

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Auburn School District No. 408, we offer readers of the district's comprehensive annual financial report (CAFR) this narrative overview and analysis of the financial activities of the district for the fiscal year ended August 31, 2012.

FINANCIAL HIGHLIGHTS

- The district's net assets of governmental activities as of August 31, 2012 were \$201,589,434.
- During the year, the district had revenues that were \$6.8 million greater than the \$153.1 million in expenses incurred for all governmental activities, resulting in a corresponding increase in the district's net assets.
- The general fund expenditures exceeded revenues by \$1.3 million.
- In May of the fiscal year, the district saved taxpayers over \$1.4 million by refunding prior year bonds.
- District taxpayers approved a \$110 million Auburn High School Modernization and Reconstruction Bond on November 6, 2012. The money will be used to reconstruct aging Auburn High School including facility upgrades to address educational program needs. The project will also incorporate safety and energy improvements that will save the district \$250,000 in annual maintenance and operations costs. In addition, funds will be used to modernize the Auburn High School's Performing Arts Center and Automotive Technology buildings. The project is eligible for \$25 million in State matching funds.
- On January 8, 2013, the district sold \$78,855,000 in unlimited tax general obligation and refunding bonds. The new money portion of the bonds, in the amount of \$59,265,000, represents the first series of bonds issued under the \$110 million bond authorization described above. The balance of the sale of \$19,590,000 advance refunded the \$20 million of the 2005 bonds. The total net savings of \$3,013,853 had a net present value of \$2,601,687 as of January 22, 2013 the bond sale settlement date.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: an introductory section, a financial section, and a statistical section. The financial section includes the independent auditor's report, management's discussion and analysis, the basic financial statements and related notes to the financial statements.

The basic financial statements consist of a series of statements that present different financial views of the district:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the district's overall financial status and activities. For district activities, these statements tell how these services were financed in the short term as well as what remains for future spending.
- All of the remaining statements are *fund financial statements* that report district

operations in more detail by providing information about the district's most significant funds. Information is also provided about activities for which the district acts solely as a trustee for the benefit of those outside of the government.

DISTRICT-WIDE FINANCIAL STATEMENTS

The district-wide financial statements are designed to provide a broad overview of district finances, similar to a private-sector business. The *statement of net assets* presents information on all of the assets and liabilities of the district. The difference between the two is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying financial event takes place, regardless of when the cash is actually received or disbursed. Thus, revenues and expenses are reported in this statement for some items that will result in cash receipts or disbursements in future fiscal periods. Earned but unused vacation leave and uncollected taxes are examples of these types of items.

FUND FINANCIAL STATEMENTS

A fund is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The district uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All district funds can be divided into two categories: governmental funds and fiduciary funds.

GOVERNMENTAL FUNDS

Governmental funds account for essentially the same functions reported as governmental activities in the *district-wide financial statements*. However, unlike these statements, *governmental fund financial statements* focus on how money flows into and out of the funds and the balances left at year-end that are available to spend. These funds use an accounting method called *modified accrual accounting* which measures cash and all other financial assets that can easily be converted to cash. Such information may be useful in evaluating the district's ability to finance the district's educational programs and support operations in the near future.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the *district-wide financial statements*. By doing so, readers may better understand the long-term impact of the district'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 this comparison between governmental funds and governmental activities.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the *governmental fund statement of revenues, expenditures and changes in fund balance* for the General Fund, Associated Student Body (ASB) Fund, Capital Projects Fund, Transportation Vehicle Fund and the Debt Service Fund, all of which are considered major funds.

FIDUCIARY FUNDS

The district is the trustee or fiduciary, for individuals, private organizations and other governments for scholarships and to employees for an employee benefit trust for vision services.

All of the district's fiduciary activities are reported in a separate *statement of fiduciary net assets* and *changes in fiduciary net assets* under the fiduciary financial statement section. These activities are excluded from the district's other financial statements because the district cannot use these assets to finance its operations. The district is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

STATEMENT OF NET ASSETS

Net assets may serve as a useful indicator of the district's financial position. Auburn School District's assets exceed liabilities by \$201,589,434 at the end of the fiscal year, August 31, 2012.

