

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, 2016.

FINANCIAL HIGHLIGHTS

- The district’s net position of governmental activities as of August 31, 2016 was \$170,973,684.
- During the year, the district had revenues that were \$15.1 million greater than the \$209.9 million in expenses incurred for all governmental activities.
- The general fund revenues exceeded expenditures by \$3,917,831.
- In the coming school year 2016-17, The Board of Directors of the Auburn School District No. 408 adopted Resolution No. 1220 concerning a proposition to reduce overcrowding, modernize learning environments, and improve safety. This proposition will authorize the District to construct and equip two new elementary schools; rebuild and equip Chinook Elementary, Dick Scobee Elementary, Lea Hill Elementary, Pioneer Elementary, Terminal Park Elementary schools and Olympic Middle School. The funds may also be used to acquire sites as needed to accomplish these capital projects. The proposition authorizes the District to issue \$456,056,000 of general obligation bonds and to levy property taxes annually to repay the bonds over a period of 20 years.

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 position* presents information on all of the assets and liabilities of the district. The difference between the two is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the district’s net position changed during the most recent fiscal year. All changes in net position 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. All of the district's fiduciary activities are reported in a separate *statement of fiduciary net position and changes in fiduciary net position* 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 this fund are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

STATEMENT OF NET POSITION

The financial statements of the district present an increased financial position as reflected in the statement of net position. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash was received or paid.

These statements report the district's net position and changes in them. The district's net position (the difference between assets and liabilities/deferred inflows) may be viewed as one way to measure the district's financial health or financial position.

Auburn School District’s assets exceeded liabilities by \$170,973,684 at the end of the fiscal year, August 31, 2016.

The **INCREASE** in total net position for the year was \$14,062,933. Key elements of this increase are as follows:

Auburn School District's Net Position August 31, 2016 and 2015			
	Governmental Activities		
	2016	2015	Change
Current and other assets	\$109,121,201	\$ 107,150,872	\$ 1,970,329
Capital assets	344,672,286	341,116,463	3,555,823
Deferred charges on refunding	3,939,095	4,448,114	(509,019)
Deferred outflows on pensions	12,896,195	4,703,129	8,193,066
Total Assets & Deferred Outflows	\$470,628,777	\$457,418,578	\$13,210,199
			-
Other liabilities	5,140,630	10,369,853	(5,229,223)
Long-term debt outstanding	292,788,400	277,834,438	14,953,962
Deferred inflows on pensions	1,726,063	12,435,991	(10,709,928)
Total Liabilities & Deferred Inflows	299,655,093	300,640,282	(985,189)
			-
Net Position			-
Net investment in capital assets	181,169,526	180,154,494	1,015,032
Restricted	45,415,030	27,571,360	17,843,670
Unrestricted	(55,610,872)	(50,947,558)	(4,663,314)
Total Net Position	\$170,973,684	\$156,778,296	\$14,195,388

By far, the largest portion of the Auburn School District’s net position (73%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Auburn School District uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although, the Auburn School District’s investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Auburn School District’s net position (27%) represents resources that are subject to external restrictions on how they may be used.

STATEMENT OF ACTIVITIES

Governmental activities improved the district's overall financial position, increasing the district's net position by \$14,062,933. Key elements of the increase are as follows:

