Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Clover Park School District No. 400

Pierce County

For the period September 1, 2014 through August 31, 2015

Published March 17, 2016

Report No. 1016286

Washington State Auditor’s Office

March 17, 2016

Superintendent and Board of Directors
Clover Park School District No. 400
Lakewood, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Clover Park School District No. 400’s financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District’s financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM

DEPUTY STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

Clover Park School District No. 400
Pierce County
September 1, 2014 through August 31, 2015

The results of our audit of Clover Park School District No. 400 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities and each major fund.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
10.553	Child Nutrition Cluster – School Breakfast Program
10.555	Child Nutrition Cluster – National School Lunch Program
10.559	Child Nutrition Cluster – Summer Food Service Program for Children
84.041	Impact Aid

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $1,668,505.

The District qualified as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Clover Park School District No. 400
Pierce County
September 1, 2014 through August 31, 2015

2015-001 The District's internal controls over financial statement preparation were inadequate to ensure accurate financial reporting.

Background

It is the responsibility of School District management to design, implement and maintain internal controls that provide reasonable assurance that financial statements are fairly presented and provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in internal controls over financial reporting that affect the District's ability to produce reliable financial statements.

Description of Condition

Our audit identified the following deficiencies in internal controls, that when taken together represent a material weakness:

- The District did not have adequate procedures in place to ensure new accounting standards were implemented correctly.
- Neither the financial statement preparation nor the review process included steps to adequately ensure all required elements of the financial statements were prepared or that the financial information prepared was accurate.

Cause of Condition

Although the District dedicated time and resources towards researching new accounting standards, these standards were not interpreted or implemented correctly. In addition, a secondary review of the statements was performed prior to submittal, but this review was not sufficiently detailed to detect significant reporting errors or omissions.

Effect of Condition

These control deficiencies resulted in multiple misstatements on the District's financial statements:

- The District did not correctly implement Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial reporting for Pensions*, which resulted in the following errors:
  - The District's Net Pension Liability of $67,289,518 was not reported.
  - Deferred Inflows/Outflows related to pensions of $9,588,917 and $3,933,768, respectively were not reported.
  - Net Pension Expense of $21,477,585 was not reported.
  - The Cumulative Effect of Change in Accounting Principle (to adjust beginning Net Position) of $51,467,082 was not reported.
  - The District did not prepare the required supplementary information.
- The District did not prepare the Management's Discussion and Analysis (MD&A).
- A clerical error resulted in the underreporting of capital assets by $31,386,409 and the over reporting of expenditures by the same amount.

Recommendation

We recommend the District strengthen internal controls over financial reporting as follows:

- Ensure staff responsible for preparing financial statements have the necessary resources and training on new accounting standards to prepare accurate and complete financial statements.
- Ensure an individual knowledgeable of the reporting requirements performs an independent review of the financial statements, notes and additional schedules at the appropriate level of detail to ensure information prepared is complete and accurate.

District's Response

The purpose of this letter is to address the findings regarding the Clover Park School District's 2014-15 financial audit identified by the state audit team dated February 17, 2016. On behalf of Clover Park School District, I want to thank the audit team for taking the time to meet with me regarding your findings.

First and foremost, I want to stress that the leadership of Clover Park School District takes financial accountability and reporting very seriously with the intent to ensure we align with all state & federal laws. As a result, Clover Park has *elected to go beyond the state required reports by choosing to prepare a GAAP analysis for the past 15 years.*

However, this past budget year (2014-15), the Business Office has experienced staff changes during the time that a major change occurred in GASB 68 regarding pensions. As a result of those staff changes, correct reporting of the new changes did not occur. Per our discussions today, it is my understanding this information is readily available on OSPI's web site and there are several training opportunities available as well. You have my assurance that district staff will take advantage of these opportunities.

With regard to the missing Management's Discussion and Analysis (MD&A) section, we have corrected this matter and will be implementing some secondary reviews in the process to avoid this type of occurrence in the future.

There was a clerical error that resulted in the under reporting of capital assets by $31,386,409 and the over reporting of expenditures by the same amount. Similar to the MD&A issue, we believe this error was a result of not having a secondary review process in place. Be assured the District will be implementing a secondary review process to avoid this type of mistake in the future.

I believe all issues identified have been corrected, staff will be receiving the necessary training and a secondary review process will be implemented prior to submitting a final report. In addition, District staff has begun networking with other CAFR districts as well as enhancing our professional development opportunities with GFOA.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

> 4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of

> those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its Codification of Statements on Auditing Standards, Section 265 as follows:

> .07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
>> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>>
>> Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, states in part:

> 1. The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees – both active employees and inactive employees – are provided with pensions. One aspect of that objective is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. This information will assist users in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period. Another aspect of that objective is to provide users with information about the government's pension obligations and the resources available to satisfy those obligations.

The Accounting Manual for Public School Districts in the State of Washington, Chapter 8 – Financial Reporting, subsection 5 – GAAP Financial Reports, states in part:

> <u>GAAP Requirements</u>
>
> GAAP require the following minimum requirements for basic financial statements and required supplementary information (RSI):
>
> - Management's discussion and analysis (MD&A). This RSI is presented before the financial statements.
> - Districtwide financial statements consisting of the statement of net assets and statement of activities for governmental funds.
> - Fund financial statements for governmental and fiduciary funds.
> - Reconciliations between the districtwide statements which are presented using the economic resources measurement focus and accrual basis of accounting and the fund financial statements prepared using the current financial resources focus and modified accrual basis of accounting. This may be reported in a separate schedule or at the bottom of the fund financial statements.
> - Notes to the financial statements.
> - Required supplementary information other than MD&A, including required budgetary comparison information. This RSI is presented after the notes to the financial statements.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Clover Park School District No. 400
Pierce County
September 1, 2014 through August 31, 2015

Superintendent and Board of Directors
Clover Park School District No. 400
Lakewood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Clover Park School District No. 400, Pierce County, Washington, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 29, 2016. As discussed in Note 1 to the financial statements, during the year ended August 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

JAN M. JUTTE, CPA, CGFM

DEPUTY STATE AUDITOR

OLYMPIA, WA

February 29, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Clover Park School District No. 400
Pierce County
September 1, 2014 through August 31, 2015

Superintendent and Board of Directors
Clover Park School District No. 400
Lakewood, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Clover Park School District No. 400, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

JAN M. JUTTE, CPA, CGFM

DEPUTY STATE AUDITOR

OLYMPIA, WA

February 29, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clover Park School District No. 400
Pierce County
September 1, 2014 through August 31, 2015

Superintendent and Board of Directors
Clover Park School District No. 400
Lakewood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining information of Clover Park School District No. 400, Pierce County, Washington, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 21.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Clover Park School District No. 400, as of August 31, 2015, and the respective changes in financial position thereof, and the respective budgetary comparison for the General and Special Revenue (ASB) funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 22 through 36, information on postemployment benefits other than pensions on page 98 and pension trust fund information on pages 99 through 100 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

JAN M. JUTTE, CPA, CGFM

DEPUTY STATE AUDITOR

OLYMPIA, WA

February 29, 2016

FINANCIAL SECTION

Clover Park School District No. 400
Pierce County
September 1, 2014 through August 31, 2015

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Clover Park School District No. 400
Management's Discussion and Analysis

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the Clover Park School District. The financial statements provide an overview of district financial activities for the fiscal year ended August 31, 2015. This discussion and analysis should be read in conjunction with the preceding letter of transmittal and the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- The district's net financial position at the end of the year rested at $260.7 million for its governmental activities.
- The district's unrestricted position, which is an indication of what assets may be used to meet additional, ongoing obligations, was ($47.3) million at year-end for the governmental funds.
- By the end of the year, the district's net financial position decreased by $45 million from the previous year.
- The Maintenance and Operation Levy approved by Clover Park School District voters in 2012, provided revenues of $27.2 million from property taxes during the current fiscal year.
- The district's total long-term debt outstanding, including bonds, compensated absences, net pension liability and the district's responsibility for other post-employment benefits, was $236.5 million.
- The district's total of capital assets, net of accumulated depreciation, was $389 million. Of this amount, construction in process is $8 million.
- The district held a $5.7 million financial position at year-end in its fiduciary fund, which consists solely of a Private Purpose Trust fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented in our Comprehensive Annual Financial Report include all of the activities of the Clover Park School District using an integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments. There are four components to the basic financial statements: 1) government-wide financial statements, 2) fund financial statements, 3) required budgetary comparisons, and 4) notes to the basic financial statements. The district has also provided other supplemental information intended to give the reader a greater understanding of the activities and financial position of the district.

Government-wide Financial Statements

The government-wide statements are intended to provide readers with a broad overview of the district's overall financial status and report information about the district's operations as a whole. The government-wide statements use accounting methods similar to those used by private-sector organizations.

The statement of net position presents information on the district's assets and liabilities, and deferred outflows and inflows, with the difference reported as a net financial position. Over time, increases or decreases in this net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information on the district's activities which result in changes to the district's net financial position for the current reporting period. Activities that affect net position are reported on the statement of activities as soon as the underlying event affecting the activity occurs, and are not based on the timing of the associated cash flows. Thus revenues and expenses reported on the statement of activities may represent future cash flows for some items, rather than cash flows of the current period. Long-term debt and uncollected taxes are two examples of items that are reported on the government-wide statements that do not represent current cash flows, but will affect future cash flows.

The government-wide financial statements can be found as *Exhibits 1 and 2* of our report.

Fund Financial Statements

Fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The district, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the district can be divided into two categories: governmental funds and fiduciary funds.

Essentially the same functions reported as governmental activities in the government-wide financial statements are reported in governmental fund financial statements. However, unlike the government - wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

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

The district maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for these five funds. All governmental funds are considered to be major funds for purposes of consolidating information into government-wide financial statements.

The fund financial statements can be found as *Exhibits 3 and 4* of our report.

The district adopts an annual appropriated budget for its general and special revenue (Associated Student Body) funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget. These budget comparisons can be found as *Exhibits 6 and 7* of our report.

Resources held for the benefit of parties outside the government are accounted for in fiduciary funds. The district maintains one fiduciary fund, a private purpose trust fund. Because the resources of those funds are not available to support district programs, fiduciary funds are not reflected in the government-wide financial statements.

Information is presented separately for the private purpose trust fund in the statement of fiduciary net position and the statement of changes in fiduciary net position. These statements reflect all activities of funds provided by individuals and private organizations for scholarships and other similar purposes. The district, as trustee, is responsible for ensuring that the assets reported in these fiduciary fund statements are used for their intended purposes. The fiduciary financial statements can be found as *Exhibits 8 and 9* of our report.

Notes to the Basic Financial Statements

The notes to the basic financial statements are an integral part of the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. *The notes are found following Exhibit 9.*

Other Information

Supplemental data has been included in the financial report, which is comprised of statements and schedules not part of the basic financial statements, nor required by the Governmental Accounting Standards Board (GASB). This information has been presented for purposes of additional analysis. See *Exhibits A-1 through H-2* and the *"Statistical Section"* of our report for this supplemental information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

In our analysis, we include condensed versions of the government-wide statements of net position and activities for governmental operations. The government-wide statements are presented in detail in the financial section of the report (See *Exhibit 1* and *Exhibit 2*).

	August 31, 2015	August 31, 2014	% Change
Current and other assets	$122,513,793	$121,114,974	1%
Capital assets	389,014,487	364,306,138	7%
Total assets	$ 511,528,280	$ 485,421,112	5%
Deferred outflows of resources	$ 5,805,163	$ 3,742,789	55%
Current liabilities	10,502,438	12,574,464	-16%
Long-term liabilities	236,528,831	170,790,789	38%
Total liabilities	$ 247,031,269	$ 183,365,253	35%
Deferred inflows of resources	$ 9,588,916	$ -	
Net Position			
Net Investment in capital assets	$249,805,881	$224,789,177	11%
Restricted	58,270,978	55,331,814	5%
Unrestricted	(47,363,601)	25,677,657	-284%
Total net financial position of govt activities	$ 260,713,258	$ 305,798,648	-15%

District-wide Net Position

As noted earlier, the district's net financial position may serve as a useful indicator of the district's financial health, over time. The net position has decreased from last year. In the case of the district, assets and other additions, such as deferred outflows of resources, exceeded liabilities and other deductions, such as deferred inflows of resources, by almost $261 million (see *Table A-1*). This is known as the net financial position of the district. Last year, the net position was approximately $306 million. In management's opinion, this is not a favorable change; however, it is easily explained by the implementation of a new statement from the Governmental Accounting Standards Board (GASB). The change in net position of $45 million was a loss due to the GASB 68 restatement.

A major portion (96%) of the district's net financial position reflects the district's investments in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The district uses capital assets to service students, and consequently, these assets are not considered available for future spending. Since capital assets are not considered available for future spending, it should be noted that the district must use other assets to liquidate the liabilities associated with these assets.

Current assets did not change significantly due to lack of bond sales or other significant revenues. The current liabilities decrease is due to a decrease in accounts payable and no new major construction payments outstanding. The increase in long-term liabilities refers to GASB 68 as previously mentioned.

The district's net investment in capital assets increased due to the current capital projects. At year's end this included Harrison Prep, Four Heroes and the addition to Lakeview Hope Academy.

Restricted net position is made up of funds legally restricted for debt service, capital projects, grant objectives, and monies restricted for associated student body activities. Note that property tax payments that have been received for debt payments, but not yet spent, have been restricted, as well as the net effect of unspent funds that are to be used for capital projects in the coming years, after consideration of the corresponding liability.

Restricted net position increased primarily due to an increase in debt service principal payments, with the balance for an increase in state supplied transportation funds for school bus purchases.

District-wide Activities and Changes in Net Position

Governmental activities increased the district's net financial position by approximately $27.9 million, but due to the implementation of GASB 68 this year, the district's net position indicates a decrease of just over $45 million. Last year, similar activities increased the district's net position by approximately $93 million, but there was no GASB 68 requirement.

Figure 1 and *Figure 2* provide an overview of the primary revenues by source and expenses by function of the district for the current year.

A closer analysis of the composition of the district's revenues (See *Figure 1*) reflects a normal influx of funding, with the district primarily funded by state apportionment and operating grants. Last year capital grants for new schools skewed the revenue in its favor. Due to fewer construction grants this year, revenues are more aligned with past receipts.

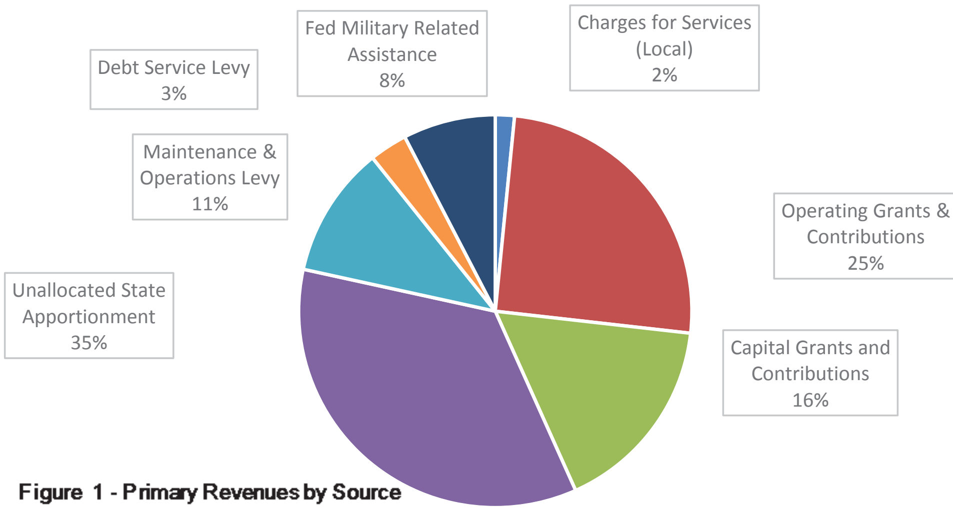


Figure 1 - Primary Revenues by Source
Governmental Activities

As can be seen by *Figure 2*, most of the district's expenditures are spent on education; i.e., regular instruction, special instruction, and compensatory education. Instruction and education account for about 64% of the district's expenditures. The district's general support services for all programs makes up 20% of the expenditures. New for this year is the GASB 68 requirement to record the net pension expense, this is 12% of the total expenditures for the year.

