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 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.

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 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 any time during the fiscal year.

2). Budgetary Basis of Accounting

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

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

E. ASSETS, LIABILITIES, NET POSITION AND FUND BALANCES

1). Cash and Cash Equivalents

The district's cash and cash equivalents consist of cash balances, net of warrants outstanding, and cash equivalents with original maturities of three months or less. At August 31, 2014, total district cash and cash equivalents were $66,800,023. Of that amount, $66,106,810 was in the governmental funds and $693,212 was in the fiduciary funds. At August 31, 2015 total district imprest funds were $66,456, total district cash on hand was $0, total district warrants outstanding were $2,982,350 and the fair market value of the districts funds in the King County Investment Pool was $66,800,023. 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, 2015, such securities comprised 0.1% of the Pool's portfolio. As of August 31, 2015, the district's funds invested in the Pool comprised 1.28% 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 $5,284,363 of receivables for federal grants of $2,169,604, and local government impact fees of $3,114,759. Grant revenues are recorded in the year in which the related expenditures are incurred.

6). Inventories

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

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

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

8). Capital Assets

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

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

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

9). Deferred Outflows/Inflows of Resources

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

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

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

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

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

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

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

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

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

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

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

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

When both restricted 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). 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, 2015 was $2,145,840 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, 2015, vacation leave payable, estimated to be $790,460 is reported as a long-term liability in the *government-wide financial statements.*

F. REPORTING CHANGES

The District has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires governmental employers with employees participating in defined benefit pension plans that are administered through trusts or equivalent arrangements to report their proportionate share of the net pension liability (or net assets, if the plan net position exceeds the total pension liability) on the face of their accrual based 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 $69,715,917, the warrants outstanding were $2,982,350 and the petty cash, change funds and cash on hand totaled $11,456. Total district cash and cash equivalents were $66,800,023. Of this amount, $66,106,810 were in governmental funds and $693,212 were in fiduciary funds. (See Note 1). In addition to FDIC insurance, the district's deposits are protected by the Washington Public Deposit Protection Commission (a multiple financial institution collateral pool). The provision for guaranteed coverage against loss applies not only to demand deposits, but also to certificates of deposit, money market deposit accounts, and savings deposits as well as accrued interest through the date of repayment.

B. INVESTMENTS

In accordance with state investment laws, the district's governing body has entered into a formal inter-local agreement with the district's *ex officio* treasurer, King County, to have all of its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). All non-invested cash is held in this external investment pool administered by King County, Washington and consequently is not subject to categorization. At August 31, 2015, the fair value of the district investment in the pool was $69,715,917 with an effective duration of 1.00 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 2014-15 was $49,197. This increase has been recognized and reported against investment income.

Impaired Investments.

As of August 31, 2015, 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 $185,116 and the District's fair value of these investments is $49,197.

Interest Rate Risk.
As of August 31, 2015, the Pool's average duration was 1.00 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, 2015, 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.

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, 2015, 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	$ (583)	$ 589
Capital Projects Fund	-	$ -
ASB Fund	589	(583)
Tran Vehicle	-	-
Total	$ 6	$ 6

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 $16,103,302. Of this amount $74,829 was disbursed to the Fiduciary funds and the difference to other Governmental Funds.

NOTE 4. CHANGES IN CAPITAL ASSETS

Purchases of equipment over $5,000 and building and depreciable land improvements over $100,000 are capitalized and depreciated in the government-wide financial statements. Land is excluded from depreciation. The district's property valuation of buildings and contents for insurance purposes was $306,336,016 on August 31, 2015. In the opinion of the district's insurance consultant, the amount is sufficient to adequately fund replacement of the district's assets.