AUBURN SCHOOL DISTRICT'S Changes in Net Position Governmental Activities For the Fiscal Years Ended August 31, 2016 and 2015			
<u>Revenues</u>	2016	2015	Changes
Program Revenues			
Charges for services	\$5,587,997	\$ 4,982,693	\$ 605,304
Operating grants and contributions	52,682,617	52,591,086	91,531
Capital grants and contributions	3,119,462	2,593,835	525,627
General revenues			
Property taxes for levies for educational programs	39,871,612	37,948,616	1,922,996
Property taxes for levies for debt service	17,250,630	10,862,080	6,388,550
Property taxes for levies for capital improvements and technology	1,263,161	9,941,113	(8,677,952)
Unallocated state apportionment and other	-	-	-
Interest and investment earnings	104,950,853	91,291,659	13,659,194
	580,856	499,289	81,567
Total Revenues	225,307,188	210,710,371	14,596,817
<u>Expenses</u>			
Regular instruction	120,063,554	99,499,733	20,563,821
Special instruction	24,574,378	21,915,880	2,658,498
Vocational instruction	7,084,268	6,736,229	348,039
Compensatory education	15,168,627	13,072,853	2,095,774
Other instructional programs	1,120,813	1,438,772	(317,960)
Community services	1,075,778	994,727	81,051
Support services	20,286,010	19,105,868	1,180,142
Child nutrition services	6,107,915	6,067,066	40,849
Pupil transportation services	7,732,771	7,219,884	512,887
Extracurricular activities (ASB)	2,333,145	2,189,386	143,759
Interest on long-term debt	5,696,997	5,932,437	(235,440)
Total Expenses	211,244,255	184,172,835	27,071,420
Increase (decrease) in Net Position	14,062,933	26,537,536	(12,474,603)
Beginning Net Position	156,778,296	223,910,984	(67,132,688)
Cumulative Change in Accounting Principle Pensions	-	(93,541,690)	93,541,690
Other Prior Period Adjustments	132,455	(128,534)	260,989
Ending Net Position	\$ 170,973,684	\$ 156,778,296	\$ 14,195,388

The largest revenue increase of \$13.6 million was the states construction match portion for the High School Project. Also, the increase in general apportionment is due to an increase in enrollment.

The largest revenue decrease of slightly under \$8.6 million is in the property taxes for levies for debt service. This is due to the differences between the calendars levy year and the district fiscal year as well as the differences between accrual and cash basis accounting account for the lack of accrual revenue for fiscal 2016.

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 \$70,092,896 and increase of \$6,734,117 over the prior year combined fund balance of \$63,358,779. This change is primarily the result of the spend down of the capital projects fund balance which is financing the Auburn High School remodel project. The increase in enrollment also helped revenues exceed expenditures in the general fund.

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

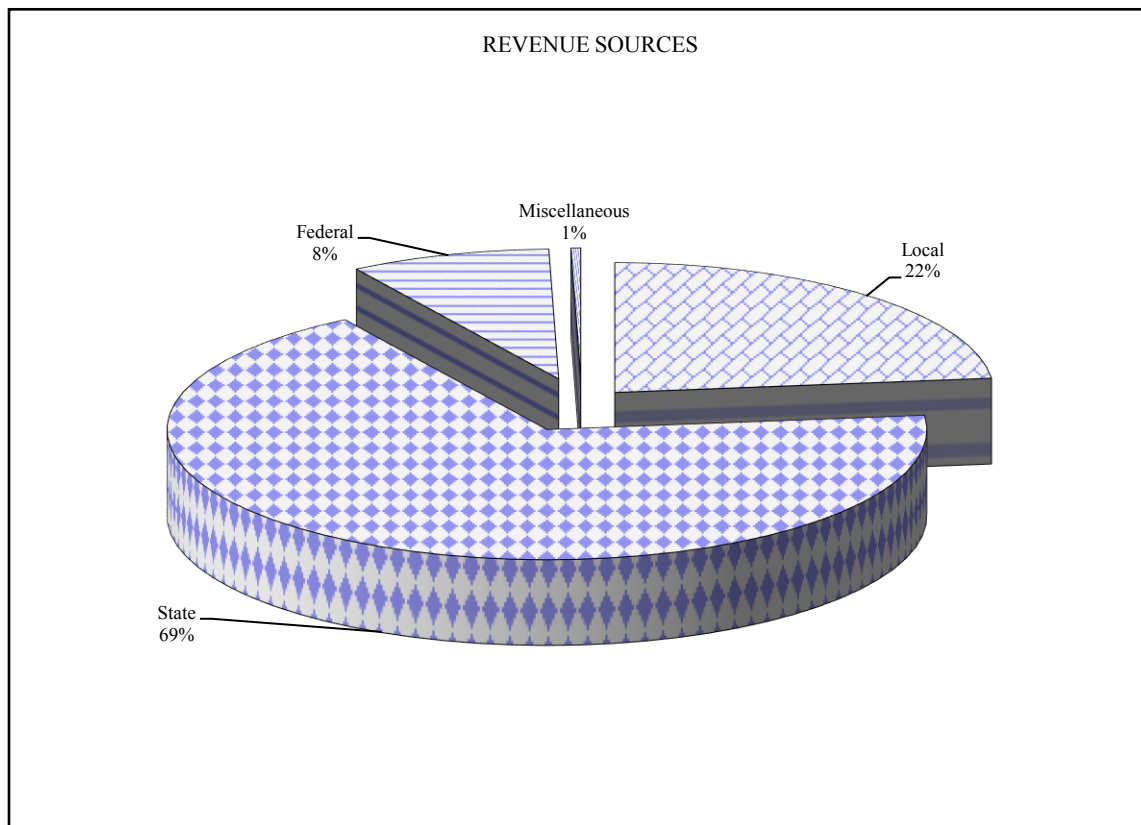
Revenues for the General Fund totaled \$188,864,146 in the fiscal year ending August 31, 2016.

