



March 25, 2013

Members of the Board of Directors, and the
Citizens of the Auburn School District

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for Auburn School District No. 408 for the fiscal year ended August 31, 2012. This report presents complete information about the district's financial position at year-end and financial activities during the fiscal year. We feel that the report illustrates the efforts of the administration to attain the financial goals established by the Board.

The accuracy of the data presented, including all disclosures and the completeness and fairness of the presentation, is the responsibility of the management of the District. The District's comprehensive framework of internal controls has been designed to provide reasonable assurance that the financial statements will be free from material misstatement. In addition to ensuring that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP), the District's internal control structure also provides reasonable assurance that the assets of the District are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that the cost of controls should not outweigh their benefits. Consequently, as management, we are able to assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Washington State statutes require that state school districts be audited by the Office of the State Auditor. That independent auditor's unqualified "clean" opinion on the District's financial statements for the year ended August 31, 2012 is located at the front of the financial section of this report. The independent audit of the District's financial statements was part of a federally mandated "Single Audit" required by federal agencies that have provided grants to the District. Single Audits require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the District's separate issued Single Audit Report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

District profile

Auburn School District provides public education to preschool through twelfth grade students. The public education provided includes a strong academic program of basic education, a comprehensive education for special education students, including preschool, a career and technical education program at the secondary level, a special program for academically gifted students, and alternative programs for those students requiring individualized learning opportunities.

The District is located in western Washington, in southern King and northern Pierce Counties. It includes the cities of Auburn, Algona and Pacific and small portions of the cities of Black Diamond and Kent. Auburn is approximately 28 miles southeast of the City of Seattle and 15 miles northeast of the City of Tacoma. The District covers an area of over 62 square miles with an estimated population of 84,947 residents. Auburn School District operates fourteen elementary schools, four middle schools and four high schools. Please see the Statistical Section, Schedule 22 for details of each building's size, age and enrollment.

Student enrollment figures presented below are for historical and projected October 1 full-time equivalent students.

	Historical		Projected
October	Enrollment	October	Enrollment
2012	14,596	2013	14,661
2011	14,363	2014	14,920
2010	14,482	2015	15,147
2009	14,589	2016	15,554
2008	14,703	2017	15,871

Auburn School District is a legally separate entity enjoying all rights and privileges accorded political subdivisions in the State of Washington. The District is fiscally independent. Policymaking and legislative authority are vested in the Board of Directors consisting of five members elected by the voters of the District for staggered four-year terms. The Board is responsible for, among other things; developing policy, adopting the budget, levying taxes, incurring bonded debt, supervising committees, and hiring the Superintendent.

Budgetary control is maintained at the fund level that is the legal level of budgetary control. The district records encumbrances when a commitment is made for the acquisition of goods or services in order to facilitate effective budgetary control. Encumbered amounts lapse at the end of the fiscal year. However, they are generally reappropriated as a part of the following annual budget.

Local economy

Auburn is enjoying an increasingly diversified economy made possible by its location, its greatest economic asset. Near two major ports, two excellent rail hubs and the intersection of two major state highways, Auburn has attracted successful regional warehouse and distribution facilities, a regional medical center, entertainment facilities such as casinos and an amphitheater, a regional shopping mall and federal agencies such as the Federal Aviation Administration (FAA), the Social Security Administration and Region 10 of the U.S. General Services Administration (GSA).

As the district's largest employer and taxpayer, the Boeing Fabrication Division continues with a steady 6% of assessed valuation for property tax purposes. The projected future shape of the Boeing Company will continue to include the Auburn fabrication plant as it works to fill a

seven-year global backlog of airplane orders. Boeing jobs account for only 17.5% of the employment base in Auburn as the local economy continues to diversify.

A bright spot in the local economy continues to be the economically successful ventures of the Muckleshoot Indian Tribe. As the second largest employer in the district, the tribe operates two casinos generating \$2 million dollars a day in revenue, a bingo hall, an amphitheater for large outdoor concerts by big name entertainers, small shopping malls and smoke shops.

With a large stock of affordable housing as well as large new residential developments, Auburn continues to be a popular choice for young families. Conveniently located between Seattle and Tacoma as well as being close to several large employers such as Weyerhaeuser, the SuperMall, an Amazon distribution center and other large Boeing plants, Auburn residents enjoy short commutes and have time to participate in school and community activities.

