortization of UAAL	1,003,945
Interest on Normal Cost and Amortization Payment	116,256
Annual Required Contribution (ARC)	<u>\$ 2,699,728</u>

Determination of Net OPEB Obligation	
Annual Required Contribution	\$ 2,699,728
Interest on Prior year Net OPEB Obligation	441,464
Adjustment to ARC	<u>(341,728)</u>
Annual OPEB Cost	2,799,464
Contributions Made	<u>(1,174,277)</u>
Increase in Net OPEB Obligation	1,625,187
Net OPEB Obligation - Beginning of Year	<u>9,810,315</u>
Net OPEB Obligation - End of Year*	<u>\$ 11,435,502</u>

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 2013 were as follows:

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

Funded Status and Funding Progress

As of August 31, 2013, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$30.1 million, and actuarial value of assets was \$0, resulting in a UAAL of \$30.1 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
2009-10	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, 2013 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 \$81,582,322 is 36.9%.

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, 2013 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
Bonds Payable:					
2004 UTGO Refunding Bonds	\$ 17,645,000	\$ -	\$ 1,795,000	\$ 15,850,000	\$ 6,025,000
2004 UTGO Bonds	4,740,000	-	355,000	4,385,000	270,000
2005 UTGO Bonds	20,000,000	-	20,000,000	-	-
2010 UTGO Refunding Bonds	35,450,000	-	-	35,450,000	-
2012 UTGO Refunding Bonds	9,290,000	-	135,000	9,155,000	100,000
2013 UTGO Bonds & Refunding Bonds	-	78,855,000	-	78,855,000	6,385,000
Total Bonds Payable	87,125,000	78,855,000	22,285,000	143,695,000	12,780,000
Unamortized Bond Premium	6,045,615	8,880,051	1,328,757	13,596,909	1,092,550
Net Bonds Payable	93,170,615	87,735,051	23,613,757	157,291,909	13,872,550
Other Liabilities:					
Compensated Absences	2,785,966	2,992,022	2,785,966	2,992,022	180,236
Net OPEB Obligation	9,810,315	1,625,187	-	11,435,502	-
GRAND TOTAL	\$ 105,766,896	\$ 92,352,260	\$ 26,399,723	\$ 171,719,433	\$ 14,052,786

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, 2013, including interest payments, are listed as follows:

Year Ending	Principal	Interest	Total
2014	\$ 12,780,000	\$ 5,503,528	\$ 18,283,528
2015	4,545,000	5,150,212	9,695,212
2016	5,795,000	4,932,428	10,727,428
2017	9,030,000	4,598,041	13,628,041
2018	9,010,000	4,255,374	13,265,374
2019-2023	49,340,000	15,791,745	65,131,745
2024-2028	39,250,000	6,222,200	45,472,200
2029-2032	13,945,000	1,083,900	15,028,900
Total	\$ 143,695,000	\$ 47,537,428	\$ 191,232,428

General obligation school building bonds payable at August 31, 2013, 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%	\$ 15,850,000
\$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%	4,385,000
\$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%	9,155,000
\$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%	78,855,000
	<u>\$ 143,695,000</u>

ADVANCE REFUNDING OF 2005 BONDS

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 portion 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 by the voters on November 6, 2012. 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%. Net proceeds of \$22,341,769 were used to purchase United State Treasury Notes. 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.

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, 2013, \$ 80,710,000 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 2013 tax collection for bond purposes is \$7,786,247,895.

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 shows the final year of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease term of one year or more as of August 31, 2013. The district is now purchasing instead of leasing copiers.

Year Ending August 31,	Copiers
2014	35,284
Total	<u>\$ 35,284</u>

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 only \$13,253 it is clear that all of the major prior year claims have been

completely paid. Since the last major layoff of teachers, bus drivers and other classified staff was in 2009 due to the downturn in the economy and state funding, the decision was made to reduce the reserve to a two year current claims balance of \$26,506. This reserve reduction was \$169,016.