		Balance 9/1/2014		Additions		Deletions		Balance 8/31/2015
Governmental Activities:								
Capital assets, not being depreciated								
Land	$	22,990,609	$	17,503,866	$	-	$	40,494,475
Construction in progress		108,462,150		(77,723,614)				30,738,537
Total capital assets, not being depreciated		131,452,759		(60,219,747)		-		71,233,012
Capital assets, being depreciated:								-
Buildings and improvements		272,479,905		102,389,247				374,869,152
Furniture and equipment		18,802,901		1,283,613		(471,267)		19,615,247
Total capital assets, being depreciated		291,282,807		103,672,860		(471,267)		394,484,399
Less: accumulated depreciation								-
Buildings and improvements		(104,628,587)		(5,461,568)				(110,090,154)
Furniture and equipment		(13,969,244)		(1,012,817)		471,267		(14,510,794)
Total accumulated depreciation		(118,597,831)		(6,474,384)		471,267		(124,600,948)
Total capital assets, being depreciated, net		172,813,509		97,198,475		-		269,883,451
Governmental activities capital assets, net	$	304,137,735	$	36,978,728	$	-	$	341,116,463

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	$	4,072,333
Special instruction		583,311
Vocational instruction		263,313
Compensatory education		489,224
Other instructional programs		51,153
Support services		270,721
Child Nutrition services		2,005
Transportation services		742,259
ASB		66
Total depreciation expense charged to governmental activities	$	6,474,384

NOTE 5. CONSTRUCTION IN PROGRESS

Project	Authorized	Expended	Committed
Auburn High School Modernization	$ 60,000,000	$ 2,067,771	$ 36,067,992
Future School Sites	4,505,473	4,393,216	-
Future Middle School Site #5	-	-	-
Multi-Facility Phase 2 Energy Improvements		5,733,177	-
Cascade & Mt Baker Improvements		3,139,098	
Evergreen Heights & Gildo Rey Improvements		3,076,656	-
Lakeview Elementary Improvements		2,582,529	-
Multi-Facility Portables		1,959,922	
Multi-Facility Fiber Optic Project	621,798	621,798	-
Auburn Riverside Improvements		4,626,081	
Alpac Elementary Improvements	393,153	393,153	-
Secondary School HVAC Improvements	317,653	317,653	-
Lakeland Hills Portable		248,854	-
Multi-Facility Energy Upgrades		318,170	
Other Improvements		1,260,459	
Totals Contruction in Progress	$ 65,838,077	$ 30,738,537	$ 36,067,992

NOTE 6. PENSION PLANS

General Information

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

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

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

Membership Participation

Substantially all school district full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by DRS: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS).

Membership participation by retirement plan as of June 30, 2015, was as follows:

Plan	Active Members	Inactive Vested Members	Retired Members
PERS 1	4,782	1,178	51,070
SERS 2	22,950	5,357	5,796
SERS 3	30,832	6,963	4,825
TRS 1	1,824	323	35,639
TRS 2	13,632	2,357	3,894
TRS 3	51,837	7,655	6,094

The latest actuarial valuation date for all plans was June 30, 2014.
Source: Washington State Office of the State Actuary

Membership & Plan Benefits

Certificated employees are members of TRS. Classified employees are members of PERS (if Plan 1) or SERS. Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. TRS 1 and PERS 1 are closed to new entrants.
TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity.

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

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

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

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

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

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

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

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

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

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

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

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

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

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

Plan Contributions

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

The Employer and employee contribution rates for the PERS plan are effective as of July 1. SERS and TRS contribution rates are effective as of September 1. The pension plan contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

Pension Rates			
	7/1/15 Rate	7/1/14 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	11.18%	9.21%	
Pension Rates			
	9/1/15 Rate	9/1/14 Rate	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	13.13%	10.39%	
TRS 2			
Member Contribution Rate	5.95%	4.96%	
Employer Contribution Rate	13.13%	10.39%	
TRS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	13.13%	10.39%	**
SERS 2			
Member Contribution Rate	5.63%	4.64%	
Employer Contribution Rate	11.58%	9.82%	
SERS 3			
Member Contribution Rate	varies*	varies*	
Employer Contribution Rate	11.58%	9.82%	**

