Other Comprehensive Basis of Accounting (OCBOA) Modified Accrual Basis (F-196) Notes to the Financial Statements

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VALLEY SCHOOL DISTRICT #070
Notes to the Financial Statements
September 1, 2015 Through August 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Valley School District (District) is a municipal corporation organized pursuant to Title 28A of the Revised Code of Washington (RCW) for the purposes of providing public school services to students in grades K–12. Oversight responsibility for the District's operations is vested with the independently elected board of directors. Management of the District is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1) and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

(1) Districtwide statements, as defined in GAAP, are not presented.
(2) A Schedule of Long-Term Liabilities is presented as supplementary information.
(3) Supplementary information required by GAAP is not presented.

Fund Accounting

Financial transactions of the District are reported in individual funds Each fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate. All funds are considered major funds. The various funds in the report are grouped into governmental (and fiduciary) funds as follows:

Governmental Funds

General Fund

This fund is used to account for all expendable financial resources, except for those that are required to be accounted for in another fund. In keeping with the principle of having as few funds as are necessary, activities such as food services, maintenance, data processing, printing, and student transportation are included in the General Fund.

Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund. This fund is used to account for resources set aside for the acquisition and construction of major capital assets such as land and buildings.

Transportation Vehicle Fund. This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures that relate to pupil transportation equipment.

Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principal and interest.

Special Revenue Fund

In Washington state, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

Measurement focus, basis of accounting, and fund financial statement presentation

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

Budgets

Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

The government's fund balance classifications policies and procedures.

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.

The Superintendent is the only person who has the authority to create Assignments of fund balance.

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.

Cash and Cash Equivalents

All of the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

The only receivables and payables not expected to be collected and/or paid within one year are made up of $2,826,637.52 of voted bonds, lease obligations and compensated absence liabilities in the Schedule of Long Term Liabilities.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO). The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. $818.01 of fund balance, representing USDA commodity inventory, is considered Nonspendable. *(Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory.)* USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

NOTE 2: DEPOSITS AND INVESTMENTS

The Stevens County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

The district's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All of the District's investments during the year and at year-end were insured or registered and held by the District or its agent in the District's name.

Washington State statutes authorize the district to invest in the following types of securities:

- Certificates, notes, or bonds of the United States, its agencies, or any corporation wholly owned by the government of the United States,
- Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System,
- Bankers' acceptances purchased on the secondary market,
- Repurchase agreements for securities listed in the three items above, provided that the transaction is structured so that the public treasurer obtains control over the underlying securities,
- Investment deposits with qualified public depositories,
- Washington State Local Government Investment Pool, and
- County Treasurer Investment Pools.

The District's investments as of August 31, 2016, are as follows:

Type of Investment	(District's) own investments	Investments held by (district) as an agent for other organizations	Total
State Treasurer's Investment Pool	$464,899.08		$464,899.08
County Treasurer's Investment Pool			
Other:			
Total	$464,899.08		$464,899.08

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

In 2012-13 the State Auditor initiated a statewide audit of 'substantially similar' services offered by ALE programs of twelve school districts during the 2011-12 school year. Valley School District was one of the districts audited. The term and definition "Substantially similar experiences and services" was first implemented in 2011-12 and means that for each purchased or contracted instructional or co-curricular course, lesson, trip, or other experience, service, or activity identified on an alternative learning experience written student learning plan there is an identical or similar experience, service, or activity made available to students enrolled in the district's regular instructional program that is: (i) At a similar grade level; (ii) At a similar level of frequency, intensity, and duration including, but not limited to, consideration of individual versus group instruction; (iii) At a similar level of cost to the student with regard to any related club, group, or association memberships; admission, enrollment, registration, rental or other participation fees; or any other expense associated with the experience or service; (iv) In accordance with district adopted content standards or state defined grade level standards; and (v) supervised, monitored, assessed, evaluated, and documented by a certificated teacher. The State Auditor found that the District's Columbia Virtual Academy (CVA) program provided experiences totaling $298,255.43 that were not deemed to be "substantially similar". In May, 2014 the District received an OSPI audit resolution notice indicating its intention to recapture the funds. After receiving additional information from the District, OSPI subsequently reduced the amount to $286,661. OSPI has agreed to a repayment plan. The first repayment of $75,000 was made in April, 2016. Subsequent payments of $106,000 and $105,661 will be made in April, 2017 and April, 2018, respectively.