Long-term financial planning

The 2004-05 Citizen's Ad Hoc Committee recommended the district conduct a detailed review of all district facilities and develop a Facilities Master Plan. In 2006, the school district began preparation of a Facilities Master Plan to address Auburn School District's facility needs during the next 10 years. This process included the formation of a Steering Committee in 2008 to provide recommendations for facility modernizations, replacement facilities, new facilities and property acquisitions. The Steering Committee recommended replacement of Auburn High School, Olympic Middle School, Chinook, Dick Scobee, Lea Hill, Pioneer and Terminal Park Elementary Schools. All of these schools have exceeded their economic life span and have an estimated cost of modernization that is more than 70% of their replacement cost.

As the first phase of this facility modernization process, voters passed a proposition for a \$46,400,000 capital improvements levy to fund improvements at 18 schools and six support facilities. After reviewing over 2,700 proposed projects, the Steering Committee selected those improvements that will reduce operating costs, improve health and safety, enhance learning and facility operations, improve accessibility and support physical activity and community uses. The capital improvements levy is for six years beginning in 2010 for the 2010-11 school year through 2015 for the 2015-16 school year. The levies are as follows:

\$12,000,000 for 2010 tax year at an actual rate of \$1.35 per \$1,000 of assessed value
\$10,000,000 for 2011 tax year at an actual rate of \$1.40 per \$1,000 of assessed value
\$11,700,000 for 2012 tax year at an actual rate of \$1.44 per \$1,000 of assessed value
\$ 3,900,000 for 2013 tax year at an estimated rate of \$.50 per \$1,000 of assessed value
\$ 4,400,000 for 2014 tax year at an estimated rate of \$.56 per \$1,000 of assessed value
\$ 4,400,000 for 2015 tax year at an estimated rate of \$.55 per \$1,000 of assessed value

District voters also approved a four year replacement levy on February 14, 2012 to maintain current education programs and services. Although it is the State's "paramount duty" under the State constitution to make "ample" provision" for education, the District must seek additional local funding of about 28.9% of general operational expenditures to provide quality educational programs for all students. Over 43% of levy dollars are spent for an additional 100 educators and support staff to lower class size especially in kindergarten through third grade. Research has shown that funds spent on early education reap the biggest achievement gains in student

learning. Consequently Auburn School District's 2012 state test scores are the highest in district history and above the state average in reading, writing and mathematics.

The balance of the replacement levy dollars are spent on other programs and operations underfunded by the state. These include special education services for special needs students, all athletic and activities programs, honors and college advanced placement programs, teacher training, curriculum adoptions, summer school programs, pupil transportation operations and maintenance and custodial services. These levies are as follows:

\$33,600,000 for 2013 tax year at an estimated rate of \$4.05 per \$1,000 of assessed value
\$35,600,000 for 2014 tax year at an estimated rate of \$4.16 per \$1,000 of assessed value
\$37,600,000 for 2015 tax year at an estimated rate of \$4.31 per \$1,000 of assessed value
\$39,600,000 for 2016 tax year at an estimated rate of \$4.45 per \$1000 of assessed value

The combined tax rate for all funds including the capital improvements levy above was \$6.14 per \$1,000 of assessed value for 2012.

On November 6, 2012, voters approved the second phase of the facility modernization plan by passing a \$110 million Auburn High School Modernization and Reconstruction bond. Funds will be used to build a new three story Auburn High School classroom building and modernize the Performing Arts Center and Automotive Technology buildings. Tentative plans call for three bond sales beginning with \$59,265,000 on January 8, 2013, followed by sales in December 2013 and 2014. The combined tax rate for all funds is projected to be \$6.62 per \$1,000 of assessed value for 2013.

As part of the January 8, 2013 bond sale, the District also advance refunded \$20,000,000 of the 2005 bond issue. This refunding will result in over \$3 million of savings over the life of the bonds from 2013 to 2024. It has always been the District practice to aggressively refinance bonds whenever it has been financially advantageous.

Relevant financial policies

As a budget policy, the District does not use one-time funds for ongoing District operations. As an example, Federal stimulus funds were generally used for one-time expenditures such as supplies, equipment and pilot projects.

District policies require line item control on all budgeted expenditures. Principals, program administrators and grants managers are held accountable for their building and program allocations.