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

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

** = Defined benefit portion only.

The Collective Net Pension Liability

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

The Net Pension Liability as of June 30, 2015: Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	$12,789,242	$4,473,428	$9,237,730	$11,220,833
Plan fiduciary net position	($7,558,312)	($4,067,277)	($6,069,588)	($10,377,031)
Participating employers' net pension liability	$5,230,930	$406,151	$3,168,142	$843,802
Plan fiduciary net position as a percentage of the total pension liability	59.10%	90.92%	65.70%	92.48%

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

At June 30, 2015, the school district reported a total liability of $81,249,488 for its proportionate shares of the individual plans' collective net pension liability. The district's proportionate share of the collective net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2015, the district's proportionate share of each plan's net pension liability is reported below:

June 30, 2015	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	1,080,193	1,484,686	3,498,213	4,165,580
Proportionate Share of the Net Pension Liability	12,294,252	6,202,389	49,526,279	13,226,568

At June 30, 2015, the school district's percentage of the proportionate share of the collective net pension liability was as follows and the changed in the allocation percentage from the prior period is illustrated below.

Allocation percentages	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Current year proportionate share of the Net Pension Liability	0.235030%	1.527114%	1.563259%	1.567497%
Prior year proportionate share of the Net Pension Liability	0.226577%	1.601031%	1.638483%	1.648953%
Net difference percentage	0.008453%	-0.073917%	-0.075224%	-0.081456%

Actuarial Assumptions

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

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2014, with the results rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increases	In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
Investment rate of return	7.50%

Mortality Rates

Mortality rates used in the plans were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the 2007–2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

Long-term Expected Rate of Return

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

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

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2015, are summarized in the following table:

TRS1, TRS 2/3, PERS 1, and SERS 2/3		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%

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

Discount Rate

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

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

The table below presents the Auburn School District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate. Amounts are calculated by plan using the district's allocation percentage.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS1 NPL	$6,368,671,000	$5,230,930,000	$4,252,577,000
Allocation Percentage	0.235030%	0.235030%	0.235030%
Proportionate Share of Collective NPL	$ 14,968,284	$ 12,294,252	$ 9,994,830
SERS2/3 NPL	$1,282,039,000	$406,151,000	($273,474,000)
Allocation Percentage	1.527114%	1.527114%	1.527114%
Proportionate Share of Collective NPL	$ 19,578,199	$ 6,202,389	$ (4,176,260)
TRS1 NPL	$3,982,571,000	$3,168,142,000	$2,467,801,000
Allocation Percentage	1.563259%	1.563259%	1.563259%
Proportionate Share of Collective NPL	$ 62,257,917	$ 49,526,279	$ 38,578,132
TRS2/3 NPL	$3,570,229,000	$843,802,000	($1,183,066,000)
Allocation Percentage	1.567497%	1.567497%	1.567497%
Proportionate Share of Collective NPL	$ 55,963,218	$ 13,226,568	$ (18,544,519)

Pension Expense

For the year ending August 31, 2015, the district recognized a total pension expense of $14,515,983.

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

The Pension Plans reported collective Deferred Outflows of Resources and collective Deferred Inflows of resources related to the individual plans. At August 31, 2015, the District reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$0	$0
Net difference between projected and actual earnings on pension plan investments	$0	$(672,630)
Changes in assumptions or other inputs	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$191,168	$0
TOTAL	$191,168	$(672,630)

SERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$756,487	$0
Net difference between projected and actual earnings on pension plan investments	$0	$(1,978,269)
Changes in assumptions or other inputs	$6,872	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$(278,589)
Contributions subsequent to the measurement date	$261,999	$0
TOTAL	$1,025,358	$(2,256,858)

TERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$0	$0
Net difference between projected and actual earnings on pension plan investments	$0	$(3,665,750)
Changes in assumptions or other inputs	$0	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$620,264	$0
TOTAL	$620,264	$(3,665,750)

TERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$2,093,690	$0
Net difference between projected and actual earnings on pension plan investments	$0	$(5,131,514)
Changes in assumptions or other inputs	$11,490	$0
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$(709,240)
Contributions subsequent to the measurement date	$761,160	$0
TOTAL	$2,866,339	$(5,840,753)

$1,834,591 reported as Deferred Outflows of Resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2016.