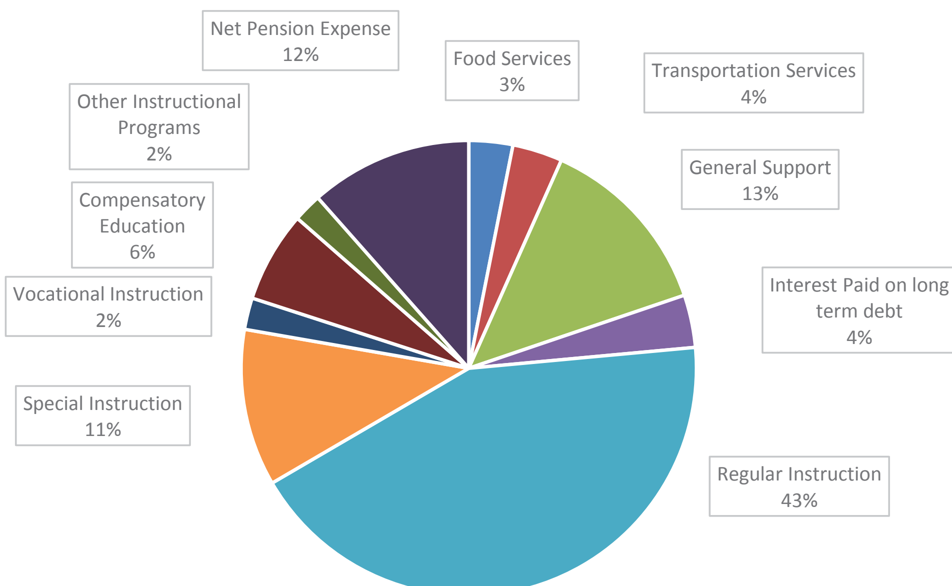


Figure 2 - Primary Expenditures by Function
Governmental Activities

Refer to *Table A-2* for a comparison of changes in the activities relating to net position.

Capital grants and contributions fell off significantly during the year, but still continue to be a primary factor for an increase in net position. This is related to the district's current initiative of the construction of new buildings to replace some of the older schools that have deteriorated over time. Further analysis indicates that, otherwise, the district is primarily spending the funding it receives on its normal operations without much contribution to an increase in net position.

Without the burden of GASB 68, the district continues to balance changes in revenues for instruction and education with similar changes in expenses in such functions, as can be seen by our comparison of the current period with activities from last year (See *Table A-2* and *Exhibit 2* of the basic financial statements). For example, each of the changes in revenue were typically matched by changes in expenses for the program using those funds. Overall, revenues increased slightly and expenditures increased slightly, with the exception of capital grants and contributions and property taxes collected for debt service and GASB 68.

Typically, it might be expected that activities and programs would be self-supporting. Many of the activities of the district are not self-supporting. Activities such as regular instruction, special instruction, and support services operate with a negative outflow without the general revenue. This is typical of a school district in Washington State. School districts in Washington are structured such that the operations are financed primarily through state apportionment and property taxes, which are general in nature and not specifically earmarked for certain activities.

TABLE A-2 Government Wide Comparison of Activities			
	FYE Aug 2015	FYE Aug 2014	% Change
Program Revenues:			
Charges for Services	$3,044,145	$2,929,496	4%
Operating Grants & Contributions	$48,844,427	$47,352,424	3%
Capital Grants & Contributions	$31,966,357	$94,075,844	-194%
General Revenues:			
Unallocated State Apportionment	$68,040,266	$65,245,175	4%
Unallocated Federal Impact Aid & other assistance	$14,748,678	$11,488,771	22%
Property taxes, levies for maintenance and operations	$20,976,987	$20,849,459	1%
Property taxes, levies for debt service	$6,049,432	$5,912,034	2%
Interest and investment earnings	$79,853	$77,550	3%
Sales of Capital Assets	$0	$0	
TOTAL REVENUES	$193,750,145	$247,930,753	-28%
Expenses by Function:			
Regular instruction	$ 80,171,182	$72,195,531	10%
Special instruction	20,757,608	$20,130,505	3%
Vocational instruction	4,175,335	$4,266,385	-2%
Compensatory education	12,008,071	$12,448,611	-4%
Other instructional programs	3,778,254	$3,529,823	7%
Community services	542,098	$520,019	4%
Support services - general	24,449,658	$20,891,754	15%
Support services - food services	5,805,443	$6,007,039	-3%
Support services - transportation	6,612,713	$6,934,066	-5%
Extracurricular (ASB)	643,285	$723,025	-12%
Interest paid on long-term debt	6,947,222	$7,055,248	-2%
Net Pension Expense	21,477,585	$0	100%
TOTAL EXPENSES	$ 187,368,454	$154,702,006	17%
EXCESS (DEFICIENCY) OF REVENUES	$6,381,691	$93,228,747	-1361%
Special Items-Prior Period Adjustment	$0	$0	
Cummulative Effect of Change in Accounting Princple (Pe	($51,467,081)	$0	100%
Increase (Decrease) in Net Position	($45,085,390)	$93,228,747	307%
Beginning Net Position	$305,798,648	$212,569,901	30%
ENDING NET POSITION	$260,713,259	$305,798,648	-17%

The following information is a synopsis of the significant changes in revenues and expenses which took place during the current year:

- Capital Grants and Contributions – Capital Grants and Contributions decreased by a total of $62.1million which is largely explained by the decrease in the number of schools being built with capital and state grants.

  The state continued to provide school construction assistance for those schools also funded by federal grants on Joint Base Lewis McChord. Five of the six base schools were built prior the year ending August 31, 2015.

- Apportionment – The state support for basic education through apportionment funding increased about $2.8 million due to an overall increase in funding for lower class sizes (more teachers and staff) and an increase in enrollment due to an increase in elementary schools that offer full day kindergarten.

- Property taxes, levied for debt service increased due to collections for the recent bond issues sold in fiscal year 2013.

- Regular instruction – Regular instruction expenses increased by about $8 million from last year primarily due to the cost of salaries and benefits for hiring additional staff at the schools for teaching-related activities.

- Compensatory education – The state slightly decreased its funding for learning assistance (LAP) in reading, writing, and mathematics by about $150,000. The majority of the compensatory decrease is due to ESEA federal funding. Programs were not affected by these changes.

- Community Services – the district participates in a summer school feeding program that benefits all students in the area, whether they attend summer school or not. An increase in participation resulted in an increase in costs.

- Interest on long term debt – Interest expenses decreased by about $108,000 from last year. The district had refinanced the 2006 bond a year prior, resulting in a decrease in interest rate and payment schedule.

FINANCIAL ANALYSIS OF THE DISTRICT'S ACCOUNTING FUNDS

Governmental Funds

The focus of the district's governmental funds is to provide information on near-term inflows and outflows, and current spendable resources. Using this focus, which excludes capital assets, long-term debt, and certain receivables, the district reported a combined governmental fund balance for the year ended August 31, 2015 of $98,803,442; a slight increase from last year due to decreases in expenditures by fund.

Of the total fund balance in Table A-3, $82.6 million is restricted for specific uses such as debt service, capital projects, associated student body (ASB) activities and school bus purchases. An additional $673,363 is restricted for specific grant purposes and $7.3 million committed to the district's minimum fund balance policy to cover inventory, encumbrances and insuring emergent needs of the district can be met. The remaining fund balance of $8.2 million is set aside for future fiscal stability issues that may arise in the district as well as any large equipment replacement needs. Of this balance just over $970,000 has an unassigned designation.

Table A-3 provides fund balances by fund and a comparison of ending fund balance as of fiscal year end August 31, 2015 and 2014, for each major fund.

Table A-3

Comparison of Ending Governmental Fund Balances

	August 31 2015	August 31 2014	Increase (Decrease)
General Fund	$ 16,195,027	$ 14,645,011	$ 1,550,016
ASB Fund	613,192	579,871	$ 33,321
Debt Service Fund	15,225,800	12,125,557	$ 3,100,243
Capital Projects Fund	61,154,961	63,542,126	$ (2,387,165)
Transportation Vehicle Fund	5,614,462	4,231,638	$ 1,382,824
Total governmental fund bal	$ 98,803,442	$ 95,124,203	$ 3,679,239

Fund balance serves several purposes for the district. Fund balance provides the necessary cash cushion to allow financing of normal activities without excessive borrowing. Fund balance also provides a reserve for unanticipated emergency expenditures, and can be used to balance subsequent budgets, should such an allocation be required to finance necessary programs.

See changes in fund balances shown in *Table A-3*:

- *General Fund* – Due to the general nature of large amounts of the funding provided for the services accounted for in the district's general fund, it would be difficult to pinpoint specifically why there was an increase in the general fund balance. In short, the increase reflects management's ability to prudently provide necessary services and carry over funding to the next year.

- *Capital Projects Fund* – Notably, the capital projects fund balance decreased significantly from last year. This primarily reflects the use of funds for the construction of new buildings to replace some of the older schools that have deteriorated over time.

- *Transportation Fund* – The district purchases new buses as the old ones fully depreciate and they become obsolete to the district. The district does not buy buses every year, however the state does provide funding every year. As a result of receiving funding in the year ending August 31, 2015 and making no bus purchases, the fund balance has increased.

See *Notes #1.D.10 and #4.F* in the Notes to the Basic Financial Statements for more information regarding fund balances.

General Fund Budgetary Highlights

The district board of directors adopts an annual budget with appropriations 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. Management may transfer appropriations within the approved budget within each fund without prior approval of the board. The total expenditures for each governmental fund cannot exceed the formal adopted appropriation for each fund unless the board amends the budget. See *Note 3A* of the Notes to the Basic Financial Statements for more information on the process of budgeting.

In comparing budgets with actual revenues and expenditures, it should be noted that the district's budgets are adopted with an excess capacity above known funding sources and spending needs. This is done to provide the ability to spend additional funding that may be received during the year, such as for additional grant awards received. For this reason, budgeted revenues and expenditures normally are expected to exceed actual revenues and expenditures for the district. This is evident this year, where actual expenditures were less than budgeted expenditures by about $15.1 million in the general fund and where local non-tax, federal general purpose, and federal special purpose revenues were short (See *Exhibit 6* of the basic financial statements). However, further analysis indicates that more specifically, the following areas were affected (See *Exhibit 6)*:

- <u>Local nontax revenues</u> -- The difference of approximately $1.2 million reflects the district's policy to set some budgets with excess capacity, for the purpose of accommodating an unexpected influx of donations or other local funding.

- <u>Federal revenues</u> – Overall, exclusive of what is shown in the general fund, federal general purpose revenues actually exceeded the budget that was set. The primary difference between the budgeted amount for federal general purpose revenues shown in the general fund and the actual amount recorded as received is due to management's decision to earmark approximately $4.4 million for each of the capital projects and debt service funds respectively after the budget had been set. The difference for federal special purpose revenue between budgeted and actual is due to management setting capacity to receive more funding from grants applied for during the year.

- <u>Regular instruction expenditures</u> – Most of the difference between budgeted expenditures and actual expenditures reflects the district's policy to set budgets with excess capacity.

- <u>Other instructional program expenditures</u> – Other instructional programs include early learning programs and federal DoDEA grants and for the current year capacity exceeded what funds were actually received.

- <u>Compensatory instruction expenditures</u> – With state budget discussions of increasing revenue for the state's targeted learning assistance program (LAP) targeted for reading, writing, and mathematics, the district had anticipated funding higher that actually provided and the budget was set accordingly. After the state finalized its discussions, the district adjusted its operations to accommodate the actual funding allotted by the state, so as a result there is a $635,000 difference between the district's budgeted expenditures and the actual expenditures for the learning assistance program.

- <u>Support services expenditures</u> – Actual expenditures for the general fund were less than budgeted expenditures by approximately $1.7 million for these activities. This is mainly due to a lack of technology spending for the year. This happens about every other year, as the district takes its time to decide on the correct technology to purchase and upgrade.

There were no changes to the district's total appropriation for the year in the general fund. Differences between the district's adopted budget and final budget for the general fund are categorical in nature and reflect management's anticipation of changing events (See *Exhibit 6* of the basic financial statements for actual and final budget details).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The district's capital assets net of accumulated depreciation were $389,014,487. These assets include land, buildings, improvements, equipment, and construction in progress. A comparison to last year is included in *Table A-4*.

Table A-4

Summary of Changes to Net Capital Assets

	Net Capital Assets FYE Aug. 2015	Net Capital Assets FYE Aug. 2014	% Change in Capital Assets
Land	$4,411,364	$4,411,364	0%
Buildings & improvments	370,634,878	214,234,866	73%
Equipment	5,927,061	7,973,178	-26%
Construction in Progress	8,041,184	137,686,730	-94%
Totals	$389,014,487	$364,306,138	7%

New capital asset additions – The following transactions increased the building and equipment balances shown on the financial statements:

- The net costs of improvements and construction of new buildings of approximately $164 million were added to buildings and improvements for the district. These additions consisted of a new Harrison Prep Academy ($66 million), new Rainier Elementary ($33 million), new Beachwood Elementary ($33 million), new Meriwether Elementary ($30 million), improvements to the Harry Lang Stadium track ($1.06 million) and the Lochburn roofing project ($1.07 million). This is offset by new depreciation of $7.7 million.

Construction in progress primarily reflects the construction of the following new schools or improvements:

- Lakeview Elementary Addition ($1,541,523)
- Evergreen Elementary School ($2,591,773)
- Early Childhood Learning building improvements ($763,591)
- Custer Bus Loop ($559,707)

The Custer Bus Loop and Early Childhood Learning building are primarily complete and have been utilized since the school year began on September 1, 2015. The Lakeview Elementary Addition will be substantially complete and move-in ready during the 2015-16 school. The Evergreen Elementary School will not be substantially complete until about a quarter of the way through the 2016-17 school year.

See *Note 4-D* of the Notes to the Basic Financial Statements and *Exhibits H-1* and *H-2* in the Supplemental Data section of the Comprehensive Annual Financial Report (CAFR) for further information on capital assets.

Long-term Debt

At August 31, 2015, the district's total long-term debt outstanding was $236,528,831, including compensated absences, unamortized bond premiums and discounts, the district's net other post employment benefits (OPEB) obligation per the Governmental Accounting Standards Board (GASB) Statement No. 45 and the net pension liability per GASB Statement No. 68. Of the total long-term debt outstanding, $3,840,352 is considered due within one year. A comparison to last year is included in *Table A-5*.

Table A-5

Summary of Long-term Debt

	Long-term Debt FYE Aug 2015	Long-term Debt FYE Aug 2014	Percentage Change
Compensated absences	$6,496,967	$5,742,064	13%
Net OPEB Obligation	$10,791,673	$9,414,435	15%
Net Pension Liability	$67,289,519	$0	
Unmatured bonds	151,950,672	155,634,290	-2%
Totals	$236,528,831	$170,790,789	38%

The district's change in net OPEB obligation reflects an annual presumed responsibility under the State of Washington Public Employees Benefits Board which has not been completely funded by the district. See *Note 6* in the Notes to the Basic Financial Statements for more information on the district's OPEB obligation.

The change in unmatured bonds is the result of amortizing bond premiums and discounts, and payments of bond principal.

Compensated absences balances remained fairly flat due to employees using about the same amount of vacation and sick leave for the past year as they had earned.

Under the constitution of the state of Washington and the Revised Code of Washington (RCW 28A.530), school districts may issue bonds for the purpose of covering operating expenditures, refunding prior indebtedness, or for land, buildings, initial equipment for those buildings, improvements, etc. However, all of these debt requirements are subject to certain limitations as set forth in RCW 39.36, which states in summary:

- The district can incur debt of up to 3/8% of taxable property for any reason without a vote of the citizens of the district.
- With authorization by a vote of the citizens of the district, the district can incur debt from 3/8% to 2-1/2% of taxable property for any reason.
- With authorization by a vote of the citizens of the district, the district can incur additional debt of 2-1/2% (total now can be 5%) of taxable property for capital projects only.