B. INDUSTRIAL INSURANCE

For the fiscal year ended August 31, 2013, Auburn School district made payments totaling \$1,030,835 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, 2013, the district contributed \$834,613 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, 2013. 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 POSITION

Total fund balances for governmental funds \$ 93,468,852

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	\$ 22,990,609	
Construction in progress	54,638,927	
Buildings and improvements, net of \$99,053,854 accum. depreciation	172,307,588	
Furniture and equipment, net of \$ 13,212,877 accumulated depreciation	<u>5,466,221</u>	
		255,403,345

Property taxes that are deferred in government funds since not available soon enough to pay for the current period's expenditures. 30,389,439

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. (1,280,226)

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 Charge on Refunding		5,486,845
Liabilities:		
Bonds Payable	(\$143,695,000)	
Unamortized premiums	(13,596,909)	
Compensated Absences	(2,992,022)	
Net OPEB Obligation	<u>(11,435,502)</u>	
		(171,719,433)

Total net position of governmental activities \$ 211,748,822

**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 \$ 55,357,138

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	\$	25,838,464		
Depreciation expense		(6,294,576)		\$ 19,543,888

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	\$	2,285,000		
Interest and other charges - general obligation bonds		(283,674)		
Refunding Bond Sale		(65,393,282)		(63,391,956)

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. 481,562

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 (206,057)

Net OPEB Obligation (1,625,187)

Change in net position of governmental activities **\$ 10,159,388**

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 8/31/12	\$ 10,174,428	\$ 1,433,077	\$ 2,044,146	\$ 22,805,203	\$ 1,654,860
Nonspendable: Inventories	(24,071)	(6,597)	-	-	-
Restricted:					
Child Nutrition Services	493,419	-	-	-	-
Student Activities	-	(56,743)	-	-	-
Debt Service	-	-	5,925,913	-	-
Capital Projects	-	-	-	48,107,668	-
Acquisition of Buses	-	-	-	-	(238,784)
Committed:					
Capital Levy Projects	-	-	-	2,206,202	-
Assigned:					
Other Capital Projects	-	-	-	(492,520)	-
Unassigned	(557,349)	-	-	-	-
Total Fund Balance 8/31/13	\$ 10,086,427	\$ 1,369,737	\$ 7,970,059	\$ 72,626,553	\$ 1,416,076

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 2012 totaled \$298,084. Auburn School District's equity in KCDA totaled \$244,478 as of December 31, 2012. 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 15

SUBSEQUENT EVENTS

Bond Sale

On February 7, 2014, the district completed the sale of \$43,555,000 in unlimited tax general obligation and refunding bonds at a premium of \$5,244,996. The new money portion of the bonds of \$40,235,000 par value and \$4,975,641 premium represents the second and final series of bonds issued under the \$110 million Auburn High School Modernization and Reconstruction Bond Issue authorized by Auburn voters on November 6, 2012. Construction started in 2013 and will 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. The balance of the issue of \$3,320,000 par value and \$269,354 premium advance refunded \$3,390,000 of the 2004 bonds. The total net refunding savings of \$249,951 had a net present value of \$232,681 as of the bond settlement date. The percentage savings of the refunded bonds is 6.86%. The net interest cost is 3.72%.

Property Tax Levy for Technology

On February 11, 2014, Auburn voters approved the \$22 million technology replacement levy. The technology levy is a six-year levy and replaces the 2005 technology. The projected tax rate will remain approximately level at \$6.60 per thousand of assessed valuation. It provides funding to implement recommendations from the 2013 Technology Citizens Ad Hoc Committee. The technology recommendations include:

- Providing 24/7 access to electronic resources for students, parents and teachers that allow for differentiation of learning, programs and support
- Providing 1:1 student digital devices like computer tablets
- Wireless access in all buildings
- A robust broadband infrastructure to support varied learning structures.