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

Year ended August 31	PERS 1	SERS 2/3	TRS 1	TRS 2/3
2016	(260,688)	(612,250)	(1,421,769)	(1,698,803)
2017	(260,688)	(612,250)	(1,421,769)	(1,698,803)
2018	(260,688)	(612,250)	(1,421,753)	(1,698,818)
2019	109,435	343,249	599,541	1,205,753
2020	-	-	-	155,097
Thereafter	-	-	-	-

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 2015:

	Type of Coverage			
Descriptions	**Non-Medicare Retiree**	**Non-Medicare Retiree & Spouse**	**Medicare Retiree**	**Medicare Retiree & Spouse**
Group Health Classic	$ 600.80	$ 1,195.35	$ 148.14	$ 290.03
Group Health Value	569.38	1,132.51		
Group Health CDHP	530.10	1,044.74		
Kaiser Permanente Classic	619.65	1,233.05	153.02	299.79
Kaiser Permanente CDHP	540.35	1,064.74		
Uniform Medical Plan Classic	578.51	1,150.77	234.69	463.13
Uniform Medical Plan CDHP	535.82	1,056.18		
Premera Blue Cross Plan F			110.08	313.09
Uniform Dental Plan	45.22	90.44	45.22	90.44
DeltaCare	39.53	79.06	39.53	79.06
Willamette Dental	42.37	84.74	42.37	84.74

For 2015, 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, 2015**
Normal Cost at Year End	$ 2,015,475
Amortization of UAAL	1,283,653
Interest on Normal Cost and Amortization Payment	148,461
Annual Required Contribution (ARC)	$ 3,447,589

Determination of Net OPEB Obligation	
Annual Required Contribution	$ 3,447,589
Interest on Prior year Net OPEB Obligation	588,274
Adjustment to ARC	(455,370)
Annual OPEB Cost	3,580,493
Contributions Made	(1,377,845)
Increase in Net OPEB Obligation	2,202,648
Net OPEB Obligation - Beginning of Year	13,072,748
Net OPEB Obligation - End of Year*	$ 15,275,396

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 2015 were as follows:

OPEB COST			
Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
8/31/2015	$ 3,580,493	38.48%	$ 15,275,396
8/31/2014	$ 2,847,966	42.51%	$ 13,072,748
8/31/2013	$ 2,799,464	41.95%	$ 11,435,502
8/31/2012	$ 3,375,691	59.93%	$ 9,810,315
8/31/2011	$ 3,702,701	21.98%	$ 8,444,355
8/31/2010	$ 3,583,915	22.99%	$ 5,555,388
8/31/2009	$ 3,554,516	21.36%	$ 2,795,263

Funded Status and Funding Progress

As of August 31, 2015 the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $38.5 million, and actuarial value of assets was $0, resulting in a UAAL of $38.5 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%
2014-15	5.00%	3.00%

In the August 31, 2015 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 $92,928,939 is 41.44%.