The district is below its statutorily set limits of indebtedness. As of August 31, 2015, the district could legally incur an additional $18.4 million without a vote of the citizens of the district and up to an additional $104 million with authorization by a vote of the citizens of the district. This district presents a detailed analysis of its limitations of indebtedness in the Statistical Section of this Comprehensive Annual Financial Report (See *Table 14*). Note that compensated absences and the district's obligations for other post-employment benefits (OPEB) are excluded from the limitation of indebtedness, as statutorily, only debt that pledges taxes should be included in this calculation.

Moody's rating of the district has been set at "Aa2". The bonds continue to be guaranteed by the State of Washington under the Washington State School District Credit Enhancement Program Act (as per Revised Code of Washington 39.98).

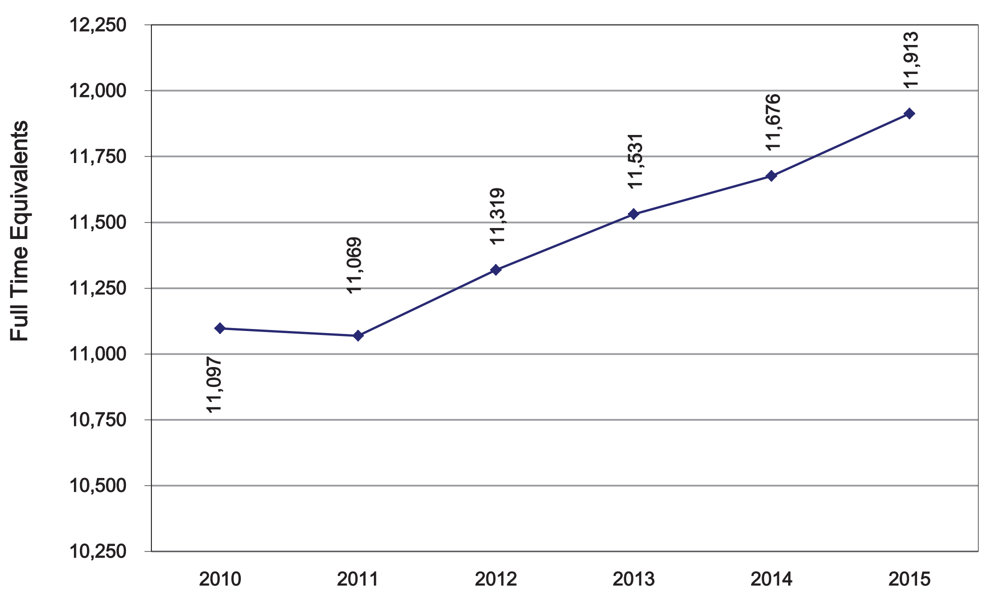
See *Note 10* in the Notes to the Basic Financial Statements for more information on long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

During the next year, the district will continue to see significant capital outlay expenses as the district wraps up its current initiative of building or expanding schools. The remaining expenses are expected to be funded from matching money from the State of Washington, the federal government and some unrestricted local funds.

The district's enrollment determines the majority of the funding received from the state. The district has seen a steady increase in enrollment the past few years, but prior to that time, the district's enrollment was fairly flat. As of December 2015, enrollment for our current 2016 school year was reported at a higher level than the previous year, and management is optimistic that the district will end the year with an increase in enrollment from last year. However, in past years enrollment has declined by the end of the year, and, for this reason, management is anticipating that this current enrollment will decline from December's enrollment by the end of the year. The district's overall enrollment trend over the past 6 years is shown in *Figure 3* below. Some of the increase in enrollment can be contributed to the increase in full day kindergarten availability within the district.

Figure 3 -- Total District Enrollment for Past 6 Years



In a landmark case, the Washington State Supreme Court issued an opinion in January 2012 that the state was not adequately meeting its constitutional obligation to fund basic education. The results of this case are commonly known as the "McCleary" decision, and the decision is still pertinent and under much scrutiny by the legislature and the public. The state Supreme Court stopped short as to what that obligation meant in terms of real dollars. However, this decision by the state supreme court is likely to affect funding decisions by the state legislature and executive branch for a number of years to come, as the state attempts to satisfy the findings of the case.

The state has set a new budget for the 2015 – 2017 biennium, and the second year budget discussions have already started. At the forefront of the discussions, with respect to education, is how best to respond to the state supreme court's "McCleary" decision. In fact, the state Supreme Court, in a ruling signed on September 11th, 2014, found the legislature in contempt of its prior ruling on the McCleary case, which put greater emphasis on finding resolution.

Although, the state seems committed to try and make improvements in this area, the governor's forecast of revenues for the coming biennium is that revenues will not be substantial enough to fund progress based on the McCleary decision and satisfy the state supreme court. The governor is proposing the creation of additional revenue sources to make up for the perceived shortfall.

As a result of the last general election held by the voters of Washington, the public approved Initiative 1351, which requires funding reduced class sizes in grades kindergarten through 12, as well as enhancements to various state-funded staff levels. However, the state had already begun making some changes in this respect and the state and Initiative 1351 do not always agree. Action to resolve differences in both law and budget is likely to be taken during this current biennium.

Initiative 1351 does not provide for a funding source, and if the initiative is fully implemented, the state Office of Superintendent of Public Instruction (OSPI) estimates the state would have to fund, and the district would be required to hire, an additional approximately 400 teachers and other staff.

With respect to education, the approved budget for the 2015-2017 state budget biennium attempts to satisfy much of the expectations for progress called for by the state supreme court's McCleary decision and Initiative 1351 by increasing funding by $1.8 billion. Specifically, certain areas of the budget that will primarily affect the district's budget include:

- Funding for a reduction of class sizes from 25 to 17 students for grades kindergarten through third grade.

- Funding full day kindergarten for all students. As of the 2015-16 school year, all district schools have full day kindergarten.

- An increase in state funding of materials, supplies, curricula, and various other operating costs from a rate of $848 per student to a rate of $1,216 per student.

- Funding salary increases for teachers to meet the expectations of Initiative 732, voted into law by the public in the year 2000. Funding for this initiative has apparently been suspended at least three times by the legislature since the initiative was voted into law, due to budget deficits. The approved state budget holds a 3% raise in year one and a 1.8% raise in year two. These increases do not cover district staff hired above the funding formula, TRI days provided to certificated staff or salaries above funding rates.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the district's finances and to demonstrate district accountability. If you have questions about this report or need additional financial information, contact the district's Financial Services office at:

10903 Gravelly Lake Drive Southwest
Lakewood, Washington 98499

Phone: 253.583.5020
http://www.cloverpark.k12.wa.us

Clover Park School District No. 400
Statement of Net Financial Position
August 31, 2015

		Primary Government Governmental Activities
ASSETS:		
Cash and cash equivalents	$	95,209,133
Cash with fiscal agent		1,600
Investments		5,000,000
Receivables (net allowance for uncollectable) - Taxes		13,207,913
Receivables (net allowance for uncollectable) - Intergovernmental		8,877,474
Receivables (net allowance for uncollectable) - Other		48,845
Inventories		105,618
Prepaid items		63,210
Capital Assets:		
Land		4,411,364
Buildings & Improvements		427,784,268
Furniture & Equipment		28,545,727
Construction in Process		8,041,184
Less: Accumulated depreciation		(79,768,056)
Total Assets	$	511,528,280
DEFERRED OUTFLOWS OF RESOURCES:		
Pension Plan Experience Difference	$	2,396,087
Pension Plan Assumption Changes	$	106,433
Pension Plan Contributions	$	1,431,248
Deferred Charges of Refunding Bonds	$	1,871,395
Total Deferred Outflows of Recources	$	5,805,163
LIABILITIES:		
Accounts & Contracts Payable	$	5,117,283
Deposits		-
Accrued payroll, payroll benefits, and withholding payable		3,402,615
Due to Other Government Units		1,909,454
Unearned Revenue		73,086
Net Pension Liability		67,289,518
Noncurrent Liabilities:		
Due within one year		3,840,353
Due in more than one year		165,398,959
Total Liabilities	$	247,031,268
DEFERRED INFLOWS OF RESOURCES:		
Pension Plan Investment Earnings & Changes in Proportion (net difference)	$	9,588,917
NET POSITION:		
Net Investment in Capital Assets	$	249,805,881
Restricted for:		
Capital Projects		33,047,255
Debt Services		18,166,008
Other Purposes		7,057,715
Unrestricted		(47,363,601)
Total Net Financial Position of Governmental Activities	$	260,713,258

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

Clover Park School District No. 400
Statement of Activities
For the fiscal year ended August 31, 2015

	Expenses	Program Revenues: Charges for Service	Program Revenues: Operating Grants & Contributions	Program Revenues: Capital Grants & Contributions	Net Revenue/ (Expense) and Changes in Net Position
Primary Government:					
Governmental Activities:					
Regular instruction	$ 80,171,182	$ 595,262	$ 2,825,577	$ 29,572,073	$ (47,178,270)
Special instruction	20,757,608	667,452	15,643,955	-	(4,446,201)
Vocational instruction	4,175,335	6,887	4,869,764	-	701,316
Compensatory education	12,008,071	-	11,518,816	-	(489,255)
Other instructional programs	3,778,254	9,362	3,706,807	-	(62,085)
Community services	542,098	243,689	272,911	-	(25,498)
Support services - general	24,449,658	186,568	-	-	(24,263,090)
Support services - food services	5,805,443	650,611	5,115,673	-	(39,159)
Support services - transportation	6,612,713	16,540	4,882,192	1,273,504	(440,477)
Extracurricular (ASB)	643,285	667,774	8,732	-	33,221
Unallocated interest and other charges on long-term debt	6,947,222	-	-	1,120,780	(5,826,442)
Net Pension Expense	21,477,585				(21,477,585)
Total Governmental Activities	$ 187,368,454	$ 3,044,145	$ 48,844,427	$ 31,966,357	$ (103,513,525)

General Revenues:	
Unallocated State Apportionment	$ 68,040,266
Unallocated Federal Impact Aid & other assistance	14,748,678
Property taxes, levies for maintenance and operations	20,976,987
Property taxes, levies for debt service	6,049,432
Interest and investment earnings	79,853
Total General Revenues	$ 109,895,216
Total Change in Net Financial Position	$ 6,381,691
Net Position - Beginning	305,798,648
Cumulative Effect of Change in Accounting Principle (Pensions)	(51,467,081)
Adjusted Net Position - Beginning	254,331,567
Net Position - Ending	$ 260,713,258

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

Clover Park School District No. 400
Balance Sheet
Governmental Funds
August 31, 2015

	Governmental Funds					Total
	General Fund	Special Revenue (ASB) Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Governmental Funds
Assets:						
Cash and cash equivalents	$ 28,182,921	$ 631,384	$ 11,225,800	$ 49,554,565	$ 5,614,462	$ 95,209,132
Cash with fiscal agent	1,600	-	-	-	-	1,600
Long term investments	-	-	-	5,000,000	-	5,000,000
Receivables (net allowance for uncollectable) - Taxes	10,267,705	-	2,940,208	-	-	13,207,913
Receivables (net allowance for uncollectable) - Intergovernmental	1,961,589	-	-	6,915,885	-	8,877,474
Receivables (net allowance for uncollectable) - Other	48,400	445	-	-	-	48,845
Due from other funds	102,979	7,000	4,000,000	4,002,019	-	8,111,998
Inventories	105,618	-	-	-	-	105,618
Prepaid items	51,080	12,130	-	-	-	63,210
Total Assets	$ 40,721,892	$ 650,959	$ 18,166,008	$ 65,472,469	$ 5,614,462	$ 130,625,790
Deferred outflows of resources:						
	$ -	$ -	$ -	$ -	$ -	$ -
Total Assets and Deferred Outflows	$ 40,721,892	$ 650,960	$ 18,166,008	$ 65,472,469	$ 5,614,462	$ 130,625,791
Liabilities, equity and other credits:						
Liabilities:						
Accounts & contracts payable	$ 2,774,440	$ 35,960	$ -	$ 2,306,883	$ -	$ 5,117,283
Deposits	-	-	-	-	-	-
Accrued payroll, payroll benefits, and withholding payable	3,402,615	-	-	-	-	3,402,615
Claims and judgments	-	-	-	-	-	-
Matured bonds payable	-	-	-	-	-	-
Matured bond interest and fees	-	-	-	-	-	-
Due to other government units	-	-	-	1,909,454	-	1,909,454
Due to other funds	8,009,019	1,808	-	101,171	-	8,111,998
Unearned revenue	73,086	-	-	-	-	73,086
Arbitrage rebate payable	-	-	-	-	-	-
Total Liabilities	$ 14,259,160	$ 37,768	$ -	$ 4,317,508	$ -	$ 18,614,436
Deferred inflows of resources:						
Property Taxes Earned, but Not Available	$ 10,267,705	$ -	$ 2,940,208	$ -	$ -	$ 13,207,913
Total Deferred Inflows of Resources	$ 10,267,705	$ -	$ 2,940,208	$ -	$ -	$ 13,207,913

Clover Park School District No. 400
Balance Sheet (continued)
Governmental Funds
August 31, 2015

	Governmental Funds					Total
	General Fund	Special Revenue (ASB) Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Governmental Funds
Fund balances:						
Non-Spendable-						
Inventories and Prepaid Obligations	$ 156,698	$ 12,130	$ -	$ -	$ -	$ 168,828
Restricted For-						
Other Items	-	601,062	-	-	5,614,462	6,215,524
Carryover of Restricted Revenue	673,363	-	-	-	-	673,363
Debt Service	-	-	15,225,800	-	-	15,225,800
Bond Proceeds	-	-	-	-	-	-
State Proceeds	-	-	-	24,354,162	-	24,354,162
Federal Proceeds	-	-	-	19,563,765	-	19,563,765
Committed To-						
Minimum Fund Balance Policy	6,063,302	-	-	-	-	6,063,302
Other Purposes	1,100,000	-	-	-	-	1,100,000
Assigned To-						
Fund Purposes	-	-	-	17,237,034	-	17,237,034
Other Purposes	7,230,516	-	-	-	-	7,230,516
Unassigned	971,148	-	-	-	-	971,148
Total Fund Balances	$ 16,195,027	$ 613,192	$ 15,225,800	$ 61,154,961	$ 5,614,462	$ 98,803,442
Total Liabilities, Deferred Inflows, and Fund Balances	$ 40,721,892	$ 650,960	$ 18,166,008	$ 65,472,469	$ 5,614,462	$ 130,625,791

Reconciliation of Governmental Fund Balance Sheet to Statement of Net Position:

Total fund balance for governmental funds (above)	$ 98,803,442
Inclusion of long-term liabilities	$ (169,239,311)
Full accrual of remaining property taxes	$ 13,207,913
Inclusion of capital assets (net of depreciation)	$ 389,014,487
Net pension liability and deferred inflows and outflows	$ (67,289,518)
Deferred outflow pension plan experience and assumptions	$ 3,933,768
Deferred inflows pension plan changes in proportion	$ (9,588,917)
Deferred outflow of unamortized charges on refunding bonds	$ 1,871,394
Net financial position of governmental activities	$ 260,713,258

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

Clover Park School District No. 400
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended August 31, 2015