Approximately 66.5% of net assets are the investment in capital assets such as land, buildings and equipment less any related outstanding debt used to acquire those assets. The district continues to modernize various schools to meet student needs. These assets are not available for future spending. The remainder consists of amounts restricted for capital projects, debt service and other purposes, with \$26 million unrestricted.

The increase in total net assets for the year was \$6,757,244. Key elements of this increase are as follows:

Auburn School District's Net Assets			
August 31, 2012 and 2011			
	Governmental Activities		
	2012	2011	Change
Current and other assets	\$ 73,566,857	\$ 75,354,162	\$ (1,787,305)
Capital assets	235,859,457	230,573,165	5,286,292
Total assets	309,426,314	305,927,327	3,498,987
			-
Other liabilities	6,117,423	6,698,550	(581,127)
Long-term debt outstanding	101,719,457	104,396,587	(2,677,130)
Total liabilities	107,836,880	111,095,137	(3,258,257)
			-
Net assets			-
Invested in capital assets, net of related debt	146,736,281	137,067,119	9,669,162
Restricted	28,855,651	25,920,648	2,935,003
Unrestricted	25,997,502	31,844,423	(5,846,921)
Total Net Assets	\$ 201,589,434	\$ 194,832,190	\$ 6,757,244

STATEMENT OF ACTIVITIES

Governmental activities improved the district's overall financial position, increasing the district's net assets by \$6,757,244. Key elements of the increase are as follows:

AUBURN SCHOOL DISTRICT'S Changes in Net Assets			
Governmental Activities			
For the Fiscal Years Ended August 31, 2012 and 2011			
<u>Revenues</u>	2012	2011	Changes
Program Revenues			
Charges for services	\$ 5,403,153	\$ 5,239,221	\$ 163,932
Operating grants and contributions	28,342,502	32,499,827	(4,157,325)
Capital grants and contributions	3,204,811	1,158,945	2,045,866
General revenues			
Property taxes for levies for educational programs	29,863,934	30,583,209	(719,275)
Property taxes for levies for debt service	7,750,422	8,211,474	(461,052)
Property taxes for levies for capital improvements and technology	10,158,388	14,550,420	(4,392,032)
Unallocated state apportionment and other	74,884,134	72,679,379	2,204,755
Interest and investment earnings	288,206	361,412	(73,206)
Total Revenues	<u>159,895,550</u>	<u>165,283,887</u>	<u>(5,388,337)</u>
<u>Expenses</u>			
Regular instruction	85,774,558	81,384,392	4,390,166
Special instruction	17,423,833	15,719,955	1,703,878
Vocational instruction	5,855,583	6,065,799	(210,216)
Compensatory education	8,267,625	13,912,526	(5,644,901)
Other instructional programs	1,075,753	782,067	293,686
Community services	916,705	811,372	105,333
Support services	16,454,457	15,884,498	569,959
Child nutrition services	5,114,428	4,927,536	186,892
Pupil transportation services	6,527,948	6,545,122	(17,174)
Extracurricular activities (ASB)	2,198,599	2,265,631	(67,032)
Interest on long-term debt	3,528,817	3,499,072	29,745
Total Expenses	<u>153,138,306</u>	<u>151,797,970</u>	<u>1,340,336</u>
Increase (decrease) in Net Assets	6,757,244	13,485,917	(6,728,673)
Beginning Net Assets	194,832,190	181,346,273	13,485,917
Ending Net Assets	<u><u>\$ 201,589,434</u></u>	<u><u>\$ 194,832,190</u></u>	<u><u>\$ 6,757,244</u></u>

The largest revenue decrease of almost \$4.4 million was for property tax levies for capital improvements and technology. The combined levy for calendar year 2012 was \$11,700,000 compared to the 2011 levy of \$13,900,000 and the levy of \$12,000,000 for calendar year 2010. The differences between the calendar levy year and the district accounting fiscal year as well as the differences between accrual and cash basis accounting yields the drop in property tax revenue. Cash collections for fiscal year 2011-12 were \$12,593,236 compared to cash collections of \$12,823,621 for fiscal year 2010-11 for a cash basis difference of only \$230,385. Operating grants and contributions decreased by almost \$4.2 million due to the expiration of American Recovery and Reinvestment Act (ARRA) federal grants. This drop in revenue was offset by an increase of over \$2 million dollars of state general apportionment dollars, a state energy grant for \$1.3 million and over \$1 million in City of Auburn impact fees for new residential construction permits.