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, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
Bonds Payable:					
2004 UTGO Refunding Bonds	$ 9,825,000	$ -	$ 2,015,000	$ 7,810,000	$ 3,920,000
2004 UTGO Bonds	725,000	-	725,000	-	-
2010 UTGO Refunding Bonds	35,450,000	-	-	35,450,000	-
2012 UTGO Refunding Bonds	9,055,000	-	100,000	8,955,000	100,000
2013 UTGO and Refunding Bonds	72,470,000	-	1,705,000	70,765,000	570,000
2014 UTGO and Refunding Bonds	43,555,000	-	4,250,000	39,305,000	1,945,000
Total Bonds Payable	171,080,000	-	8,795,000	162,285,000	6,535,000
Unamortized Bond Premium	17,423,590	-	1,335,336	16,088,254	1,315,871
Net Bonds Payable	188,503,590	-	10,130,336	178,373,254	7,850,871
Net Pension Liabilities:					
PERS Plan 1	11,413,923	2,639,032	1,758,702	12,294,253	-
SERS Plans 2/3	3,360,900	6,423,328	3,581,839	6,202,389	-
TRS Plan 1	48,326,302	8,365,643	7,165,667	49,526,278	-
TRS Plans 2/3	5,325,937	17,433,216	9,532,585	13,226,568	-
Total Net Pension Liabilities	68,427,062	34,861,219	22,038,793	81,249,488	-
Other Liabilities:					
Compensated Absences	2,759,909	2,936,300	2,759,909	2,936,300	404,569
Net OPEB Obligation	13,072,748	2,202,648	-	15,275,396	-
GRAND TOTAL	$ 272,763,309	$ 40,000,167	$ 34,929,038	$ 277,834,438	$ 8,255,440

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, 2015, including interest payments, are listed as follows:

Year Ending August 31, 2015	Principal	Interest	Total
2016	6,535,000	6,572,212	13,107,212
2017	10,635,000	6,221,363	16,856,363
2018	10,715,000	5,847,862	16,562,862
2019	10,585,000	5,502,913	16,087,913
2020	10,445,000	5,102,750	15,547,750
2021-2025	56,295,000	18,339,344	74,634,344
2026-2030	43,610,000	7,508,375	51,118,375
2031-2033	13,465,000	1,057,675	14,522,675
Total	$ 162,285,000	$ 56,152,494	$ 218,437,494

General obligation school building bonds payable at August 31, 2015, 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%	$	7,810,000
$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%		8,955,000
$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%		70,765,000
$43,555,000 2014 general obligation and refunding bonds, due in installments of $775,000 to $4,275,000 beginning December 1, 2014 to December 1, 2033, interest 1.00% to 5.00%		39,305,000
	$	162,285,000

ADVANCE REFUNDING OF 2004 BONDS

On February 7, 2014, the district sold $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 final series of bonds issued under the $110 million bond authorized by the voters on November 6, 2012. The balance of the issue of $3,320,000 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 February 7, 2014, the bond sale settlement date. The percentage savings of the refunded bonds was 6.86%. The net interest cost was 3.72%. Net proceeds of $3,564,451 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, $ 80,100,000 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:

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

Assessed valuation of taxable property for 2015 tax collection for bond purposes is $9,119,672,874.

NOTE 9. RISK MANAGEMENT

A. UNEMPLOYMENT

Auburn School District self-insures for unemployment compensation for all of its employees. Actual employee claims are paid by the State of Washington, Department of Employment Security and then reimbursed by the district. This self-insurance program costs the district less than full participation in the state unemployment compensation program. Since there were no claim payments during the fiscal year due to a credit of $3,457 at June 30, 2015, it is clear that all of the major prior year claims have been completely paid and the credit will be applied to future claims until exhausted.

B. INDUSTRIAL INSURANCE

For the fiscal year ended August 31, 2015, Auburn School district made payments totaling $1,383,946 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, 2015, the district contributed $855,412 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, 2015. This report can be obtained from:

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

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

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

Total fund balances for governmental funds		$ 63,358,780
Total net position for governmental activities in the statement of net position differs because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land, net of $302,368 applicable accum. depreciation	$ 40,192,107	
Construction in progress	30,738,537	
Buildings and improvements, net of $109,787,786 accum. depreciation	265,081,367	
Furniture and equipment, net of $ 14,510,794 accumulated depreciation	5,104,453	
		341,116,463
Property taxes that are deferred in government funds since not available soon enough to pay for the current period's expenditures.		34,930,894
		22,320
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.		(1,530,973)
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 liabilites or deferred outflows of resources. All liabilities and deferred outflows of resources, both current and long-term are reported in the statement of net position. Balances at year-end are:		
Deferred Outflows of Resources:		
Deferred Outflow on Refunding		4,448,114
Deferred Outflow on Pension Plans		4,703,129
Liabilities:		
Bonds Payable	($162,285,000)	
Unamortized bond premiums	(16,088,254)	
Compensated Absences	(2,936,300)	
Net OPEB Obligation	(15,275,396)	
Net Pension Liability - all plans	(81,249,488)	
Deferred Inflows of Resources:		
Deferred Inflow on Pension Plans		(12,435,991)
		(277,834,438)
Total net position of governmental activities		$ 156,778,296

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			$	(25,166,865)
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	$	43,453,112		
Depreciation expense		(6,474,384)	$	36,978,728
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	$	8,795,000		
Interest and other charges - general obligation bonds		875,868		
Refunding Bond Sale		-		
				9,670,868
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.				2,874,504
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				4,382,949
Net OPEB Obligation				(2,202,648)
Change in net position of governmental activities			**$**	**26,537,536**

NOTE 11. SUMMARY OF SIGNIFICANT CONTINGENCIES

LITIGATION

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

CLAIMS AND JUDGMENTS

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

NOTE 12. FUND BALANCE (GOVERNMENTAL FUNDS)

CHANGES IN FUND BALANCES

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund
Total Fund Balance 8/31/14	$ 9,419,340	$ 1,429,218	$ 6,423,838	$ 69,100,923	$ 2,152,325
Nonspendable: Inventories	105,021	(671)	-	-	-
Restricted:					
Child Nutrition Services	18,317	-	-	-	-
Student Activities	-	28,111	-	-	-
Debt Service	-	-	(230,337)	-	-
Capital Projects	-	-	-	22,972,957	-
Acquisition of Buses	-	-	-	-	(80,671)
Committed:					
Capital Levy Projects	-	-	-	(5,427,684)	-
Assigned:					
Other Capital Projects	-	-	-	(43,329,441)	-
Unassigned	777,533	-	-	-	-
Total Fund Balance 8/31/15	$ 10,320,211	$ 1,456,658	$ 6,193,501	$ 43,316,755	$ 2,071,654

NOTE 13. OTHER DISCLOSURES

KING COUNTY DIRECTORS' ASSOCIATION

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. This association serves 294
public school districts. District purchases for the calendar year 2014 totaled $2,781,533. Auburn School District's equity in KCDA totaled $255,423 as of December 31, 2014. This equity is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. The district may withdraw inventory at a maximum rate of ten (10) percent per year for a ten year period, or the district may withdraw cash equally over a fifteen-year period.

NOTE 14. PRIOR PERIOD ADJUSTMENTS

Beginning net position of the District as of August 31, 2015 was restated for prior period adjustments. The adjustments principally relate to the implementation of Statement No. 68 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Pensions for fiscal year 2015 financial reporting. The cumulative total is comprised of two calculations: Beginning Deferred Inflows of Pension Plans Investment Earnings ($26,808,185) and Beginning Net Pension Liability ($68,427,062), net of Deferred Outflows of Pension Plan Contributions ($1,693,557). Total Cumulative Effect of Change in Accounting Principle is $93,541,690.

In addition, a prior period adjustment resulted from the disposal of assets that were not fully depreciated but removed from the Districts capital assets. The historical costs for the assets disposed was $226,957, with accumulated depreciation of $101,675, resulting in a loss of $125,282. This loss was not recorded in the year the assets were disposed. We have now identified this error along with another previous loss of $3,252, and have adjusted the Beginning Accumulated Depreciation by the total losses not recorded in previous years of $128,534. This adjustment to the Beginning Accumulated Depreciation also effects the Beginning Net Position by the same amount.

As a result of the two above adjustments, the total Beginning Net Position decreased from $223,910,984 to $130,240,760.