	Governmental Funds					Total
	General Fund	Special Revenue (ASB) Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Total Governmental Funds
Revenues:						
Local	$ 23,111,858	$ -	$ 6,037,442	$ 145,103	$ 4,962	$ 29,299,365
State	100,617,672	-	-	9,859,837	1,273,504	111,751,013
Federal	21,954,707	-	5,555,210	24,043,702	-	51,553,619
Other	721,184	676,506	-	-	-	1,397,690
Total revenues	$ 146,405,421	$ 676,506	$ 11,592,652	$ 34,048,642	$ 1,278,466	$ 194,001,687
Expenditures:						
Current:						
Regular instruction	$ 71,921,770	$ -	$ -	$ -	$ -	$ 71,921,770
Special education	20,736,329	-	-	-	-	20,736,329
Vocational education	4,184,707	-	-	-	-	4,184,707
Compensatory	12,007,418	-	-	-	-	12,007,418
Other instructional programs	3,753,399	-	-	-	-	3,753,399
Community services	538,234	-	-	-	-	538,234
Support services	31,651,542	-	-	-	-	31,651,542
ASB expenditures	-	643,185	-	-	-	643,185
Capital outlay:	-	-	-	36,168,771	-	36,168,771
Debt service:						
Principal	-	-	2,759,000	-	-	2,759,000
Interest	-	-	6,000,445	-	-	6,000,445
Fees & other costs	-	-	-	-	-	-
Total expenditures	$ 144,793,399	$ 643,185	$ 8,759,445	$ 36,168,771	$ -	$ 190,364,800
Excess of revenues over (under) expenditures	$ 1,612,022	$ 33,321	$ 2,833,207	$ (2,120,129)	$ 1,278,466	$ 3,636,887
Other financing sources (uses):						
Sales of capital assets	$ 39,494	$ -	$ -	$ -	$ 2,858	$ 42,352
Transfers in	-	-	267,036	-	101,500	368,536
Transfers out	(101,500)	-	-	(267,036)	-	(368,536)
Total other financing sources (uses)	$ (62,006)	$ -	$ 267,036	$ (267,036)	$ 104,358	$ 42,352
Net change in fund balances	$ 1,550,016	$ 33,321	$ 3,100,243	$ (2,387,165)	$ 1,382,824	$ 3,679,239
Fund balance - September 1, 2014	14,645,011	579,871	12,125,557	63,542,126	4,231,638	95,124,203
Fund balance - August 31, 2015	$ 16,195,027	$ 613,192	$ 15,225,800	$ 61,154,961	$ 5,614,462	$ 98,803,442

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

Clover Park School District No. 400
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the fiscal year ended August 31, 2015

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different from the Statement of Revenues, Expenditures and Changes in Fund Balances (Exhibit 4) due to the following activities:

Net change in fund balances - total governmental funds (Exhibit 4):	$3,679,239
Net pension liability	($67,289,519)
Pension plan deferred inflows and outflows	($5,655,148)
Government funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which new capital outlays exceeded depreciation in the current period:	24,727,954
The issuance of long-term debt, such as bonds, provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, effects net position. Also, governmental funds report the effect of issuance premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:	(319,918)
The net effect of various miscellaneous transactions involving capital assets, such as sales, retirements, adjustments, etc.:	(19,606)
Property taxes are fully recognized as revenue in the government-wide statement of activities as they are measureable. However, in the fund statements they are deferred since they are not yet available. This treatment results in the following differences:	
Prior year tax accrual	(13,416,306)
Current year tax accrual	13,207,913
Change in net financial position of governmental activities (Exhibit 2):	($45,085,391)

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

Clover Park School District No. 400
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the fiscal year ended August 31, 2015

	Adopted Budget	Final Revised Budget	Actual	Variance with Final Budget
Revenues:				
Local taxes	$ 20,422,931	$ 20,422,931	$ 21,208,803	$ 785,872
Local nontax	3,118,191	3,118,191	1,903,055	(1,215,136)
State general purpose	75,987,893	75,987,893	75,453,907	(533,986)
State special purpose	25,178,107	25,178,107	25,163,765	(14,342)
Federal general purpose	12,024,426	12,024,426	6,943,794	(5,080,632)
Federal special purpose	16,444,957	16,444,957	15,010,913	(1,434,044)
Other	320,000	320,000	721,184	401,184
Total revenues	$ 153,496,505	$ 153,496,505	$ 146,405,421	$ (7,091,084)
Expenditures:				
Current:				
Regular instruction	$ 81,724,877	$ 81,724,877	$ 71,921,770	$ 9,803,107
Special education	20,176,703	20,176,703	20,736,329	(559,626)
Vocational education	4,681,915	4,681,915	4,184,707	497,208
Compensatory	12,642,639	12,642,639	12,007,418	635,221
Other instructional programs	6,847,562	6,847,562	3,753,399	3,094,163
Community services	433,522	433,522	538,234	(104,712)
Support services	33,409,281	33,409,281	31,651,542	1,757,739
Total expenditures	$ 159,916,499	$ 159,916,499	$ 144,793,399	$ 15,123,100
Excess of revenues over (under) expenditures	$ (6,419,994)	$ (6,419,994)	$ 1,612,022	$ 8,032,016
Other financing sources (uses):				
Sales of capital assets	$ -	$ -	$ 39,494	$ 39,494
Transfers in	-	-	-	-
Transfers out	(101,500)	(101,500)	(101,500)	-
Total other financing sources (uses)	$ (101,500)	$ (101,500)	$ (62,006)	$ 39,494
Excess of revenues and other financing sources over/(under) expenditures and other financing uses	$ (6,521,494)	$ (6,521,494)	$ 1,550,016	$ 8,071,510
Fund balance - September 1, 2014	14,871,494	14,871,494	14,645,011	(226,483)
Fund balance - August 31, 2015	$ 8,350,000	$ 8,350,000	$ 16,195,027	$ 7,845,027

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

Clover Park School District No. 400
Special Revenue (ASB) Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the fiscal year ended August 31, 2015

	Adopted Budget	Final Revised Budget	Actual	Variance with Final Budget
Revenues:				
General student body	$ 1,268,042	$ 1,268,042	$ 370,259	$ (897,783)
Athletic programs	611,900	611,900	202,878	(409,022)
ASB classes	71,900	71,900	17,437	(54,463)
ASB clubs	239,145	239,145	77,200	(161,945)
ASB private money donations	72,400	72,400	8,732	(63,668)
Total revenues	$ 2,263,387	$ 2,263,387	$ 676,506	$ (1,586,881)
Expenditures:				
Current:				
General student body	$ 1,210,874	$ 1,210,874	$ 344,035	$ 866,839
Athletic programs	723,890	723,890	201,085	522,805
ASB classes	65,156	65,156	14,847	50,309
ASB clubs	302,898	302,898	73,808	229,090
ASB private money donations	72,400	72,400	9,410	62,990
Capital outlay:	-	-	-	-
Total expenditures	$ 2,375,218	$ 2,375,218	$ 643,185	$ 1,732,033
Excess of revenues over (under) expenditures	$ (111,831)	$ (111,831)	$ 33,321	$ 145,152
Other financing sources (uses):				
Transfers in:	$ -	$ -	$ -	$ -
Transfers out:	-	-	-	-
Total other financing sources (uses)	$ -	$ -	$ -	$ -
Excess of revenues and other financing sources over/(under) expenditures and other financing uses	$ (111,831)	$ (111,831)	$ 33,321	$ 145,152
Fund balance - September 1, 2014	420,278	420,278	579,871	159,593
Fund balance - August 31, 2015	$ 308,447	$ 308,447	$ 613,192	$ 304,745

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

Clover Park School District No. 400
Statement of Fiduciary Net Position
Fiduciary Fund
August 31, 2015

		Private Purpose Trusts
ASSETS:		
Cash and cash equivalents	$	179,169
Investments		120,000
Cash and investments managed by Trustee		5,464,987
Interest Receivable		-
Total Assets	$	5,764,156
LIABILITIES		
Accounts Payable	$	-
Total Liabilities	$	-
NET POSITION		
Restricted for:		
Trust Principal	$	5,684,179
Trust Purposes (scholarships, etc.)		79,977
Total Net Financial Position for Fiduciary Fund	$	5,764,156

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

Clover Park School District No. 400
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the fiscal year ended August 31, 2015

		Private Purpose Trusts
ADDITIONS		
Donations	$	11,747
Investment Earnings		115,812
Net increase in the fair value of investments		-
Total Additions	$	127,559
DEDUCTIONS		
Scholarships	$	96,314
Administrative expenses		38,730
Net decrease in the fair value of investments		183,122
Other expenses		-
Total Deductions	$	318,166
Change in Net Position	$	(190,607)
Net Position - Beginning		5,954,763
Net Position - Ending	$	5,764,156

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

Clover Park School District

Notes to the Basic Financial Statements
September 1, 2014 through August 31, 2015

NOTE 1 -- Summary of Significant Accounting Policies

A. Reporting Entity

The Clover Park 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 K–12. Financial accountability and oversight responsibility for the district's operations is vested with the independently elected board of directors. Management of the district is appointed by and accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with the provisions of state statutes rests with the board of directors.

For financial reporting purposes, the Clover Park School District includes all funds and organizations that are controlled by or dependent on the district's board of directors. Whether funds or organizations are considered to be controlled by or dependent on the district is based on budget adoption, taxing authority, outstanding debt secured by the general credit of the district, obligations 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 the 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

   Government-wide financial statements report information on all of the non-fiduciary activities of the primary government and any component units. Overall governmental activities are reported here for the district as a whole, without displaying individual funds or fund types. The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The government-wide financial statements consist of the following:

a. Statement of Financial Net Position – The statement of net position reports all financial and capital resources. Capital assets (land, land improvements, building, building improvements, vehicles, and equipment) are reported at historical cost, less accumulated depreciation.

b. Statement of Activities – The statement of activities presents operations of the district shown as net revenue (or expense) of each individual function or program, and general revenues. General revenues are divided into property taxes, interest and investment earnings, and unallocated state apportionment. All activities of the district are considered to be governmental activities and no business-type activities are shown. The expenses and revenues are reported as follows:

Expenses – Expenses are reported by function or program and include 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 (For example, interest on long-term debt may be associated with a particular function or program, when borrowing is essential to the creation or continuing existence of the function or program) or it may be considered an indirect expense (For example, interest on long-term liabilities that are not essential to a function or program may be recorded as an indirect expense).

Revenues – The revenues are divided into program revenues and general revenues. Program revenues are revenues derived directly from the program itself or from parties outside the district's taxpayers. They reduce the net cost of the function to be financed from the district's general revenues. Program-specific grants and contributions include revenues arising from mandatory and voluntary non-exchange transactions with federal, state governments, organizations, or individuals that 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 taxes, unallocated state apportionment support, and other non-tax revenues such as interest and investment earnings.

2. FUND FINANCIAL STATEMENTS

Fund financial statements report information on an individual fund basis. The fund financial statements report governmental funds and fiduciary funds separately.

a. Governmental Funds – Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. For the district, this includes a general fund, a special revenue fund, a capital projects fund, a transportation vehicle fund, and a debt service fund. Governmental fund presentation uses the modified accrual basis of accounting. The district considers all governmental funds to be "major funds", and all are reported individually in the governmental fund financial statements:

General Fund

This fund is the district's primary operating fund. 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 maintaining as few funds as necessary, food services, maintenance, data processing, printing, and general transportation activities are included in the fund.

Special Revenue Fund (Associated Student Body Fund)

This fund is used to account for the extracurricular activities of the students which are the result of 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.

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.

Capital Projects Fund

This fund is used to account for 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, or insurance recoveries.

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 revenues in this fund include the state reimbursement for pupil transportation equipment and special levies.

b. Fiduciary Funds – The district has a private-purpose trust fund that meets the criteria of a fiduciary fund and is used to account for resources legally held in trust for scholarships and other specific uses, unrelated to its primary business purpose. Fiduciary fund reporting focuses on net assets and changes in net position. These are funds that are used to account for assets held for individuals, private organizations, other districts, or other funds in its fiduciary capacity as trustee.

C. Measurement Focus & Basis of Accounting

Government-wide

The *government-wide* financial statements measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the 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 for 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.

Amounts reported as program revenues include 1) charges for goods or services, 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not required to be reported as program revenues, such as certain property tax levies and unallocated state apportionment, are reported as general revenues, even if internally dedicated to various program purposes.

Governmental Funds

The *governmental fund* financial statements (General Fund, ASB Special Revenue Fund, Debt Service Fund, Capital Projects Fund, and Transportation Vehicle Fund) 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.

Measurable means knowing or being able to reasonably estimate the amount. 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 90 days of the end of the current fiscal period. Certain state, federal, and local grants paid after the end of the current period have been considered to be available and accrued in the revenue of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures (such as general obligation bond principal and interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Fiduciary Funds

The ***private-purpose trust fund*** is reported using an economic resources measurement focus and accrual basis of accounting. The accounting objectives of this measurement focus are the determination of income, changes in net position, 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.

Eliminations and Reclassifications

In the process of aggregating data for the government-wide Statement of Net Position and the Statement of Activities, the ending balances of inter-fund receivables and payables within governmental funds, except those with fiduciary funds, were eliminated. The effect of inter-fund payments for services during the year has also been eliminated from the government-wide financial statements.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

   The district's cash and cash equivalents are considered to be cash on hand (net of warrants outstanding), demand deposits, and highly liquid, short term investments readily convertible to cash within three months.

   The 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. Washington State statutes authorize the district to invest in (1) securities, certificates, notes, bonds, short-term securities, or other obligations of the United States and (2) deposits in any state bank or trust company, national banking association, stock saving bank, mutual savings bank, savings and loan association, and any branch bank engaged in banking in the state in accordance with RCW 30.04.300 if the institution has been approved by the Public Deposit Protection Commission to hold public deposits and has segregated eligible collateral having a value of not less than its maximum liability.

An exception to the restrictions imposed by the state, a gift of common stock was accepted by the district in 1980 with the stipulation that the stock was to be held or disposed of and proceeds reinvested in common stocks as the board of directors deems appropriate. This trust, known as the John C. and Marilyn J. Dimmer Trust, is administered by the trust services of Key Bank National Association. Net position and activities for this trust are included in the assets and activities reported for the Private-purpose Trust Fund in Exhibits 8 and 9 of the basic financial statements. The nature of the original donation and the trust agreement is detailed further in note 12 "Other Disclosures."

2. Property Taxes

Property tax revenues are collected as the result of special levies passed by the voters in the district. Per the Revised Code of Washington (RCW) 84.60.020, the tax assessment date is January 1 of the calendar year of the 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. Typically, slightly more than half the taxes are collected on the April 30 date.

The taxes receivable reflected on the Governmental Funds Balance Sheet (Exhibit 3) reflects total taxes receivable as of year-end, per the Pierce County Treasurer's Office.

3. Other Receivables

Other accounts receivable represent reimbursements and amounts due for services rendered by the district, net of any allowance for doubtful accounts. The district considers receivables collected within 90 days after year-end to be available and recognizes them as revenues of the current year.

4. Due From/To Other Funds

In governmental funds, activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are also reported as "due to/from other funds." They are eliminated in government-wide financial statements.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

5. Inventory and Prepaid Items

Inventories recorded as assets for the district consists of food and fuel. This includes the market value of food commodities received from the federal government. Expenditures for food and fuel are recorded when consumed rather than when purchased. All other supplies are accounted for as expenditures when purchased. Inventories are valued at cost. Fuel is tracked using a perpetual inventory system, using the first-in, first-out (FIFO) method. A periodic method is applied to food inventories, and FIFO is approximated by using last purchase price to value the periodic inventory count.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The district uses the consumption method to record prepaid items.

6. Capital Assets

Capital assets, which include property, plant, equipment, and construction in process, are reported in the government-wide financial statements. Capital assets are defined by the district as assets with an initial, individual cost of $5,000 or more and have an estimated useful life in excess of one year. If purchased or constructed, such assets are valued at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair value on the date donated. 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.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position.

Building improvements, and equipment of the district are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	25-50
Building & site improvements	20-30
Portables	20
Office furniture & equipment	6-10
Pupil transportation vehicles	5
Other vehicles	5
Computer equipment	4
Other equipment	5-12

Capital assets used in governmental fund operations are accounted for as capital outlay expenditures in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance upon acquisition. Capital assets are not reflected on the governmental funds Balance Sheet.

7. <u>Deferred Outflows and Inflows of Resources</u>

As per the Governmental Accounting Standards Board (GASB) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, certain items related to the consumption or the

acquisition of net assets that are applicable to a future period are reported as deferred outflows of resources and deferred inflows of resources.
Deferred Outflows and Inflows of Resources are reported as separate sections in the district's government-wide and governmental statements of financial position.

A *deferred outflow of resources* is considered to be a consumption of assets by the government that is applicable to a future reporting period.

The district only has one item that qualifies for reporting in the category of a deferred outflow of resources. It is the deferred charge on refunding of bonds that is reported in the district-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.

A *deferred inflow of resources* is considered to be an acquisition of assets by the government that is applicable to a future reporting period.