The decrease in expenditures of \$5.6 million in compensatory education was offset by increases of \$4.39 million in regular instruction and \$1.7 million in special instruction as federal compensatory staff were moved to regular and special education programs.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The focus of the district's *governmental funds* is to provide information on short-term cash inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's net resources available for spending at the end of the fiscal year.

As the district completed the fiscal year, its governmental funds (as presented in the balance sheets in the Governmental Fund Financial Statement section) reported a combined fund balance of \$68,644,901, an increase of \$113,867 over the prior year combined fund balance of \$68,531,034. This change is the result of the following factors:

GENERAL FUND

The General Fund is the major operating fund of the district, providing the majority of the resources for educational programs and support operations.

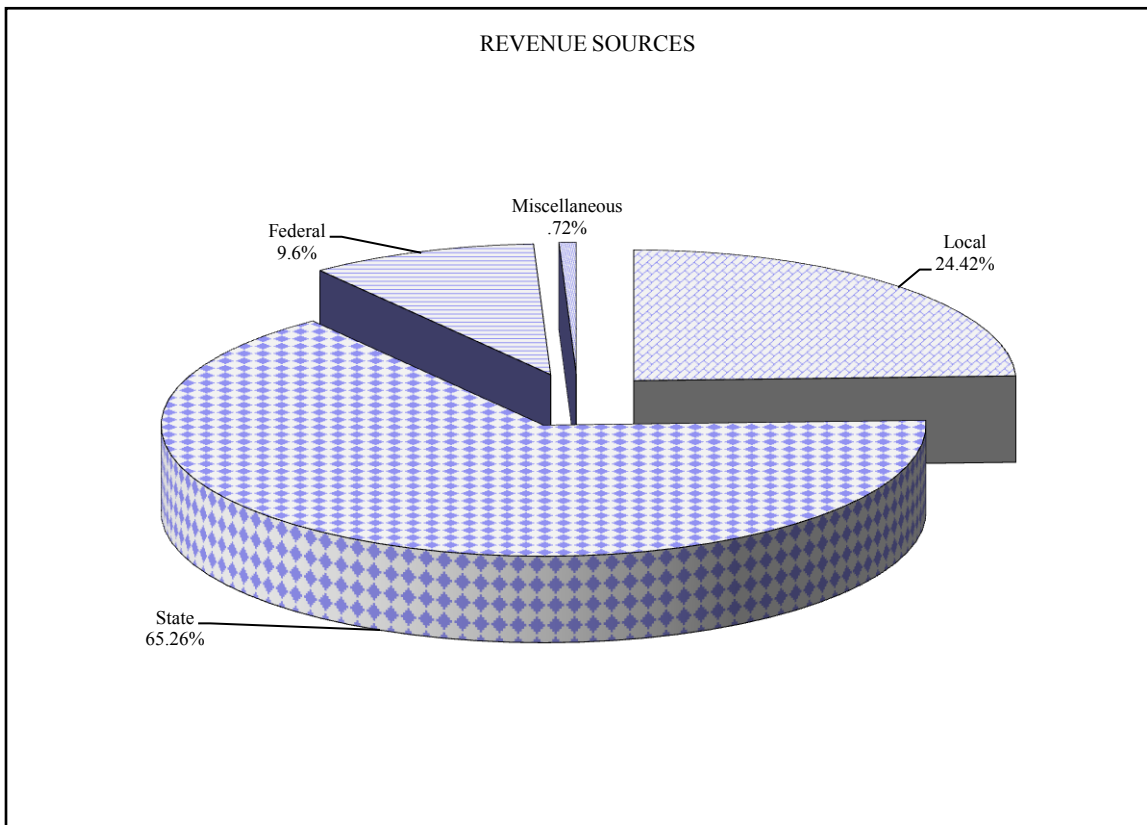
GENERAL FUND REVENUES

Revenues for the General Fund totaled \$135,805,686 in the fiscal year ending August 31, 2012. This was \$593,455 or .44% more than the prior year. The State of Washington provides over 65% or the largest portion of the District's revenue. Local revenues from local property taxes, and local fees and charges account for over 24% of total revenues. Federal grants provide just under 10% of revenue.

GENERAL FUND REVENUES

Revenue Source	2011-12	2010-11	Increase (Decrease) Amount	Increase (Decrease) Percent
Local Taxes & Non-taxes	\$ 33,160,352	\$ 31,568,350	\$ 1,592,002	5.04%
State Revenues	88,627,797	85,579,465	3,048,332	3.56%
Federal Revenues	13,042,232	17,135,473	(4,093,241)	-23.89%
Other Revenues	<u>975,305</u>	<u>928,943</u>	<u>46,362</u>	4.99%
Totals	<u>\$ 135,805,686</u>	<u>\$ 135,212,231</u>	<u>\$ 593,455</u>	0.44%