Litigation

The District has no known legal obligations that would materially impact the financial position of the District.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

There were no events after the balance sheet date that would have a material impact on the next or future fiscal years.

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.

The school district is reporting the net pension liability in the notes and on the Schedule of Long-term Liabilities calculated as the district's proportionate allocation percentage multiplied by the total plan collective net pension liability.

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

Membership Participation

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

Membership participation by retirement plan as of June 30, 2016, was as follows:

Plan	Retirees and Beneficiaries Receiving Benefits	Inactive Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members
PERS 1	49,417	827	3,230
SERS 2	7,391	5,704	26,127
SERS 3	6,715	7,899	32,409
TRS 1	34,859	223	962
TRS 2	4,700	2,443	17,612
TRS 3	8,866	8,373	53,417

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 2016 were as follows:

Pension Rates			
	7/1/16 Rate	7/1/15 Rate	
PERS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	11.18%	11.18%	
Pension Rates			
	9/1/16 Rate	9/1/15 Rate	
TRS 1			
Member Contribution Rate	6.00%	6.00%	
Employer Contribution Rate	13.13%	13.13%	
TRS 2			
Member Contribution Rate	5.95%	5.95%	
Employer Contribution Rate	13.13%	13.13%	
TRS 3			
Member Contribution Rate	*	*	
Employer Contribution Rate	13.13%	13.13%	**
SERS 2			
Member Contribution Rate	5.63%	5.63%	
Employer Contribution Rate	11.58%	11.58%	
SERS 3			
Member Contribution Rate	*	*	
Employer Contribution Rate	11.58%	11.58%	**
Note: The DRS administrative rate of .0018 is included in the employer rate.			
* = Variable from 5% to 15% based on rate selected by the member.			
** = Defined benefit portion only.			

The Collective Net Pension Liability

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

The Net Pension Liability as of June 30, 2016:				
Dollars in Thousands	PERS 1	SERS 2/3	TRS 1	TRS 2/3
Total Pension Liability	$12,496,872	$4,870,806	$9,001,257	12,172,222
Plan fiduciary net position	($7,126,401)	($4,214,039)	($5,587,020)	($10,798,925)
Participating employers' net pension liability	$5,370,471	$656,767	$3,414,237	$1,373,297
Plan fiduciary net position as a percentage of the total pension liability	57.03%	86.52%	62.07%	88.72%

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

At June 30, 2016, the district reported a total liability of $3,998,138 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. The District's proportionate share of each plan's collective net pension liability is reported below:

June 30, 2016	PERS 1	SERS 2/3	TRS 1	TRS 2/3
District's Annual Contributions	95,666	133,343	147,319	167,602
Proportionate Share of the Net Pension Liability	905,967	732,025	1,654,983	705,163

At June 30, 2016, the district's percentage of the proportionate share of the collective net pension liability was as follows and the change 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	0.016869%	0.111459%	0.048473%	0.051348%
Prior year proportionate share of the Net Pension Liability	0.018265%	0.122221%	0.045812%	0.048375%
Net difference percentage	-0.001396%	-0.010762%	0.002661%	0.002974%

Actuarial Assumptions

Capital Market Assumptions (CMAs) and expected rates of return by asset class 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, 2015, with the results rolled forward to June 30, 2016, 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, 2015, 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 2015 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, 2016, are summarized in the following table:

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

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

Discount Rate

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

Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

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

The following table presents the Valley School District's proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.50 percent, 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 percent) or one percentage-point higher (8.50 percent) than the current rate. Amounts are calculated using the school district's specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS 1 NPL	$6,476,248,000	$5,370,471,000	$4,418,882,000
Allocation Percentage	0.016869%	0.016869%	0.016869%
Proportionate Share of Collective NPL	$1,092,506	$905,967	$745,440
SERS 2/3 NPL	$1,600,655,000	$656,767,000	($75,324,000)
Allocation Percentage	0.111459%	0.111459%	0.111459%
Proportionate Share of Collective NPL	$1,784,082	$732,025	($83,955)
TRS 1 NPL	$4,197,137,000	$3,414,237,000	$2,739,882,000
Allocation Percentage	0.048473%	0.048473%	0.048473%
Proportionate Share of Collective NPL	$2,034,478	$1,654,983	$1,328,103
TRS 2/3 NPL	$3,107,958,000	$1,373,297,000	($1,595,357,000)
Allocation Percentage	0.051348%	0.051348%	0.051348%
Proportionate Share of Collective NPL	$1,595,879	$705,163	($819,186)

NOTE 6: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS

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

Employers participating in the plan include the state of Washington (which includes general government agencies and higher education institutions), 60 of the state's K–12 school districts and educational service districts (ESDs), and 221 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 237 K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2015-16, the required HCA amount was $65.25 per month per full-time equivalent employee. The District funded $5.00 per month for each regular employee with the balance paid by its employees through payroll deductions. The total 2015-16 payments remitted to the state HCA to support the program amounted to $75,641.15. This assessment to the District is set forth in the state's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its annual required contribution nor the net other post-employment benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements.

NOTE 7: COMMITMENTS UNDER LEASES

For the fiscal year(s) ended August 31, 2016, the District had incurred additional long-term debt as follows:

Copier/Printers – *Lessor: H&H Financial Services, LLC* – In August, 2014, the District executed five 60-month operating leases for five machines. Four of the five leases expire on August 31, 2019. The fifth lease expires one month later on September 30, 2019. On August 18, 2016, a sixth copier lease was executed for a term of 60 months. The lease obligation within one year is $11,040.00 and is $11,040.00 in each subsequent fiscal year through 2018-19. In 2019-20 the lease obligation is $1,910.00 and is $1,680.00 in 2020-21 with a grand total outstanding lease obligation for the remaining term of the six operating leases of $36,710.00. All leases renew automatically for a period of one year unless the District provides written notice.

NOTE 8: OTHER SIGNIFICANT COMMITMENTS

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/16	Additional Local Funds Committed	Additional State Funds Committed
Horticulture Building and Greenhouse	$80,916	$14,947.36		$65,968.64
Total	$80,916	$14,947.36		$65,968.64

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2016:

Fund	Amount
General	$478.02
ASB Fund	$0
Capital Projects Fund	$0
Transportation Vehicle Fund	$115,625.66

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The District's capital assets are insured in the amount of $25,080,006 for fiscal year ended August 31, 2016. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

The District did not have any capital lease obligations as of August 31, 2016.

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

Long-Term Debt

Bonds payable at August 31, 2016, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
UTGO Refunding Bond	$2,787,472	Varies from $247,396 in 2016 to $325,882 in 2025	12/01/2025	1.75%	$2,787,472
UTGO Bonds dated 12/20/2006	$808,785	$40,000	12/01/2016	4.95%	$40,000
Total General Obligation Bonds					$2,827,472

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year ended August 31, 2016:

Long-Term Debt Payable at 9/1/2015	$2,885,000
New Issues	$2,787,472
Debt Retired	$2,845,000
Long-Term Debt Payable at 8/31/2016	$2,827,472

The following is a schedule of annual requirements to amortize debt at August 31, 2016:

Years Ending August 31	Principal	Interest	Total
2016-17	287,396.00	50,451.59	337,847.59
2017-18	239,339.00	42,357.12	281,696.12
2018-19	249,534.00	38,079.47	287,613.47
2019-20	259,252.00	33,627.59	292,879.59
2020-21	272,764.00	28,972.46	301,736.46
2021-22	280,567.00	24,130.82	304,697.82
2022-23	292,832.00	19,113.57	311,945.57
2023-24	304,366.00	13,888.08	318,254.08
2024-25	315,540.00	8,463.91	324,003.91
2025-26	325,882.00	2,851.47	328,733.47
Total	$2,827,472.00	$261,936.08	$3,089,408.08

At August 31, 2016, the District had $244,689.68 available in the Debt Service Fund to service the general obligation bonds.

Refunded Debt

On May 10, 2016 the District issued a $2,787,742.00 general obligation bond with an average interest rate of 1.75% to: (i) currently refund $2,090,000 of outstanding bonds dated May 1, 2005 with an average interest rate of 4.54% and (ii) to advance refund $575,000 of outstanding bonds dated December 20, 2006 with an average interest rate of 4.95%. The net proceeds of $2,740,822.00 (after the payment of $46,650.00 in placement agent fee, bond counsel fee, escrow verification fee, refunding trustee fee and bank counsel fee) were used to purchase U.S.

Government securities and provide a beginning cash balance that were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased.

The District currently refunded the 2005 and advance refunded the 2006 bonds to reduce its total debt service over the next nine years by $372,356.92 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $340,663.59.

Cash Flows Difference	
Old Debt Service Cash Flows	$3,420,775.00
LESS New Debt Service Cash Flows	($3,048,418.08)
PLUS Accrued Interest In 06/01/2016 Payment	$0
PLUS District Contribution from Sinking Fund Resources	$0
Total Difference	*$372,356.92*
Economic Gain	
Present Value of Old Debt Service Cash Flows	$3,128,135.59
LESS Present Value of New Debt Service Cash Flows	($2,787,472.00)
PLUS Accrued Interest Included in 06/01/2016 Payment	$0
PLUS District Contribution from Sinking Fund Resources	$0
Total Gain	*$340,663.59*

NOTE 11: INTERFUND BALANCES AND TRANSFERS

There was no interfund loan activity in the year ended August 31, 2016, nor was there any interfund transfer activity during the year ended August 31, 2016.

NOTE 12: ENTITY RISK MANAGEMENT ACTIVITIES

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Northeast Washington Educational Service District #101 (NEW ESD101) operates the Northeast Washington Workers' Compensation Cooperative to provide industrial insurance benefits to 58 public school districts in Northeast Washington. The district is a member of this cooperative which pays for approved medical, hospital, and related services due to workplace injuries. In addition, the cooperative provides environmental, health, security, industrial safety, and risk management to member districts. During the fiscal year ending August 31, 2016, the district made payments totaling $64,677.80 to the industrial insurance pool.

The District also made payments of $20,285.71 to the NEW ESD101 unemployment insurance pool of which the District is a member. Through the unemployment cooperative fifty public school districts and NEWESD 101 receive professional, cost-effective informational and claims management service. Unemployment claims management is handled through a third party administrator with accounting and reporting handled by NEWESD 101. During 2015-16, unemployment claims in the District's name totaled $1,173.22. At the end of the 2015-16 fiscal year, NEW ESD101 migrated the cooperative from a depository-type arrangement to a true risk-sharing pool (like the Workers' Compensation Cooperative described above). The migration was required by the State Auditor's Office (SAO) based upon requirements of the Governmental Accounting Standards Board (GASB). At the end of the transition to a new cooperative arrangement, the district had an excess of funds on deposit in the pool. As a result, NEW ESD101 returned funds to the district (see Note 19).

The District is a member of United Schools Insurance Program. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1985, when 29 school districts in the state of Washington joined together by signing a Joint Purchasing Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Current membership includes 155 school districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: Property, General Liability, Automotive Liability, Wrongful Acts Liability, and Crime.