The district has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in the category of a deferred inflow of resources under the governmental funds financial statements. It is for property taxes earned, but not yet available, as the taxes have not yet been paid. The district-wide financial statements report this revenue under a full-accrual method of accounting when it is measurable and earned, irrespective of the cash flow, and so it is not deferred on the district-wide financial statements. However, under the modified-accrual method of accounting used in the governmental fund financial statements, it is not reported as revenue until it is also available. Accordingly, the item is reported as deferred in the governmental funds balance sheet.

The new GASB 68 reporting requirements shows both deferred inflows and outflows of resources related to pensions on the government-wide statements. Please refer to Note 5 for more details.

8. <u>Compensated Absences</u>

Compensated Absences are reported in governmental funds only if they have matured.

Sick Leave

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 reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This statute also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buy out purposes, employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

Accrued vested sick leave for employees is recorded as a long-term debt liability in government-wide financial statements. Expenditures for vested sick leave are recorded when paid. Vested sick leave is computed using the vesting method. Due to considerations of prior employment credits in the state's retirement system, the district is unable to determine which employees are actually eligible for retirement at the end of a given fiscal year. The district assumes that all employees will become eligible for retirement, and so calculates an estimated vested sick-leave liability of one hour for each four hours of accrued sick-leave for all current employees as of the end of the fiscal year. The amount of accrued sick leave reflected as a liability on the government-wide statements as of August 31, 2015 is $4,708,342.

Vacation

Vacation pay that is expected to be liquidated with expendable, available financial resources; i.e., expected compensation that has matured, is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable, available financial resources are reported as long-term debt in government-wide financial statements. The amount reflected on the government-wide statements as liability for accrued vacation leave as of August 31, 2015 is $1,788,625.

The sick leave and vacation accruals reflect all salary related benefit liabilities. No unrecorded liability exists for other employee benefits.

9. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year in which they are incurred.

In the fund financial statements, the district recognizes bond premiums and discounts, as well as bond issuance costs, during the current period when issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

10. Fund Equity – Governmental Funds

The District classifies ending fund balance for its governmental funds into five categories.

Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the District that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

Assigned Fund Balance. In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

Unassigned Fund Balance. In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the District that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund.

In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned fund balance means that the legal restrictions and formal commitments of the District exceed its currently available resources.

Typically, it is the district's practice to use funds in the following order: Nonspendable, Restricted, Committed, and Assigned, before using the unassigned fund balance, as long as the intended purpose of the funds are met.

11. Net Position

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

Summary of Significant Accounting Policies Changes for 2014–2015

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, 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.

NOTE 2 -- Reconciliation of District-Wide and Fund Financial Statements

The following information explains differences between the governmental statements and the district-wide statements.

A. Governmental Funds Balance Sheet and District-wide Statement of Financial Net Position

As mentioned earlier, government-wide financial statements are prepared using the economic resources measurement focus and full accrual method of accounting, and fund financial statements are prepared using the flow of resources measurement focus and modified accrual method of accounting. The different measurement focuses and methods of accounting result in certain differences between government-wide and fund financial statements.

The governmental fund balance sheet includes a reconciliation of differences between total governmental fund balances and net position of resources for governmental activities reported in the government-wide statement of net position. This schedule presents individual details for the major elements of the reconciliation including certain entity-wide assets and liabilities not included in governmental fund balance sheets.

Further detail on each of these reconciling items follows below.

- Long-Term Liabilities – Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. All liabilities – both current and long-term – are reported in the statement of net position. The district reports $236,528,831 of long-term liabilities, including unamortized bond premium/discount and net pension liability, applicable to the district's governmental activities in the statement of net position. These liabilities consist of:

Unmatured bonds payable	$141,080,000
Unamortized bond premium	10,870,672
Compensated absences	6,496,967
OPEB Obligation	10,791,673
Net Pension Liability	67,289,519
Total effect of long-term debt	$ 236,528,831

- Capital Assets – Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets is reported as expenditures in governmental funds. The district reports $468,782,543 of capital assets with accumulated depreciation of $79,768,056 for a net value of $389,014,487 that is applicable to the district's governmental activities in the statement of net position.

- Full accrual of Property Taxes – It is anticipated that the remaining property taxes receivable for the district will be collected during the year, but are not considered available soon enough to pay for the current period's expenditures. Therefore, all uncollected taxes are deferred in the governmental fund financial statements. However, since these property taxes have been levied during the current fiscal year, the remaining receivables are accrued in the government-wide financial statements. The difference between the fund statements and the statement of net position for these taxes consists of $13,207,913.

- Deferred Outflows of Resources – District resources were placed in escrow to purchase investments for the future refunding of bonds initially purchased in 2006. These resources related to a future period and as such are deferred in the government-wide financial statements. However, in the governmental funds financial statements, this use of resources is immediately reported as such.

These deferred costs are being amortized over the remaining life of the refunded bonds, which is shorter than the life of the new bonds. The pension plan experience, assumption changes and plan contribution is also a deferred outflow of resources. The balance of these deferred charges and the difference between the governmental-wide statement of net position and governmental fund balance sheet is $5,805,163.

- Due To/Due From – Additionally, internal receivables and payables between governmental funds in the amount of $8,111,998 were eliminated in government-wide statements to avoid a "doubling-up" effect. This does not affect the difference between fund balances as reported on the governmental funds balance sheet and net position reported on the district-wide statement of net position.

B. District Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and District-wide Statement of Activities

The district has included a reconciliation that summarizes differences between net changes in the total of the fund balances per the governmental fund statements and changes in net position of governmental activities as reported in the government-wide statement of activities (See Exhibit 5). Additional explanations of certain differences are presented below.

- Capital Outlay and Depreciation of Capital Assets - Governmental funds report capital outlays as expenditures, however in the statement of activities the cost of capital assets is allocated over the estimated useful lives and reported as depreciation expense. This results in a $24,727,954 difference for the current period. Details of this difference are as follows:

Depreciation recorded in Government-Wide Financial Statements	$ (10,259,288)
Capital asset additions recorded in Government-Wide Financial Statements	34,987,242
Total effect of capital asset transactions	$ 24,727,954

- Long-term debt transactions – Repayment of the principal of long-term debt reduces the fund balance in governmental funds. However, it reduces the liabilities in the statement of net position. Additionally, the government-wide statements reflect changes in the long-term liabilities accrued for compensated absences and other post-employment benefits. This results in a $(73,264,585) difference for the current period. Details of this difference are as follows:

Debt service principal paid (expenditures)	$ 2,759,000
Bond premium additions, changes and amortization	924,618
Net change in value of accrued vacation and sick leave	(754,903)
Net increase in OPEB (GASB 45) liability	(1,377,238)
Deferred Outflow amortization	(1,871,395)
Deferred Outflows Pension	3,933,768
Deferred Inflows Pension	(9,588,917)
Net Pension Liability	(67,289,518)
Total Long-term debt	$ (73,264,585)

- Property Taxes – Under the full accrual method of accounting, all property taxes levied during the current fiscal year are recognized as revenue in the government-wide statement of activities. However, any taxes not yet collected re deferred in the governmental fund financial statement. A reversal of last year's tax accrual of $13,416,306 and the addition of the current year tax accrual of $13,207,913 resulted in a net difference of $(208,393) between the governmental-wide statement of activities and the fund statement balance sheet.

- Other sources and uses – Transfers between governmental funds in the amount of $368,536 were eliminated in government-wide statements to avoid a "doubling-up" effect. This does not affect the difference between the changes in fund balance as reported on the governmental funds statement and changes in net position reported on the government-wide statement of net position.

NOTE 3 -- Stewardship, Compliance, and Accountability

A. Budgetary Information – General Budgetary Policies and Information

Chapter 28A.505 RCW and Chapter 392-123 of the *Washington Administrative Code* (WAC) mandate school district budget policies and procedures. A budget is required for all governmental funds. The district board adopts an annual budget after public hearing which is submitted to the state's Office of the Superintendent of Public Instruction.

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.

Management may transfer appropriations within the approved budget for each fund without prior approval of the board. For this reason, differences of budgeted revenues and expenditures within a fund may be the result of management transfers within the fund. Examples of this, for the current year, include:

- Expenditure budgets adjusted from other instructional programs to compensatory and special education programs.

Some grants are based on reimbursable expenditures. The budget is typically set at the maximum allowable, but if the district spends less than allowable, there will be a difference in the budget for both revenues and expenditures. Examples of this, for the current year, include:

- Compensatory programs – $991,461 from the federal Title I (disadvantaged) program had been authorized and budgeted, but not spent.

In addition, budget differences within a fund can be due to reserve budget that is set aside to accommodate unexpected revenues or expenditures. Examples of budget set aside and not used during the current year include:

- $9.3 million of budget for expenditures related to regular instruction.
- $1.4 million of budget related to support services.
- $635,000 of budget for expenditures related to special and pilot programs from compensatory education.
- $457,000 of budget for motor poor vehicle replacement.
- ASB funds of approximately $1.7 million.

The total expenditures for each governmental fund cannot exceed the formal adopted appropriation for each fund unless the board amends the budget by submitting a supplemental appropriation to the state.

B. <u>Budgetary Basis of Accounting</u>

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

C. <u>Encumbrances</u>

Encumbrance accounting is used in the governmental funds. During the fiscal year, encumbrances such as purchase orders, contracts, and other commitments for the expenditure of moneys are recorded during the fiscal year in order to set aside a portion of the applicable appropriation and maintain appropriate budgetary and cash control. Per the laws of the State of Washington, a new budget must be established each year and consequently, encumbrances at the end of the year lapse. However, the board, as part of its debt and fiscal management policies, commits a portion of its ending fund balance in the general fund each year for obligations from the previous year that may need to be appropriated during the next year.

Actual funds appropriated in fiscal year 2016 to address obligations started or continued from the year ending August 31, 2015 include:

- General Fund – $1.4 million for certain services and supplies for instruction, maintenance and instructional technology.
- Capital Projects Fund – $17,237,034 primarily to complete the projects of building new Beachwood and Evergreen elementary schools, as well as an addition onto Lakeview Hope Academy elementary school.

NOTE 4 -- Detailed Notes on All Funds

A. Deposits and Investments

Temporary investments, which will be liquidated within 90 days are considered to be cash equivalents and stated at carrying value. Investments, other than the Dimmer Trust assets that are managed by a trustee, are stated at carrying value, since the interest is not realized. This includes the investment pool, which fair value of the district's position would be the same value of the pool shares, once the investment interest is realized. Investments from Dimmer Trust assets are reported at fair value, inclusive of all unrealized gains or reductions in fair value. Investments at year-end are summarized below:

	Carrying Amount	Fair Value
Temporary investments of governmental funds held by the Local Government Investment Pool and included in cash equivalents	$83,800,000	$83,800,333
Temporary investments of fiduciary funds held by the state Local Government Investment Pool and included in cash equivalents	$290,000	$290,001
Long Term investments of governmental funds held as certificate of deposits	$5,000,000	$5,024,889
Long Term investments of fiduciary funds held as certificate of deposits	$120,000	$120,081
Fiduciary Fund investments managed by trustee	$4,280,319	$5,454,988
Total	$93,490,319	$94,690,292

The Washington State Local Government Investment Pool (LGIP) was created by Chapter 294, Laws of 1986 and began operations in July 1986. Operations are pursuant to RCW 43.250. The LGIP is a short-term investment pool of the state of Washington, available to Washington State counties, cities, towns, municipal corporations, special-purpose taxing districts, community and technical colleges, four-year public institutions of higher education, the State Board for Community and Technical Colleges, and the State Finance Committee. Participation in the LGIP is voluntary.

The LGIP is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

The LGIP's investment objectives are, in priority order: 1) safety of principal, 2) maintaining adequate liquidity to meet cash flows, and 3) providing a competitive interest rate relative to other comparable investment alternatives. The LGIP offers 100% liquidity to its participants.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The district manages its exposure to declines in fair value or interest rate risk by limiting the type of investments it makes from its general operating capital.

Most of the district's available operating funds were invested at year-end by the Pierce County Treasurer with the State of Washington Treasurer's Local Government Investment Pool (LGIP). The State of Washington LGIP mitigates interest rate risk by managing the portfolio in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds. Much of the Rule 2a-7 investment guidelines are directed towards limiting interest rate risk, in order to maintain a stable net asset value. For example, the LGIP's policy places a 90 day maximum on the weighted average maturity. Further, the maximum maturity of any security will not exceed 397 days, except for securities utilized in repurchase agreements and U.S. Agency floating or variable rate notes may have a maximum maturity of 762 days, provided that they have reset dates within one year and which on any reset date can reasonably be expected to have a fair value that approximates its amortized cost.

The private-purpose trust fund includes assets of the Dimmer Scholarship Trust, which are held primarily in stocks of private corporations. Interest rate risk and other risks associated with such investments are diffused by disbursing the assets among many different corporations in the portfolio.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

State law limits investments that can be held by government agencies. State law is designed to minimize the risk to a municipal corporation. The investments authorized under state law, with the exception of private purpose trust funds, are limited to:

- Savings or time accounts in qualified public depositaries
- Certificates, notes, or bonds of the U.S.
- Other obligations of the U.S. or its agencies, or any corporation owned by the U.S. government

- Bankers' acceptances purchased on the secondary market
- Federal home loan bank notes and bonds
- Federal land bank bonds and federal national mortgage association notes, debentures, and guaranteed certificates of participation
- Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as
- Bonds of the state or any local government in the state that have one of the three highest credit ratings of a nationally recognized rating agency
- General obligation bonds of another state, or local government in another state, that has one of the three highest credit ratings of a nationally recognized rating agency
- Any registered warrants of any government located in the same county as the government making the investment
- Any investment authorized by law for the treasurer of the state of Washington or any local government in the state, other than metropolitan municipal corporations

The 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. Most of the district's operating funds are invested by the Pierce County Treasurer in the Local Government Investment Pool (LGIP) managed by the State of Washington Treasurer. The policy of the LGIP is to invest funds according to the types of instruments allowable by law as noted above. In addition, the LGIP investment policy indicates that banker's acceptances and commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. The LGIP, as a whole, is not rated with any external organization that we are aware of.

The private-purpose trust fund includes assets of the Dimmer Scholarship Trust, which are not subject to the same restrictions as the general district government. These assets are managed by Key Bank Trust and Investment Management services of Key Bank National Association as agent for the district. Key Bank follows certain procedures which are designed to minimize the credit risk associated with these types of investments:

- No individual holding can be more than 5% of the total of all stock holdings.
- Industry sector weightings cannot be less than 50% of the weights of the Standard and Poors 500, nor can they be more than double the weights of the Standard and Poors 500.
- The stocks purchased must be included on an approved company list that is analyzed and reviewed by various parties within Key Bank.
- Management of the trust is within the scope of the Uniform Prudent Investor Act, which provides for certain standards that must be followed with respect to investing and risk management.

Custodial Credit Risk – Deposits

For deposits, this is the risk that in the event of a bank failure, the government's deposits might not be returned. The district does not have a deposit policy which addresses this concern. Up to $250,000 of the funds deposited in commercial institutions were insured by the Federal Deposit Insurance Commission (FDIC) for each bank used by the district. The remaining funds would not be insured by the FDIC. As of August 31, 2015, district deposits in commercial institutions of $5,032,742 were uninsured by the FDIC. However, the entire value of these uninsured deposits with public banks would be secured by the state Public Deposit Protection Commission as indicated below.

The district also minimizes custodial credit risk by restrictions set forth in state law. Statutes restrict the deposit of funds to financial institutions that are physically located in Washington unless otherwise expressly permitted and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

<u>Custodial Credit Risk -- Investments</u>
For investments, this is the risk that, in the event of a failure of the counterparty, the district would not be able to recover the value of its investments that are in the possession of the outside party.

The district's available operating funds were primarily invested at year-end with the State of Washington Local Government Investment Pool (LGIP) that is managed by the Office of the State Treasurer (OST). It is the policy of the LGIP to mitigate custodial credit risk with a policy of requiring that securities purchased by the office are to be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the OST's exposure to risk and insure the safety of the investment. All securities utilized in repurchase agreements were rated AAA by Moody's and AA+ by Standard & Poor's. The fair value of securities utilized in repurchase agreements must be at least 102% of the value of the repurchase agreement.