The increase of \$1,592,002 in local taxes and other local sources was primarily due to the increase in the special property tax levies approved by the voters. Calendar year 2012 levy was \$30,317,828 compared to the 2011 levy of \$29,400,000 and the 2010 levy of \$25,991,256. State revenue grew by \$3,048,332 compared to the prior year primarily as the result of the state legislature replacing \$2.8 million of state funds for federal American Recovery and Reinvestment Act (ARRA) grant funds that expired the prior year. Federal revenues decreased by \$4,093,241 primarily due to the expiration of the American Recovery and Reinvestment Act (ARRA) federal stimulus grants. Other revenues increase slightly by \$46,362 due to increased reimbursement from other districts for out of district transportation of homeless students.



GENERAL FUND EXPENDITURES

Expenditures in the General Fund totaled \$137,089,721 for the fiscal year. This represents an increase of \$2,333,330 or 1.73% over the prior year.

<u>GENERAL FUND EXPENDITURES</u>	2011-12	2010-11	Increase (Decrease) Amount	Increase (Decrease) Percent
Current				
Regular Instruction	\$ 78,528,993	\$ 73,870,533	\$ 4,658,460	6.31%
Special Education	16,643,184	14,735,842	1,907,342	12.94%
Vocational Instruction	5,475,188	5,654,358	(179,170)	(3.17%)
Compensatory Education	7,715,152	12,900,946	(5,185,794)	(40.20%)
Other Instructional Programs	1,006,558	670,850	335,708	50.04%
Community Services	902,401	794,902	107,499	13.52%
Support Services	15,959,864	15,402,775	557,089	3.62%
Child Nutrition Services	5,053,335	4,814,488	238,847	4.96%
Pupil Transportation Service	5,702,805	5,782,168	(79,363)	(1.37%)
Capital Outlay				
Equipment	102,241	129,529	(27,288)	(21.07%)
Totals	<u>\$ 137,089,721</u>	<u>\$ 134,756,391</u>	<u>\$ 2,333,330</u>	1.73%

The increase of \$4.7 million in state funded regular instructional expenditures and \$1.9 million in state funded special education expended instruction were offset by a decrease of \$5.2 million in federally funded compensatory instruction. Federal Stimulus ARRA grant funds expired at the same time as state funds increased causing a shift of resources from federal programs to state funded programs.