Liability insurance is subject to a self-insured retention of $100,000. Members are responsible for a $1,000 deductible for each claim (member deductibles may vary), while the program is responsible for the $100,000 self-insured retention (SIR). Insurance carriers cover insured losses over $101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the $100,000 SIR. The program also purchases a stop loss policy with an attachment point of $967,749, as an additional layer of protection for its members.

Property insurance is subject to a per-occurrence deductible of $100,000. Members are responsible for $1,000 deductible for each claim (Member deductibles may vary), while the program is responsible for the $100,000 SIR.
Equipment Breakdown insurance is subject to a per-occurrence deductible of $10,000. Members are responsible for the deductible amount of each claim.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 to terminate participation the following September 1. The Interlocal Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Joint Purchasing Agreement.

The program is fully funded by its member participants. Claims are filed by members with Clear Risk Solutions, formerly Canfield, which has been contracted to perform program administration, claims adjustment, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending August 31, 2016, were $1,681,707.94.

A board of directors consisting of nine members is selected by the membership from six areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Clear Risk Solutions to perform day-to-day administration of the program. This program has no employees.

The District also purchases 'Site Pollution Liability Coverage' on a premium basis through HUB International Mountain States Ltd. Insurance agency in Chewelah, WA. This covers required pollution liability coverage for the operation of VL Transport Center's fuel trucks. The policy carries a per-occurrence limit of $1,000,000, and aggregate limits of $2,000,000 with a $10,000 self-insured retention. The policy was renewed April 1, 2016 for a term of three years.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 13: PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due on October 31 are recorded as unavailable revenue.

NOTE 14: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

In a joint resolution of the Valley School District Board and the Loon Lake School District Board, VL Transport Center (the "Cooperative") was duly formed on November 16, 2005 pursuant to 39.34 RCW, RCW 28A.335.160 and chapter 180-32 WAC. The resolution conferred contractual authority and subsequent ownership of the inter-district transportation cooperative facility on Valley School District and designated Valley School District as the host district and legal applicant for purposes of chapter 180-32 WAC. Transportation operations for both districts are run out of the VL Transport Center facility. Loon Lake School District has assigned its State transportation operations allocation to Valley School District. As the host district, Valley School District employs all bus drivers and maintains all buses for both districts. Bus purchasing is not included as part of the cooperative and thus, each district continues to maintain its own transportation vehicle fund and to purchase/dispose of buses as necessary. The cooperative also owns one fuel truck and leases another from one of the cooperative member districts. The District purchases fuel under its fuel bid from fuel terminals located in Spokane. With the ability to purchase fuel directly from the fuel terminals, the cooperative is able to realize substantial cost savings. As a result, other districts have joined the cooperative in order to obtain fuel at lower prices. As of August 31, 2016 the cooperative had nine active members in addition to

Valley and Loon Lake School Districts. All revenue and expenses associated with fuel are accounted for within Valley School District's General Fund, Program 89. Fuel expenses associated specifically with Valley and Loon Lake School Districts are accounted for through the debit/credit transfer process between Program 89 and Program 99 (Transportation Operations).

For fiscal year 2015-16, the VL Transport Center cooperative revenues totaled $239,347, as compared to the preceding year's revenues of $1,032,125. Expenditures related to the cooperative totaled $228,676, as compared to the preceding year's expenditures of $1,031,351.

Of the District's 705.21 full-time equivalent student enrollment in fiscal year 2015-16, 431.91 FTEs were enrolled in Columbia Virtual Academy (CVA), an Alternative Learning Experience (ALE) program where most students participate remotely. CVA is an online school program approved by the Digital Learning Department of the Office of the Superintendent of Public Instruction ("OSPI"), and is accredited through the Northwest Accreditation Commission. CVA is governed by Washington Administrative Code ("WAC") 392-121-182. That State regulation generally provides, for example, that to be "counted" as an enrolled student in any particular month, an ALE student (1) must have a written student learning plan on that month's count day, and (2) must have had direct personal contact with school staff at least once during the 20 school days before that month's count day. In addition to ALE students enrolled directly in the District's CVA program (and considered part of the District's total student enrollment), the District offers its CVA program to 8 other Washington school districts through inter-local agreements with the District. Under these agreements, the District provides various CVA-Central services related to administration of each school district's CVA program and charges a fee to these member school districts for the services provided.