Types of instruments in the investments for the LGIP primarily include United States treasury securities, other federal agency securities, and repurchase agreements.

It is noted that any interest bearing bank deposits, negotiable order of withdrawal accounts, or certificate of deposits purchased by the LGIP would be insured by federal depository insurance (FDIC or FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the state Public Deposit Protection Commission. The Public Deposit Commission Act (RCW 39.58) protects government depositors by requiring all banks who accept deposits from governmental agencies in the state of Washington to collectively assure that no loss of funds will be suffered by any public treasurer or custodian of public funds due to a bank failure or other similar event. The act also protects interest accrued on Certificates of Deposits.

The district does not have a policy in place with respect to custodial credit risk.

The private-purpose trust fund includes assets of the Dimmer Scholarship Trust, which are managed by the trust services of Key Bank National Association as agent for the district.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The district did not have investments with a single issuer. The district's available operating funds were invested at year-end with the State of Washington Treasurer's Local Government Investment Pool (LGIP), which is not considered a single issuer, or with certificate of deposits.

Investments in the Dimmer Scholarship Trust are uninsured and unregistered investments with securities held by the counterparty or its trust department or agent, but not in the district's name. These assets are primarily invested in the stock of private corporations. The value of investments managed by trustee is expressed at their current fair value as stated on the August 31, 2015 trustee's report. Unrealized gains or losses due to changes in fair value of investments have been recognized in the fiduciary funds statements.

The value of private-purpose trust fund assets managed by Trustee at August 31, 2015, is:

	Book Value	Fair Value
Dimmer Trust cash equivalents (money market)	$ 217,431	$ 217,431
Dimmer Trust investments in common stocks	4,062,888	5,247,556
Total Cash/Investments managed by Trustee	$4,280,319	$5,464,987

Since the assets of the Dimmer Scholarship Trust are held in trust, the assets are not commingled with the business assets of Key Bank National Association, and for this reason, are not subject to a business failure of the Key Bank National Association.

B. <u>Receivables</u>

Receivables as of year-end for the district's governmental and fiduciary funds, including any applicable allowances for uncollectible accounts, are as follows:

Type	General Fund	Capital Projects	Debt Service	ASB
Taxes	$10,267,705	-	$2,940,208	
Intergovernmental	$ 1,961,589	$6,915,884		
Accounts Receivable	$ 48,400			$445
Total Receivables	$ 12,277,694	$6,915,884	$2,940,208	$445

C. Deferred Outflows and Inflows of Resources

The district has two items that qualify for reporting in the category of deferred outflows of resources. The deferred charge on refunding of bonds from 2006 that is reported in the district-wide statement of net position. This amount and the balance of this deferred charge is calculated as follows:

Reacquisition price of 2006 bonds	$59,942,211
Less: Carrying value of 2006 debt refunded	(51,350,000)
Less: Unamortized balance of premium for 2006 debt refunded	(1,106,633)
Equals: deferred charge to be amortized	$7,485,578
Less: prior amortization of deferred charge	(3,742,788)
Less: Current year amortization of deferred charge	(1,871,395)
Current balance shown as deferred outflow on district-wide financial statements	$ 1,871,395

The deferred charge is being amortized over the remaining life of the refunded bonds, which is 4 years.

The pension plan experience, assumption changes and plan contribution is also a deferred outflow of resources this amounts to $3,933,768.

Deferred Inflows of Resources for pension plan investment earnings and changes in proportions of $9,588,917 ($9,538,142 for net difference in Pension Plan Investment Earnings plus $50,775 in Pension Plan Changes in Proportions). This is a new category for 2014-15 GASB 68 compliance.

The district has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in the category of a deferred inflow of resources under the governmental funds financial statements. It is property taxes earned, but not yet available, as the taxes have not yet been paid. The district-wide financial statements report this revenue under a full-accrual method of accounting when it is measurable and earned, irrespective of the cash flow, and so it is not deferred on the district-wide financial statements. However, under the modified-accrual method of accounting used in the governmental fund financial statements, it is not reported as revenue until it is also available. Accordingly, $10,267,705 is reported as a deferred inflow for the taxes in the general fund and $2,940,208 is reported as a deferred inflow for the taxes in the debt service fund.

D. Capital Assets

Purchases of items over $5,000 are capitalized and depreciated in the district-wide financial statements. Capital Assets transactions during the fiscal year ended August 31, 2015 are as follows.

	Balance 09/01/14	Additions	Deletions	Balance 08/31/15
Land (not depreciated)	$ 4,411,364	$0	$ ---- 0 ----	$ 4,411,364
Construction in progress (not depreciated)	137,686,730	3,164,460	(132,810,006)	8,041,184
Buildings & improvements	263,600,551	164,194,118	(10,401)	427,784,268
Pupil transportation vehicles	15,629,171	0	(377,754))	15,251,417
Other equipment and machinery	13,913,158	438,671	(1,057,519)	13,294,310
Total Capital Assets	$435,240,974	$167,797,249	$(134,255,680)	$468,782,543
Less accumulated depreciation:				
Buildings	($49,365,683)	($7,783,707)		($57,149,390)
Pupil transportation vehicles	(10,882,143)	(1,332,100)	377,754	(11,836,489)
Other equipment and machinery	(10,687,008)	(1,152,688)	1,057,519	(10,782,177)
Total Accumulated depreciation	($70,934,834)	($10,268,495)	$ 1,435,273	($79,768,056)
Net Capital Assets for Governmental Activities	**$364,306,140**			**$389,014,487**

Additions to accumulated depreciation include $9,207 of adjustments and new depreciation expense of $10,259,288.

The new depreciation expense was charged to functions (programs) as follows:

Regular instruction	$ 8,338,109
Special instruction	21,279
Vocational instruction	23,678
Compensatory education	653
Other instruction programs	31,183
Community services	5,878
Support services – district wide basic support	573,237
Support services – food service	31,955
Support services – transportation	1,233,216
Extracurricular activities (ASB)	100
Total current year depreciation	$ 10,259,288

Construction in progress is composed of:

Project	Expended as of 08/31/15	Percentage Complete	Remaining Balance of Project
Lakeview Elementary Addition	$1,541,523	11%	$11,866,589
JBLM-Evergreen School	$2,591,773	5%	$45,193,812
Energy Grant FY 2013-15	$2,369,719	100%	$0**
District-Wide IPTV	$214,871	100%	$0**
Early Childhood Learning	$763,591	36%	1,328,605
Custer Bus Loop	$559,708	47%	$640,292
TOTAL	$8,041,185		$59,029,298

Note: JBLM = Joint Base Lewis McChord
*The complete scope of these projects has not yet been determined.
** Project not formally accepted as complete as of 08/31/15.

It is expected that the school projects will be completed with a combination of remaining federal funding, state construction matching funds, remaining bond money, and some local money.

The district's capital assets are insured for full replacement value, less $1,000 deductible. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

Impairments

The school district operates six elementary schools located on military property. These schools are Beachwood Elementary, Carter Lake Elementary, Evergreen Elementary, Meriwether Elementary, Rainier Elementary, and Hillside Elementary. With exception of Evergreen Elementary, the district owns the buildings for these schools, but the federal government owns the land as part of the Joint Base Lewis-McChord. These buildings are included in the district's capital assets reported on the district-wide statement of net position, but not the land the buildings sit on.

Other than as noted, the district has no impaired assets at this time.

E. Interfund receivables, payables, and transfers

The composition of inter-fund balances as of August 31, 2015 follows below.

Due to and from other funds

	Payable Fund			
Receivable Fund	**General**	**Capital Projects**	**ASB**	**Totals**
General Fund		$101,171	$1,808	$102,979
Capital Projects	$4,002,019			$4,002,019
Debt Service	$4,000,000			$4,000,000
ASB	$ 7,000			$ 7,000
Totals	$8,009,019	$101,171	$1,808	$8,111,998

Interfund balances result from the time lag between the dates that interfund goods and services are provided and reimbursable expenditures occur, or when transactions are recorded in the accounting system and payments are made between funds.

These balances are expected to be paid within one year.

Interfund transfers
Total transfers in and out between funds were $368,536 and comprised as follows:

	Transfer In:			
Transfer out:	**Capital Projects**	**Debt Service**	**Transportation Vehicle**	**Totals**
General Fund	--0--	--0--	$101,500	$101,500
Capital Projects	--0--	$267,036	--0--	$267,036
Totals	**$--0--**	**$267,036**	**$101,500**	**$368,536**

Transfers are routinely used to move revenues from the fund that statute or budget requires to be used for collecting them to the fund that statute or budget requires to expend them. In the year ended August 31, 2015, the following transfers were significant or of a non-routine nature:

- $101,500 was transferred from the general fund to the transportation vehicle fund for anticipated purchases of new buses in the future.
- $267,036 was transferred from the capital projects fund to the debt service fund to pay principal and interest on QZA bonds used for capital projects.

The district did not advance money between funds.

F. Fund Balance – Governmental Funds Balance Sheet

In accordance with the extent to which the district is bound to observe constraints imposed upon the use of its resources, the district is reporting the following fund balances in its governmental funds.

Nonspendable Fund Balance
The district is including its inventories of $105,618 for gasoline, diesel, and government food commodities in this category for the general fund. Also, the district prepaid certain vendors a total of $51,080 from the general fund and $12,130 from the ASB fund for supplies and other needs to be used in the coming school year that is included here.

Restricted Fund Balance
The district is restricting revenues from grantors deposited to the general fund of $673,363 that is intended to be used in the coming school year.

The district accounts for funds earned by students and set aside for the cultural, athletic, recreational, and social activities of the associated student bodies (ASB) of the district in a special revenue fund since there are external expectations with respect to the use of these funds. Legally, the funds belong to the district, but since the funds are provided by the public with the expectation that they be used by the ASB in accordance with the purposes of the established ASB organizations and since the funds are intended to be used in accordance with state law (Revised Code of Washington 28A.325), the funds are set aside and restricted to the special revenue ASB fund. At the conclusion of the current fiscal year, the district had set aside and restricted $601,062 in the ASB fund for the reasons noted.

Debt service funds for the repayment of bonds and other indebtedness of the district are restricted due to the expectations of creditors. Total restricted funds for this year in the debt service fund is $15,225,800 for the purpose of repaying bonds.

In addition, certain funds in the capital projects fund are restricted:

1. From state money for new buildings - $24,354,162.

2. From federal money that is intended for updating the facilities of the district - $19,563,765.

Funds provided by the state for the replacement of buses and other student transportation vehicles are required by law, per RCW 28A.150.280 and RCW 28A.160.130, to be set aside in the transportation fund and used solely for the purchase or major renovation of such equipment. For this reason, the fund balance of the transportation fund is restricted for the future purchase of buses -$5,614,462.

Committed Fund Balance
For fiscal stabilization, the board of directors of the district has a policy in place that directs the superintendent or designee each year to maintain in reserve a minimum of 5% of annual operating revenues designed to promote the orderly development and implementation of the board's goals and objectives for the coming year. Rescinding this policy would require a formal hearing and resolution by the board. Among these goals and objectives are strategic operational and capital programs, appropriate cash management principals, mitigating uninsured risk, debt structuring, and other key financial indicators. The district has committed funds of $6,063,302 from the general fund under this board policy. In addition, as part of this debt and fiscal management policy, the district has committed funds of $1,100,000 for the carryover of encumbrances from the general fund into the next year.

Assigned Fund Balance
In accordance with good management principals, certain funds in the general fund of $7,230,516 have been assigned to meet the needs of the district in the near future:

- Funds levied for specific purposes of the district as promised to our voting constituency of $4,773,516.
- Replacement of motor pool vehicles of $457,000.
- $2,000,000 set aside for anticipated reductions in funding in future years.

In the capital projects fund, the balances pertaining to the statutory intent of the fund have been assigned; namely, future capital projects - $17,237,034.

Unassigned Fund Balance
The remaining funds of $971,148 in the general fund are reported as unassigned.

G. Net Position – District-wide Statement of Net Financial Position

In district-wide financial statements, the "Net Investment in Capital Assets" component consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

This balance is calculated as follows:

Capital assets	$ 468,782,543
Less: Accumulated depreciation	(79,768,056)
Less: Outstanding principal of capital-related debt	(141,080,000)
Add: Unamortized Charges on Refunding Bonds	1,871,395
Net position, as invested in capital assets, net of related debt	$249,805,882

Net position restricted for capital projects consists of:

- Assets from federal sources intended for capital projects of $19,563,765.
- Assets from state sources intended for capital projects of $24,354,162.
- Less bond premiums not yet amortized of $10,870,672.

Net position restricted for debt services consists of:

- Funds previously collected from taxes and other sources for payment of debt obligations of $15,225,800.
- Accrued property taxes that must be used for payment of debt obligations of $2,940,208.

Net position restricted for other purposes, as found in the district-wide statement of net position, consists of:

- $830,061 in the general fund from inventory and prepaid expenses, and revenue from grants restricted by external sources for the specific purposes of the grant.
- ASB funds of $613,192 that are to be used for student activities as per law and the intent of the fund.
- Funds restricted per state law for the purchase of new buses of $5,614,462.

The “Unrestricted Net Position” are assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, grantors, or other legal requirements.

NOTE 5: 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.

For the year ended August 31, 2015, the district implemented Governmental Accounting Standards Board Pronouncement 68 (GASB 68). GASB 68 requires, among other provisions, that the district recognize its proportionate share of the DRS plans underfunded status. Within these financial statements, the district recognizes a charge against the August 31, 2014 Unrestricted Fund Balance of $51,467,081. This amount was increased to $67,289,518 at August 31, 2015.

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 $67,289,518 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	961,367	1,307,477	2,822,320	3,441,776
Proportionate Share of the Net Pension Liability	10,941,836	5,462,085	39,957,257	10,928,341

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	0.209176% `	1.344841%	1.261221%	1.295131%
Prior year proportionate share of the Net Pension Liability	0.198523%	1.377091%	1.216656%	1.260738%
Net difference percentage	0.010653%	-0.032250%	0.044565%	0.034393%

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.

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	$	$
Net difference between projected and actual earnings on pension plan investments	$	$ (598,638)
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$ 160,974	$
TOTAL	$ 160,974	$ (598,638)

SERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$ 666,194	$
Net difference between projected and actual earnings on pension plan investments	$	$ (1,742,147)
Changes in assumptions or other inputs	$ 6,052	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$ (50,775)
Contributions subsequent to the measurement date	$ 219,429	$
TOTAL	$ 891,675	$ (1,792,922)

TRS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$	$
Net difference between projected and actual earnings on pension plan investments	$	$ (2,957,486)
Changes in assumptions or other inputs	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$ 468,111	$
TOTAL	$ 468,111	$ (2,957,486)

TRS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$ 1,729,893	$
Net difference between projected and actual earnings on pension plan investments	$	$ (4,239,870)
Changes in assumptions or other inputs	$ 9,493	$
Changes in proportion and differences between contributions and proportionate share of contributions	$ 90,888	$
Contributions subsequent to the measurement date	$ 582,735	$
TOTAL	$ 2,413,009	$ (4,239,870)

$1,431,248 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	(232,011)	(474,319)	(1,147,067)	(1,253,201)
2017	(232,011)	(474,319)	(1,147,067)	(1,253,201)
2018	(232,011)	(474,319)	(1,147,055)	(1,253,214)
2019	97,396	302,280	483,703	1,146,663
2020				203,358
Thereafter				

Pension Expense

The District recognizes a pension expense for its proportionate share of the collective pension expense. This is determined by using the district's proportion share of the collective net pension liability. For the year ending August 31, 2015, the district recognized a total pension expense as follows:

	Pension Expense
PERS 1	$ 1,530,481
SERS 2/3	$ 3,694,670
TRS 1	$ 7,003,281
TRS 2/3	$ 9,249,152
TOTAL	$ 21,477,584

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

The table below presents the Clover Park 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	0.209176%	0.209176%	0.209176%
Proportionate Share of Collective NPL	$13,321,714	$10,941,836	$8,895,359

SERS2/3 NPL	$1,282,039,000	$406,151,000	($273,474,000)
Allocation Percentage	1.344841%	1.344841%	1.344841%
Proportionate Share of Collective NPL	$17,241,384	$5,462,085	$(3,677,790)
TRS1 NPL	$3,982,571,000	$3,168,142,000	$2,467,801,000
Allocation Percentage	1.261221%	1.261221%	1.261221%
Proportionate Share of Collective NPL	$50,229,003	$39,957,257	$31,124,413
TRS2/3 NPL	$3,570,229,000	$843,802,000	($1,183,066,000)
Allocation Percentage	1.295131%	1.295131%	1.295131%
Proportionate Share of Collective NPL	$46,239,140	$10,928,341	$(15,322,254)

E. <u>Other Information</u>

The Washington Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan noted above. Historical trend information, showing progress in accumulating sufficient assets to pay benefits when due, is presented in the comprehensive annual financial report.