Vocational instruction otherwise known as Career and Technical Education expenditures decreased slightly by 3.17% or \$179,170 over the prior year. This decrease was due to a drop in enrollment for vocational programs of approximately 92 FTE

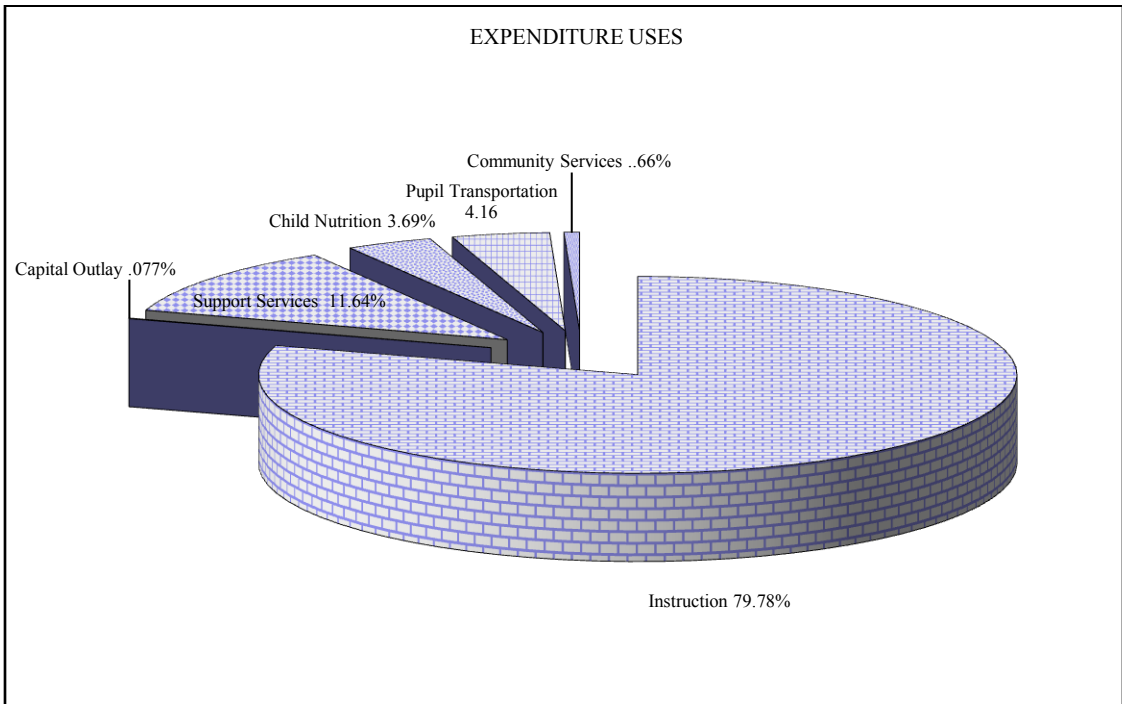
Other instructional program expenditures increased by \$335,708 due to the increase in a variety of special grants. These include an increase of over \$150,000 for the fiscal year from the Muckleshoot Indian Tribe for Indian education programs at Auburn High School, Olympic Middle School and Chinook Elementary School. The district was also awarded a \$75,000 Federal Emergency Management Agency (FEMA) grant to repair major wind storm damage to district facilities. In addition local PTA's and other community supporters increased their donations by over \$50,000 compared to the prior year.

Support service expenditures increased by \$557,089 compared to the prior year primarily due to the receipt in the prior year of over \$453,000 in water, sewer and garbage refunds at Auburn High School and two elementary schools. The refunds were due to the efforts of the district utility management program staff vigilant review and monitoring of all district utility costs.

The 4.96 % increase in child nutrition service expenditures was primarily the result of increases in food and food preparation costs of over \$176,000. In addition, employee benefit costs for retirement and health care increased by over \$50,000 compared to the prior year.

Pupil Transportation costs decreased slightly by 1.37% or \$79,363 during the year. Increasing

gasoline prices pushed total costs for bus fuel up almost \$83,000 compared to the prior year. However this was more than offset by the reduction of \$175,000 in salaries for bus drivers no longer needed due to more efficient bus routing. New software installed during the year generated this cost savings.