In September 2010, the district began Paideia High School - the first innovative interdistrict cooperative high school to be formed in the state. Formation of such a program was made possible by the passage of ESHB 2913 in June, 2010. The purpose of the legislation was to authorize and encourage innovative cooperative high school programs for students from very small school districts. Only non-high districts are authorized to form such programs. Valley School District joined with four other non-high districts to form the cooperative of which Valley School District is the host. Students from the cooperative member districts enroll directly with Valley School District and attend Paideia High School. On May 10, 2013 Governor Inslee signed SHB 1076, Expanding Participation in Innovation Academy Cooperatives. Beginning with the 2014-15 school year, this bill allows non-resident students the choice to attend an Innovation Academy Cooperative such as Paideia High School for the same reasons students can choice into any other public high school. Paideia High School average annual enrollment was 49.90 FTEs in 2015-16.

The District is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The District's current equity of -$615.43 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

NOTE 15: FUND BALANCE CLASSIFICATION DETAILS

The District’s financial statements include the following amounts presented in the aggregate.

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	$249,137				
Restricted Fund Balance					
For Other Items					
For Fund Purpose		$38,463			$214,961
For Carryover of Restricted Revenues	$1,935				
For Skill Centers					
For Carryover of Food Service Revenue					
For Debt Service				$244,690	
For Arbitrage Rebate					
For Self-Insurance					
For Uninsured Risks					
Committed Fund Balance					
For Economic Stabilization					
Other Commitments	$37,600				
Assigned Fund Balance					
Contingencies	$106,000				
Other Capital Projects	$128,983				
Other Purposes	$115,274				
Fund Purposes			$108,795		
Unassigned Fund Balance	$204,242				

On November 18, 2006 the board of directors, as host district under the VL Transport Center Inter-district Transportation Cooperative Agreement, committed to reserve a portion of its General Fund Program 99 money each month to pay for future minor repair and renovation costs related to the cooperative. The amount of fund balance that has been set aside may only be used for that purpose. The District had set aside $37,600 for this purpose as of August 31, 2016.

NOTE 16: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS

457 Plan – Deferred Compensation Plan

District employees have the option of participating in a deferred compensation plan as defined in §457 of the Internal Revenue Code that is administered by the state deferred compensation plan, or the District.

403(b) Plan – Tax Sheltered Annuity (TSA)

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under one type of deferrals: elective deferrals (employee contribution).

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by The OMNI Group. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

NOTE 17: TERMINATION BENEFITS

Compensated Absences

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 chapter also provides for an annual buyout of an amount up to the maximum annual accumulation of 12 days. For buyout purposes, employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method.

Vacation pay, including benefits, that is expected to be liquidated with expendable available financial resources is reported as expenditures and a fund liability of the governmental fund that will pay it.

No unrecorded liability exists for other employee benefits.

NOTE 18: CONDITIONS AND EVENTS GIVING RISE TO SUBSTANTIAL DOUBT ABOUT THE GOVERNMENT'S ABILITY TO CONTINUE AS A GOING CONCERN

There are no conditions and/or events giving rise to substantial doubt about the District's ability to continue as a going concern.

NOTE 19: OTHER DISCLOSURES

Prior Period Adjustment Related to the Cash Held by a Trustee

The ending Total Fund Balance for the General Fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds includes a Prior Year Adjustment of $93,591. This adjustment was necessary to record adjustments to the District's cash balance held by NorthEast Washington Educational Service District 101 for the purpose of unemployment claims as the pool transitioned from a banking arrangement to a risk pool as requested by the State Auditor's Office.