The DRS CAFR may be obtained by writing or accessing the internet at:

State of Washington
Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, Washington 98504-8380
http://www.drs.wa.gov/

<u>NOTE 6 – Other Post Employment Benefits</u>

The following disclosures are made pursuant to GASB Statement No. 45, <u>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions</u>. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expenses and related liabilities (or assets) and note disclosures in the financial reports of state and local governmental employers.

A. <u>General Information</u>

In 1993, under the Substitute House Bill 1784, the state enacted legislation which provided access to health insurance for retired school district employees of the state through the state health care authority (HCA) and established a state employees' benefits board (SEBB) under the state HCA to administer the program. Authority was provided within the bill for SEBB to establish the scope and terms of coverage of health care plans for current state employees and retirees. SEBB later became the Public Employees Benefits Board (PEBB).

Under the provisions of the bill, each retiree is required to pay the full cost of the health care premium. Such cost is to be actuarially reduced by the value of Medicare for eligible retirees. The legislation also requires the district to pay a certain subsidy for the current, active employees of the district that is to be used to reduce the cost of any health care premiums paid by retired employees. The amount of this subsidy is determined by legislation. The provision in the original bill was that the subsidy amount was to be equal to four and seven-tenths of a percent of the insurance benefit allocation rate in the appropriations act for certificated and classified staff for each month of the school year. The district paid subsidy rate for the year ending August 31, 2015 was $64.40 per active, full time employee.

The 1993 Substitute House Bill 1784 has been codified, at least in part, under Section 41.05.065 of the Revised Code of Washington (RCW).

Inquiry with the Governmental Accounting Standards Board (GASB) indicated that the district's participation in the retiree health care program administered by PEBB constitutes another post-employment benefit for which the district is liable. GASB considered the state program of health care benefits administered by PEBB to be an agent multiple-employer, other postemployment benefit plan.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs. The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

B. 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 plans 1, 2 or 3 of the Teachers' Retirement System (TRS) or School Employees' Retirement System (SERS), or the Public Employees' Retirement System (PERS) as indicated below.

Plan

- Age 60 with 5 years of service

1:

- Age 55 with 25 years of service
- Any age when years of service equal or exceed 30 years of service

Plan 2:

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

Plan 3:

- Age 65 with 5 years of service
- Age 55 with 10 years of service

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement.

Survivors of previously covered members are eligible for medical benefits.

<u>Medical and Life Benefits</u>
Upon retirement, members are permitted to receive medical benefits. Retirees paid the following monthly rates for medical coverage in 2015:

Payments for Coverage for Members not Enrolled in Medicare

Descriptions	Employee	Employee & Spouse	Employee & Children	Full Family
Group Health Classic	$ 600.80	$ 1,195.35	$ 1,046.71	$ 1,641.26
Group Health Value	569.38	1,132.51	991.73	1,554.86
Group Health CDHP*	530.10	1,044.74	930.66	1,386.97
Kaiser Permanente Classic	619.65	1,233.05	1,079.70	1,693.10
Kaiser Permanente CDHP*	540.35	1,064.74	948.23	1,414.29
Uniform Medical Plan Classic	578.51	1,150.77	1,007.71	1,579.97
Uniform Medical CDHP*	535.82	1,056.18	940.67	1,402.70

Payments for Coverage for Member or Spouse Enrolled in Medicare**

Descriptions	Employee	Employee & Spouse	Employee & Children	Full Family
Group Health	$ 148.14	N/A	N/A	N/A
Group Health Classic	N/A	742.69	594.05	1,188.60
Group Health Value	N/A	711.27	570.49	1,133.62
Kaiser Permanente Classic	153.02	766.42	613.07	1,226.47
Uniform Medical Plan Classic	234.69	806.95	663.89	1,236.15

Notes regarding rates:

* CDHP = Consumer-directed health plan and lets the subscriber use a health savings account (HSA) to help pay for out-of-pocket medical expenses.

** Other rates apply if more than one member is enrolled in Medicare.

After age 65 retired members with Medicare received a subsidy of 50% of their monthly medical premiums up to $150. For retirees with covered spouses, the explicit subsidy was the lesser of $300 or 50% of the premium. This subsidy is included in the rates noted above.

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 postemployment benefits other than pension (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 ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of August 31, 2015, the last date of actuarial valuation. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB.

	August 31, 2015
Determination of Annual Required Contribution*:	
Normal Cost at Year End	$ 1,109,357
Amortization of Unfunded Actuarial Accrued Liability	1,065,062
Interest on Normal Cost and Amortization Payment	97,849
Annual Required Contribution (ARC)	2,272,268
Determination of Net OPEB Obligation:	
Annual required Contribution	2,272,268
Interest on Prior Year Net OPEB Obligation	423,650
Adjustment to ARC	(327,938)
Annual OPEB Cost	2,367,980
Less Contributions Made**	(990,742)
Increase in Net OPEB Obligation	1,377,238
Prior year Net OPEB Obligation	9,414,435
Net OPEB Obligation - End of Year	$ 10,791,673

** Last actuarial valuation conducted in fiscal year 2015.*
*** These are payments to the Washington Health Care Authority to subsidize retiree health benefits.*

The District's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligations for the current year (2015) and past two years were as follows:

Fiscal Year	Annual OPEB Cost	Employer's Annual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
8/31/2013	$1,965,048	$1,136,966	58%	$8,594,786
8/31/2014	$1,973,467	$1,153,819	58%	$9,414,435
8/31/2015	$2,367,980	$990,742	42%	$10,791,673

General operating funds are used towards contributions of other post-employment benefit (OPEB) costs.

Funded Status and Funding Progress

As of August 31, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was $31.9 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $31.9 million. The funded ratio is, therefore, 0%. Payroll for active employees covered by this valuation is considered to be $64,348,724 for the fiscal year ending August 31, 2015 and the UAAL would then be 49.7% of the covered payroll.

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.

In the August 31, 2015 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions used included a 4.50% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits (investment return). The economic inflation rate assumption is 3%. Expected salary increases are 4.5%.

The UAAL is being amortized as a level percentage of pay on an open basis over a period of 30 years. The remaining amortization period at August 31, 2015 was 30 years.

The following health care cost trend rates (benefit increase assumptions) were used in the actuarial calculations and used to project annual increases:

Year	Medical Trend
2013	5.0%
2014	5.0%
2015+	5.0%

The district's schedule of funding progress for postemployment benefits, presented as Exhibit 10 following these notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

C. Other Information

Washington State reports its obligations and expenses for other postemployment benefits as part of its Comprehensive Annual Financial Report (CAFR). This program at our district is administered by the State of Washington Public Employees Benefits Board (PEBB) and details are disclosed as part of this state-wide report. A copy of the State of Washington's CAFR can be obtained from the Office of Financial Management at the following address and website:

State Of Washington
Office of Financial Management
P.O. Box 43113
Olympia, Washington 98504-3113
(360) 902-0555
http://www.ofm.wa.gov/

Questions regarding health care benefits provided to retired employees of the district can be directed to:

Washington State Health Care Authority
Public Employees Benefits Board
P.O. Box 42684
Olympia, Washington 98505
360-725-0440
http://www.hca.wa.gov/pebb/

There are no other post-employment benefits (OPEB) that the district is required, either statutorily or by contract, to pay.

NOTE 7 -- Deferred Compensation Plan

District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the district, a state retirement system, or another governmental entity. The district retains a right of legal access to the plan assets (valued at market) until paid or made available to the employees, subject only to the claims of the district's general creditor.

NOTE 8 -- Risk Management

The district is exposed to various risks of loss related to: torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district's insurance coverage is designed to mitigate these risks. The insurance coverage has not changed from last year and there have not been any significant settlements that exceed insurance coverage for the past three years.

The district is one of over 70 school districts, educational service districts, and inter-local cooperative members of the Washington Schools Risk Management Pool (WSRMP), which was formed on August 30, 1986 pursuant to Chapter 48.62 of the Revised Code of Washington. The purpose of WSRMP is to provide for the joint purchase of liability insurance and establish resources and maintain a plan for self-insurance coverage. The district pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Washington Schools Risk Management Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $1,000,000 for each insured event up to $20 million. The WSRMP Executive Board sets rates annually, after consultation with an independent actuarial firm, based on actual loss experience. An independent actuarial firm also performs an annual solvency report. Should the assets of the pool to be exhausted, members would be responsible for the pool's liabilities, based on an allocation in proportion to each member's contribution.

In September 1991, the district joined together with other school districts in the state to form Puget Sound Workers' Compensation Trust (PSWCT), a public entity risk pool currently operating as a common risk management and insurance program for worker's compensation benefits. Employees of the district claim compensation for injuries sustained while at work from PSWCT. The district makes monthly payments to PSWCT that are based on rates established from a combination of claims experience and equal assessments passed on from the State of Washington Department of Labor and Industries for self-insured agencies. The state Department of Labor and Industries regulates worker's compensation. Currently, rates for calendar year 2015 paid by the district are set at $0.2772 for clerical staff, $0.0700 for volunteers, and $1.4374 for all others. The agreement for formation of the Puget Sound Workers' Compensation Trust provides that the pool will be self-sustaining through member premiums. The district paid a total of $1,183,956 to PSWCT during the fiscal year ended August 31, 2015, which included $116,219 of the district employees' proportionate share of the benefits as permitted by law.

The district self-insures unemployment compensation for all of its employees. Actual employee claims are paid by the Washington State Department of Employment Security and then the district reimburses the state through the district's general fund. This self-insurance program costs the district less than full participation in the state unemployment compensation program. The district made unemployment compensation payments totaling $86,202 for the fiscal year ended August 31, 2015. The district has not recorded a liability for unemployment claims, but has elected to pay claims as they come due or are presented by the Washington State Department of Employment Security.

In addition, as shown in the fund statements, the district has set aside $6,063,302 of general fund balance that is committed for debt and fiscal management. Part of the intent of these funds, per board policy, is to mitigate uninsured risks.

NOTE 9 – Lease Obligations and Conditional Sales Contract Obligations

The district does not have any significant conditional sales contract obligations. The district does have certain operating leases for copy machines and other equipment. 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 financial statements. Total paid out of the general fund on operating leases in fiscal year ended August 31, 2015, was $477,927, which includes taxes, maintenance, and supply charges.

The following is a schedule of future minimum payments required under financing agreements or operating leases as of August 31, 2015:

	Final Installment Year	**FY 16**	**FY 17**	**FY 18**	**FY19**
Operating Leases*:					
Konica-Minolta	2019	$163,557	$150,541	$44,284	$20,102
Total Commitments for Operating Leases		$ 163,557	$150,541	$44,284	$20,102

*including taxes, interest and/or finance charges; excluding maintenance and supply charges

NOTE 10 – Long-term Debt

A. Outstanding Bonds Payable

Bonds have been issued for new construction and material renovations of buildings and facilities. Bonds payable at August 31, 2015, are comprised of the following individual issues:

Issue Name	Amount Authorized	Next Annual Installment *	Final Maturity	Interest Rate(s)	Amount Outstanding
General Obligation Bonds					
Voted Debt – issued 06/01/06	$65,000,000	$2,581,019	12/1/15	4 – 5.25%	$2,515,000
Voted Debt – issued 01/23/13	$52,155,000	$2,203,175	6/1/26	2 – 5%	$51,370,000
Voted Debt – issued 12/04/12	$44,695,000	$2,234,300	12/1/32	2 – 4%	$44,695,000
Voted QSCB issued 08/24/10	$17,500,000	$913,000	6/1/27	5.21-5.22%	$17,500,000
Voted Debt – issued 07/29/11	$19,000,000	$891,250	12/1/31	4.625%-4.75%	$19,000,000
Voted QSCB issued 07/29/11	$6,000,000	$296,040	12/1/26	4.934%	$6,000,000
Total general obligation, QZA and QSC bond principal outstanding at 8/31/15					$141,080,000

* Principal and interest payments both included in installment amount

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year ended August 31, 2015 with respect to its bonds:

Long-Term Debt (Bonds) Payable at 9/1/14	$143,839,000
New Issues	---0---
Debt Retired (Includes principal paid)	- 2,759,000
Long-Term Debt (Bonds) Payable at 8/31/15	$141,080,000

At fiscal year-end August 31, 2015, as reported on the district wide statements, the balance of unamortized bond premium was $10,870,672. The carrying amount of general obligation bonds, including the unamortized bond premium, was $151,950,672.

The following is a schedule of annual requirements to amortize long-term debt from general obligation, Qualified Zone Academy (QZA), and Qualified School Construction (QSC) bonds as of August 31, 2015:

Years Ending August 31,	Principal Payment	Interest Payment	Year-end Principal Outstanding	Prem/Disc Balance after Amortization	Carrying amount of Bonds
2016	3,250,000	5,868,784	137,830,000	9,946,054	147,776,054
2017	3,555,000	5,748,915	134,275,000	9,132,099	143,407,099
2018	3,790,000	5,632,865	130,485,000	8,318,144	138,803,144
2019	4,190,000	5,481,990	126,295,000	7,504,189	133,799,189
2020	4,505,000	5,359,290	121,790,000	6,690,234	128,480,234
2021-2025	30,220,000	23,748,385	91,570,000	2,620,459	94,190,459
2026-2030	56,305,000	13,409,360	35,265,000	754,769	36,019,769
2031-2033	35,265,000	2,298,525	--0--	--0--	--0--
Total	$141,080,000	$67,548,114			

At August 31, 2015, the district had $15,225,800 available in the Debt Service Fund to service the general obligation, QZA, and QSC bonds.

Advance Refunding

On January 23, 2013, the district issued $52,155,000 of general obligation bonds. In addition, the district received a premium of $7,787,211 from the sale of these new bonds. These resources were placed in an irrevocable trust with an escrow agent and will be used to provide resources to refund the remaining balance of the district's 2006 bond issue in the year 2016, when the bonds are callable, and pay the majority of the interest on those bonds until that date.

This combination of the funding from the sale of the new bonds and the premium placed in escrow to service the old debt is known as the reacquisition price, and the reacquisition price which exceeded the net carrying amount of the 2006 bonds that will be paid in 2016, is being reported as a deferred outflow of resources and amortized over the remaining life of the refunded debt.

$2,515,000 of the 2006 bond issue that remains for the district to pay is shown as a liability on the district-wide statement of net position.

B. Qualified School Construction (QSC) Bonds and Non-voted Qualified Zone Academy (QZA) Bonds

Qualified School Construction Bonds

Pursuant to Section 54F of the Internal Revenue Code (enacted by the American Recovery and Reinvestment Tax Act of 2009 and recently amended by the Hiring

Incentives to Restore Employment Act), the Federal government authorized state and local governments to issue Qualified School Construction Bonds (“QSCBs”) as taxable governmental bonds with Federal subsidies for a portion of their borrowing costs. The issuer has the option to designate the following alternatives for the Federal subsidies:

- Tax Credit: An eligible investor that buys the QSCB is allowed annual federal income tax credits in lieu of periodic interest payments. These credits compensate the owner for lending money to the school district and function as interest payments on the bond.
- Direct Pay Subsidy: A refundable tax credit is paid to the state or local governmental issuers by the federal Treasury Department in an amount lesser than either a) the interest paid to investors; or b) the maximum QSCB tax credit rate determined on the date of issuance by U.S. Treasury.