Tax levies and bond issues are structured to maintain a level annual tax burden on District tax payers.

Major initiatives

Capital projects. A major initiative of the 2012 year was to obtain community support for the \$110 million Auburn High School Modernization and Reconstruction Bond. While a majority of voters in Auburn School District voted yes on February 14, 2012 for the bond issue, the vote did not meet the 60% threshold necessary for passage. The measure received a 56.24% yes vote.

When it was resubmitted to the voters on November 6, 2012, the measure passed with a 62% yes vote.

The community's support to begin the critical reconstruction of Auburn High School is a testament to Auburn's commitment to provide 21st century teaching and learning environments for all students. Auburn High School, built in 1950 and expanded five times since then, needs to be replaced because the cost to remodel the school exceeds 70% of the cost of a new building. The construction of the new three story brick classroom building will be on the East Main Street side of the current campus so students can safely remain in the current building on 4th Street NE during the project. This building is scheduled to open September 2014 when improved energy efficiencies will begin to save the District \$250,000 in annual operating costs. By the time that the last phase of the project is finished in 2016, the performing arts center and auto shop buildings will be modernized, over 300 parking stalls will have been added, and new synthetic turf baseball and softball fields will be completed.

Foundation. Another major initiative during the year was the creation of the Auburn Public Schools Foundation (APSF), a new independent, community-based, non-profit 501(c)3 organization. The foundation recognizes the fact that public funds alone cannot adequately support the essential efforts to advance student achievement in the District. Its mission is to build financial partnerships with individuals, corporations and foundations so that all students have the resources they need to achieve academic excellence. APSF plans to raise funds through corporate donations, grants, gifts, corporate sponsorships and special events with various alumni groups.

Grants. Auburn School District joined six other King County school districts-Federal Way, Highline, Kent, Renton, Seattle and Tukwila to win a \$40 million Race to the Top grant. It was one out of 16 winners selected out of 372 applications nation-wide and 1 of only 2 applicants to win the maximum award of \$40 million. The winning plan covers 261 schools and 150,000 students, including 36,000 high-needs children. The districts will use the four-year grant to implement plans to help students "Start Strong," be "STEM Strong" and "Stay Strong". It will provide funds to help districts work with preschools and early learning programs to help kids be ready to start their academic lives strong in kindergarten. Funds will be provided to support Science, Technology, Engineering and Math (STEM) career readiness programs. The grant will also support strategies that will help more students stay strong and be successful in postsecondary education.

Awards and acknowledgements

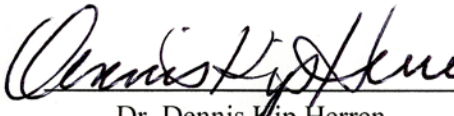
The Association of School Business Officials (ASBO) established the Certificate of Excellence in Financial Reporting Program to encourage school districts to publish outstanding financial reports. ASBO has awarded a Certificate of Excellence to Auburn School District No. 408 for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2011 its twenty-third such award for the district. In order to be awarded such a certificate, a school district must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which must conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. This certificate is valid for a period of one year.

We believe our current report continues to conform to the principles and standards of the Certificate of Excellence program requirements, and we are submitting it to ASBO to determine its eligibility for another certificate.

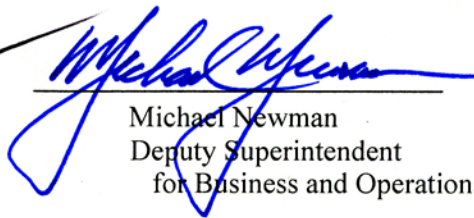
We would like to express our appreciation to the school board, managers, principals, and program directors for their responsible participation in the sound financial management of the district. We wish to thank the Washington State Auditor's Office for the timely completion of their audit and their professional assistance in the preparation of this report. Special appreciation is also expressed to the entire Business Services staff for the excellent maintenance of the financial records of the district and the preparation of this report.

The financial section of this report, which immediately follows this introductory section, includes the financial statements and supplemental data of the district accompanied by our auditor's opinion. It is followed by the statistical section, which contains a number of tables of unaudited data depicting the financial history of the district for the past 10 years, information on overlapping governments, and demographic and other miscellaneous statistics.

Respectfully submitted,



Dr. Dennis Kip Herren
Superintendent and
Board Secretary



Michael Newman
Deputy Superintendent
for Business and Operations