MAJOR FUND BUDGETARY HIGHLIGHTS

Appropriations are a prerequisite to expenditures in the governmental funds. Appropriations lapse at the end of the fiscal year. The fiscal year 2011-12 budget adopted by the Board of Directors for the district totaled \$180,340,024 including General Fund appropriations of \$142,565,696, Special Revenue Fund (ASB) appropriations of \$4,026,384, Debt Service Fund appropriations of \$8,232,944, Capital Projects Fund appropriations of \$24,050,0000 and Transportation Vehicle Fund appropriations totaling \$1,465,000.

Reasons for the significant variances in the general fund between the budget and actual results include:

- Total actual general fund revenues were only \$84,651 less than budgeted. While anticipated local grants were \$845,019 less than expected and the district did not receive \$224,777 in anticipated E-Rate funds, federal grants were \$1,091,382 more than projected. These additional federal grant revenues included Special Education Safety Net revenues of \$271,144, an increase of \$264,597 for Medicaid Administrative Match, \$127,211 for Medicaid Reimbursements for Special Education services, \$204,554 of increased reimbursement from the USDA breakfast and lunch program, an increase of \$56,641 for USDA commodities for the breakfast and lunch program and \$120,822 of increased Title II funds.
- Expenditures of \$137,089,721 were \$5,475,975 less than the budgeted \$142,565,696 as a result of several cost saving initiatives. Of these initiatives, careful supply management in every school and department yielded the most significant savings of \$1.8 million compared to budget. Energy audits and conservation programs instituted by the

district maintenance department produced utility expenditures approximately \$1 million below budget. Employee benefits were also below budget by about \$815,000 primarily due to less than projected benefit rate increases. In addition, local grant program expenditures were almost \$1 million less than projected due to less than projected local grant revenues.

Reasons for the significant variances in the capital projects fund between the budget and actual results include:

- Local Non-taxes that were \$912,391 more than projected. This was primarily because school impact fees exceeded projections by \$639,000 and Puget Sound Energy provided an unexpected \$191,321 in rebates for energy improvements at several district schools.
- Expenditures that were \$10.3 million less than projected because many projects were still in the planning stage.

Revenues were less than projected in the Associated Study Body Fund by approximately \$1.8 million and expenditures were less than projected by a similar amount. Students and their adult advisors did an outstanding job of living within their reduced revenue. Student fundraising has been adversely impacted by the decline in the economy.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The District's investment in capital assets for its governmental type activities as of August 31, 2012 amounted to \$235,859,457 (net of accumulated depreciation of \$106,516,031). This investment in capital assets includes land, buildings, land and building improvements, furniture and equipment.

During the fiscal year, \$1,612,630 was added to land, \$228,488 was added to buildings for improvements that met the capitalization policy of \$100,000, \$171,673 was added to equipment that met the capitalization policy of \$5,000 per unit, and \$9,576,537 was added to construction in progress primarily for future school sites and modernization projects. Surplused equipment that originally cost \$1,251,833 was removed from the books. Items with a market value were sent to the State of Washington Surplus Property Department to be sold at auction. All other items were sent to the King County Refuse Station.

See Note 4, Changes in Capital Assets, for more information.

CAPITAL ASSETS			
	Capital Assets	Accumulated Depreciation	Net
Land	\$ 22,990,609	\$ -	\$ 22,990,609
Building & Improvements	261,607,138	(93,935,550)	167,671,588
Equipment	17,548,050	(12,580,481)	4,967,569
Construction In Progress	40,229,691	-	40,229,691
Total	\$ 342,375,488	\$ (106,516,031)	\$ 235,859,457

DEBT ADMINISTRATION

At the end of the current fiscal year, the district had \$87,125,000 in unlimited general obligation bonds outstanding. This debt is secured by a pledge of the full faith and credit of the district. \$2,285,000 of that debt is due within the next twelve months.

The Washington State Constitution and the Revised Code of Washington 39.36.015 and 39.36.020 limit the amount of general obligation (GO) debt that may be issued. With a vote of the people, debt cannot be incurred in excess of 5% of the value of the taxable property of the district, provided the indebtedness in excess of 2.5% is for capital outlay. For the fiscal year ended August 31, 2012, the maximum GO debt authorized by statutory limit was \$407.3 million. The district had \$87.125 million of debt outstanding at August 31, 2012, that was subject to that limitation. With \$2.044 million of assets in the Debt Service Fund available for payment of principal, there is a legal debt margin of \$322.2 million.