The district has opted for the direct pay subsidy with the issue of the $17.5 million of QSCBs in August 2010 and the $6 million of QSCBs in July 2011. What this means is that the district pays all interest initially, but then the federal government (U.S. Treasury Department) reimburses the district for the interest. The net effect is that, in the end, the district does not realize an interest expense for these bonds and only is obligated for repayment of the principal.

100 percent of the available project proceeds of a QSCB issue is to be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which that public school facility will be constructed. The district has met this criteria.

The issue of these Qualified School Construction Bonds was authorized by the voters of the district during an election held on February 9, 2010.

C. Total Changes in Long-Term Liabilities and Other Disclosures

To summarize long term liabilities activity for the district, the following changes occurred in long term liabilities during the fiscal year ended August 31, 2015 as they would pertain to non-current liabilities balances presented on government-wide statements:

	Balance 9/01/14	Additions	Reductions	Balance 8/31/15
Compensated absences	$ 5,742,064	$ 1,476,106	$ (721,203)	$ 6,496,967
Unmatured bonds payable	143,839,000	---- 0 ----	(2,759,000)	141,080,000
Unamortized bond premium (discount)	11,795,290	---- 0 ----	(924,618)	10,870,672
Net Pension – TRS 1	0	39,957,257	0	39,957,257
Net Pension – TRS 2/3	0	10,928,341	0	10,928,341
Net Pension – SERS 2/3	0	5,462,085	0	5,462,085
Net Pension – PERS 1	0	10,941,836	0	10,941,836
OPEB Obligation per GASB 45	9,414,435	2,367,980	(990,742)	10,791,673
Total non-current liabilities	$170,790,789	$71,133,605	($5,395,563)	$236,528,831

Net Pension Liabilities is a new section on the Schedule of Long Term Liabilities. The district's share of the State of Washington's pension liability for the plans it participates in is included in the schedule. As the information was only provided to the district this year, the entire amount is listed as an addition to the schedule. More details are provided in Note 5 – Pensions.

Within the governmental-wide statement of net position, non-current liabilities due within one year are reported as $3,840,352. This balance is comprised of principal payments for the following long term debt obligations:

Issue Name	Original Issue Amount	Principal Amount Due in 1 year	Final Maturity
General Obligation Bonds			
Voted Debt – issued 06/01/06	$65,000,000	$2,515,000	12/01/15
Voted Debt – issued 01/23/13	$52,155,000	$235,000	06/01/26
Voted Debt – issued 12/04/12	$44,695,000	$500,000	12/01/32
Voted QSCB issued 08/24/10	$17,500,000	-0-	06/01/27
Voted Debt – issued 07/29/11	$19,000,000	-0-	12/01/31
Voted QSCB issued 07/29/11	$6,000000	-0-	12/01/26
Estimated compensated absences balance payable within one year	N/A	$590,352	N/A
TOTAL DUE IN ONE YEAR		$3,840,352	

Compensated Absences
See Note #1.D.8 for more information regarding compensated absences in the district. Compensated absences are liquidated by district general funds.

Due to the nature of compensated absences, it is difficult to determine what current year absences balances might be liquidated within the next year, since each new year, employees are given new leave to use, and it could be assumed they are using the new leave first before the old leave.

However, retiring employees will buy out their leave and this is measurable by the district. Using a termination payment method, we have used a five year average of such leave that has been bought out to determine the amount of compensated absences that is due in one year.

We have reported $590,352 from this current year balance as due within one year with respect to compensated absences for this fiscal year for this reason.

NOTE 11 -- Summary of Significant Contingencies

A. Litigation

All litigation currently pending against the district is covered by insurance. In management’s estimation, there is no other litigation that would pose a significant contingency to the district for this reason.

B. Arbitrage Rebates

When governments reinvest tax-exempt proceeds at a higher, taxable yield, the excess earnings must be remitted to the federal government as an arbitrage rebate. The tax code requires that arbitrage be calculated every five years and upon maturity. The District has sold tax exempt general obligation bonds, Qualified Zone Academy (QZA) bonds, and Qualified School Construction bonds (QSCB) which could be subject to the arbitrage rebate. Currently, the district does not have any arbitrage rebate outstanding.

NOTE 12 – Other Disclosures

A. 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 and is considered a joint venture. The district has been a member since April 11, 1962. This membership was reaffirmed by the board of directors of the district on January 10, 1977 by resolution #77-106. The district's current equity of $66,064 (at December 31, 2014) 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. If the district were to withdraw from the joint venture, it would receive its equity in 10 annual allocations of merchandise or 15 annual payments.

Financial information with respect to the King County Directors' Association is available at:

King County Directors' Association
P.O. Box 5550
Kent, Washington 98064-5550

B. Dimmer Scholarship Trust

On September 25, 1980, the Clover Park School District board of directors approved Board Resolution #81-21, providing for the acceptance and establishment of the John C. and Marilyn J. Dimmer Scholarship Trust. According to the terms of the charitable gift, 28170 shares of common stock in Western Plastics, Inc., were assigned and transferred, to be held or disposed of, and the proceeds invested and reinvested in common stocks as the board of directors of Clover Park School District deemed appropriate. The stipulation allowing investment in common stock creates an exception to the restrictions imposed by Washington State statue on investments by a school district. The donors recommended that the Trust Department of Puget Sound National Bank (now Key-Bank National Association) be the custodial agent and investment advisor for said gift.

The Dimmer Scholarship Trust is entirely managed and administered by the Key-Bank National Association Trust Services, Daryl Hembry, account administrator. The gift must be separately accounted for and administered as follows, according to the original stipulations of the donors:

- Scholarships are to be provided for scholastically talented undergraduate students who have graduated or will be graduating from the Clover Park School District, and who are attending or will be attending a college or university in the United States.

- The recipient must be a citizen of the United States; no discrimination as to race, religion, national origin, or economic circumstances shall be shown.

- The student may be awarded the scholarship by application or qualification. Qualifications shall be based only on scholastic ability, talent, and scholastic potential. Preference shall be given to those students choosing to pursue studies in the fields of economics, business, mathematics, physics, or natural sciences.

- Scholarships shall be for one year, but the same student may be a recipient for up to four consecutive years, provided the student, who is a recipient of such a scholarship after the first year, earns from his or her own employment, a sum equal to 25% of the scholarship award to be applied toward his or her educational expenses, and the student continues to maintain achievement consistent with the qualifications for the award.

- Only new income is to be used for scholarships. The principal is to be preserved for creation of income to provide future scholarships. No less than 50% of the income is to be used each year for scholarships.

Noting that the original donation was made by means of common stock in a corporation, and license was provided to the district to sell the stock and purchase other stock as deemed appropriate, the district considers the current book value of any stock plus any cash investments that currently is a part of the investment portfolio for the Dimmer Scholarship Trust to be the principal to be preserved for purposes of this trust donation.

<u>Gains and Losses in Fair Value</u>

The net position and activities of the Dimmer Scholarship Trust are included in the fiduciary fund statements for the private purpose trust fund. Assets as recorded on the statement of fiduciary net position have been increased $1,184,668 to reflect the market value of the investments made by the Trustee for the private purpose trust. After considering actual gains or losses from transactions that have occurred during the year, a net unrealized loss of $650,244 has been recorded as part of the investment earnings in the statement of changes in fiduciary net position for the private purpose trust fund. As these investments mature and a gain realized, it would be available for use.

Clover Park School District No. 400
Actuarial Valuation of Postemployment Benefits Other than Pension
Schedule of Funding Progress and Annual Contributions
For the fiscal year ended August 31, 2015

Actuarial Valuation Date	Actuarial Value of Assets*	Actuarial Accrued Liability*	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll (Active Employees)	UAAL as a Percentage of Covered Payroll	Employer's Annual Contributions
	Column (a)	Column (b)	Col (b) - Col (a)	Col (a)/Col (b)	Column (c)	(Col (b) - Col (a))/Col (c)	
8/31/2009	$ -	$ 41,844,102	$ 41,844,102	0%	$ 82,446,562	50.8%	$ 1,105,235
8/31/2010	-	41,844,102	41,844,102	0%	81,386,812	51.4%	1,199,180
8/31/2011	-	33,016,188	33,016,188	0%	83,085,908	39.7%	1,094,009
8/31/2012	-	33,016,188	33,016,188	0%	81,734,267	40.4%	1,146,298
8/31/2013	-	26,842,018	26,842,018	0%	81,659,361	32.9%	1,136,966
8/31/2014	-	26,842,018	26,842,018	0%	85,279,090	31.5%	1,153,819
8/31/2015	-	31,951,871	31,951,871	0%	88,981,207	35.9%	1,237,402

GASB 45 was implemented with fiscal year ending August 31, 2009.
Obligations prior to year 2009 are not considered or required for this reason.

* Last valuation was in fiscal year 2015.
Valuation of the Actuarial Accrued Liability is accomplished by the Projected Unit Credit Actuarial Cost Method.

Please refer to note #6 following the basic financial statements for more information regarding this liability.

Clover Park School District No. 400
Schedule of District's Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Plan: PERS 1		2015
District's proportion of the net pension liability (percentage)		0.209176%
District's proportionate shre of the net pension liability (amount)	$	10,941,836
District's covered employee payroll	$	395,841
District's propotionate share of the net pension liability (amount) as a percentage of its covered payroll		2764.20%
Plan fiduciary net position as a percentage of the total pension liability		59.10%
Plan: SERS 2/3		
District's proportion of the net pension liability (percentage)		1.344841%
District's proportionate shre of the net pension liability (amount)	$	5,462,085
District's covered employee payroll	$	23,148,857
District's propotionate share of the net pension liability (amount) as a percentage of its covered payroll		23.60%
Plan fiduciary net position as a percentage of the total pension liability		90.92%
Plan: TRS 1		
District's proportion of the net pension liability (percentage)		1.261221%
District's proportionate shre of the net pension liability (amount)	$	39,957,257
District's covered employee payroll	$	686,220
District's propotionate share of the net pension liability (amount) as a percentage of its covered payroll		5822.80%
Plan fiduciary net position as a percentage of the total pension liability		65.70%
Plan: TRS 2/3		
District's proportion of the net pension liability (percentage)		1.295131%
District's proportionate shre of the net pension liability (amount)	$	10,928,341
District's covered employee payroll	$	60,649,608
District's propotionate share of the net pension liability (amount) as a percentage of its covered payroll		18.02%
Plan fiduciary net position as a percentage of the total pension liability		92.48%

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

Clover Park School District No. 400
Schedule of District's Contributions
Last 10 Fiscal Years*

Plan: PERS 1		2015
Contractually required contribution	$	961,367
Contributions in relation to the contractually required contributions		961,367
Contribution deficiency (excess)		-
District's covered-employee payroll	$	395,841
Contribution as a percentage of covered-employee payroll		242.87%
Plan: SERS 2/3		
Contractually required contribution	$	1,307,477
Contributions in relation to the contractually required contributions		1,307,477
Contribution deficiency (excess)		-
District's covered-employee payroll	$	23,148,857
Contribution as a percentage of covered-employee payroll		5.65%
Plan: TRS 1		
Contractually required contribution	$	2,822,320
Contributions in relation to the contractually required contributions		2,822,320
Contribution deficiency (excess)	$	-
District's covered-employee payroll	$	686,220
Contribution as a percentage of covered-employee payroll		
Plan: TRS 2/3		
Contractually required contribution	$	3,441,776
Contributions in relation to the contractually required contributions		3,441,776
Contribution deficiency (excess)	$	-
District's covered-employee payroll	$	60,649,608
Contribution as a percentage of covered-employee payroll		5.67%

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

Clover Park School District No. 400
Pierce County

Schedule of Expenditures of Federal Awards
For the Year Ending August 31, 2015

1	2	3	4	5	6	7	8	9
					Expenditures			
Federal Agency Name	Pass-Through Agency	Federal Program Title	Federal CFDA Number	Other Identification Number	From Direct Awards	From Pass-Through Awards	Total	Foot-note Ref.
U.S. Department of Agriculture								
	WA OSPI	School Breakfast Program	10.553	N/A		1,318,907	1,318,907	
	WA OSPI	Cash Assistance	10.555	N/A		3,178,477	3,178,477	
	WA OSPI	Non-Cash Assistance (Commodities)	10.555	N/A		432,756	432,756	
	WA OSPI	Child and Adult Care Food Program	10.558	N/A		206,663	206,663	
	WA OSPI	Summer Food Service Program for Children	10.559	N/A		63,833	63,833	
	State Treasurer	School & Roads - Grants to States	10.665	N/A		18,485	18,485	
U.S. DEPT OF AGRICULTURE SUBTOTAL					-	**5,219,121**	**5,219,121**	
Department of Defense								
		Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556	N/A	778,648		778,648	
		Invitational Grants for Military-Connected Schools	12.557	N/A	341,207		341,207	
		Community Investment	12.600	N/A	24,869,650		24,869,650	
		Dept. of Defense Impact Aid	12.558	N/A	1,467,763		1,467,763	
		MISC: JROTC	12.999	N/A	130,275		130,275	
		Army Youth Prograrm (AYPYN)	12.NAFBA1	N/A	370,306		370,306	
U.S. DEPT OF DEFENSE SUBTOTAL					**27,957,849**	-	**27,957,849**	
U.S. Department of Education								
	WA OSPI	Title I Grants to Local Educational Agencies	84.010	N/A		3,459,566	3,459,566	2
	WA OSPI	Title 1 State Agency Program for Neglected and Delinquent Children and Youth	84.013	N/A		21,737	21,737	
	WA OSPI	Special Education-Grants to States	84.027	N/A		2,700,035	2,700,035	
		Impact Aid	84.041	N/A	14,326,406		14,326,406	
	WA OSPI	Career and Technical Education-Basic Grants to States	84.048	N/A		129,004	129,004	
		Indian Education Grants to Local Education Agencies	84.060	N/A	37,539		37,539	
	WA OSPI	Special Ed - Preschool Grants	84.173	N/A		122,347	122,347	
	WA OSPI	English Language Acquisition State Grants	84.365	N/A		108,686	108,686	
	WA OSPI	Improving Teacher Quality State Grants	84.367	N/A		673,679	673,679	2
U.S. DEPT OF EDUCATION SUBTOTAL					**14,363,945**	**7,215,054**	**21,578,999**	
U.S. Department of Health & Human Services								
	Puget Sound ESD	Head Start	93.600	N/A		826,742	826,742	
	WA DSHS	Medical Assist Program	93.778	N/A		3,977	3,977	
	Puget Sound ESD	MISC: ECEAP and Headstart USDA payments	93.999	N/A		30,144	30,144	
U.S. DEPT OF HEALTH AND HUMAN SERVICES SUBTOTAL					-	**860,863**	**860,863**	
TOTAL FEDERAL AWARDS EXPENDED					**42,321,794**	**13,295,038**	**55,616,832**	

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING - The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine the amounts expected or matched from non-federal sources.

NOTE 2 - SCHOOLWIDE PROGRAMS - The district operated a "schoolwide program" in eleven (11) buildings. Schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than target services to certain selected students. A portion of the federal program expenditures shown were expended by the district in its schoolwide programs. These expenditures are as follows:

Title I	$ 2,165,407
Title II - V	-
TOTAL	$ 2,165,407

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

Clover Park School District No. 400
Pierce County
September 1, 2014 through August 31, 2015

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Clover Park School District No. 400.

Finding ref number:	**Finding caption:**
2015-001	The District's internal controls over financial statement preparation were inadequate to ensure accurate financial reporting.

Name, address, and telephone of auditee contact person:
Brianne King, Accounting Manager
10903 Gravelly Lake Drive S.W.
Lakewood, WA 98496
(253) 583-5026

Corrective action the auditee plans to take in response to the finding:
Clover Park does concur with audit findings and will be implementing the recommendations from the audit team including – increasing training for the staff responsible for preparing the financial statements and ensuring they have the adequate training from GOFA and OSPI on new accounting standards. In addition, we will be reviewing and implementing the necessary changes to our final review processes.

Anticipated date to complete the corrective action:
Training will be ongoing

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

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

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As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

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