On April 23, 2012 Moody's Investor Service migrated the district's Municipal Scale Rating to a Global Scale Rating. As a result of this migration, the district's rating was changed from A1 to Aa2. This rating was reaffirmed on December 21, 2012. Additional information on the district's bonded debt obligations is presented in Note 8.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2012-13 appropriations for governmental funds of the district were approved at \$186,831,525. For calendar year 2012, the total property tax rate for special levies was \$6.14 per \$1,000 of assessed property value. The projected rate for 2013 is \$6.62 per \$1,000 of assessed value. Total assessed value declined by 4.9% from \$8.57 billion to \$8.15 billion during 2012. For 2013, the projected assessed valuation is \$7.78 billion, a decrease of 4.5% from the prior year.

The district serves the cities of Auburn, Pacific, Algona, and parts of Kent and Black Diamond as well as portions of unincorporated King and Pierce Counties. The outlook for the local economy for 2013 is one poised for continued growth as new businesses locate here, diversifying the tax base. Auburn is a participant in the resilient Puget Sound economy as indicated by the drop in the unemployment rate from 8.1% in 2011 to 7.1% in 2012. Auburn's economy has been relatively stable as many of its basic industries have been somewhat insulated from economic downturns. This has been reflected in relatively stable property tax collection rates with no noticeable declines.

The Boeing Company is the largest single employer and tax payer in the City of Auburn with a steady 6% of assessed valuation. Other major employers include the Auburn School District, the Muckleshoot Tribal Casino, Auburn Regional Medical Center, Green River Community College, Emerald Downs Racetrack, the Social Security Administration, the Federal Aviation Administration and the Auburn Supermall. In 1990, Boeing accounted for 71% of all jobs in the City of Auburn. Today, Boeing jobs account for only 17.5% of the employment base in Auburn as the local economy continues to diversify. The projected future shape of the Boeing Company includes the Auburn Fabrication plant as it works to fill a seven-year global backlog of airplane orders.

Over the last decade, Auburn's location has enabled it to diversify from primarily aircraft manufacturing to becoming a regional hub for wholesale distribution centers, entertainment complexes, medical centers, a large shopping mall, a commuter rail center and federal government administration centers. Auburn will continue to reap economic benefits from its location far into the future. According to the City of Auburn, some of the most recent and

significant projects are:

- Orion Industries, Boeing Supplier of the Year, recently announced plans to move 265 employees to a new 100,000 square-foot facility in Auburn. Orion expects to open the facility in November 2013. Management cited as reasons to locate, Auburn's close proximity to a growing cluster of aerospace suppliers as well as increased accessibility to public transportation for staff.
- Auburn Junction, a four-block downtown redevelopment project near the Transit Station, is valued at \$240 million. It will eventually offer 750,000 square feet of retail, office and living space. Since the State Legislature has identified the project as a demonstration project, the City has received \$6.3 million in resources to finance infrastructure improvements in the downtown area. These improvements include the South Division Street Promenade Project and the City Hall Plaza Project.
- The Robertson Property Group (RPG) plans to turn a former drive-in movie complex into a 70-acre multi-phased, mixed-use residential and retail development. The Auburn Gateway project will have 720,000 square feet of retail, 500 residential units and up to 1.6 million square feet of office space.
- The Pacific Raceways motorsports complex will be expanding to include a new oval racetrack and a racing industrial park with one million square feet of industrial space with room for retail. The plan, which is estimated to cost \$135 million, will meet the higher standards of car clubs and other racing groups thereby attracting more high profile racing events.
- Amazon has opened a new 500,000 square foot shipping and receiving facility in the nearby Sumner Industrial Park. It is bringing hundreds of family wage full-time jobs to the area.

REQUESTS FOR INFORMATION

This financial report is designed to provide the district's citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, visit www.auburn.wednet.edu or contact

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