This was \$20,205,634 or 11.98% more than the prior year. The State of Washington provides over 69% or the largest portion of the District's revenue. Local revenues from local property taxes, and local fees and charges account for over 22% of total revenues. Federal grants provide just over 8% of revenue.

GENERAL FUND REVENUES

<u>Revenue Source</u>	2015-16	2014-15	Increase (Decrease) Amount	Increase (Decrease) Percent
Local Taxes & Non-taxes	\$41,818,590	\$ 38,612,602	\$ 3,205,988	8.30%
State Revenues	130,555,954	114,521,643	16,034,311	14.00%
Federal Revenues	15,788,644	14,977,095	811,549	5.42%
Other Revenues	700,958	547,172	153,786	28.11%
Totals	<u>\$ 188,864,146</u>	<u>\$ 168,658,512</u>	<u>\$ 20,205,634</u>	11.98%

The increase of \$16,034,311 state revenues is due to an increase in enrollment, additional MSOC funding, and the addition of the new full day kindergarten funding. Federal revenues increased slightly by \$811,549 primarily due to the Districts participation in the Race to the Top grant.



GENERAL FUND EXPENDITURES

Expenditures in the General Fund totaled \$184,954,564 for the fiscal year. This represents an increase of \$17,193,177 or 10.25% over the prior year.

<u>GENERAL FUND EXPENDITURES</u>	2015-16	2014-15	Increase (Decrease) Amount	Increase (Decrease) Percent
Current				
Regular Instruction	\$105,595,810	\$94,453,405	\$ 11,142,405	11.80%
Special Education	23,339,986	20,973,072	2,366,914	11.29%
Vocational Instruction	6,622,913	6,289,673	333,240	5.30%
Compensatory Education	14,286,026	12,400,497	1,885,529	15.21%
Other Instructional Programs	1,057,625	1,358,427	(300,802)	-22.14%
Community Services	1,044,885	891,328	153,557	17.23%
Support Services	19,492,151	18,692,312	799,839	4.28%
Child Nutrition Services	6,011,583	5,959,847	51,736	0.87%
Pupil Transportation Services	6,878,537	6,311,305	567,232	8.99%
Capital Outlay				
Equipment	625,048	431,521	193,527	44.85%
Totals	\$184,954,564	\$ 167,761,387	\$ 17,193,177	10.25%

Increases of \$11.1 million in state funded regular instructional expenditures, \$2,366,914 in special education instructional expenditures and \$333,240 in vocational instruction were the result of increased student enrollments.

Compensatory education expenditures increased by \$1,885,529 due to increased federal dollars for Title I programs and increased state dollars for the state counterpart of Title I known as Learning Assistance (LAP). In addition, a continuing growing enrollment of students for whom English is not their first language generated additional state assistance to meet their educational needs.

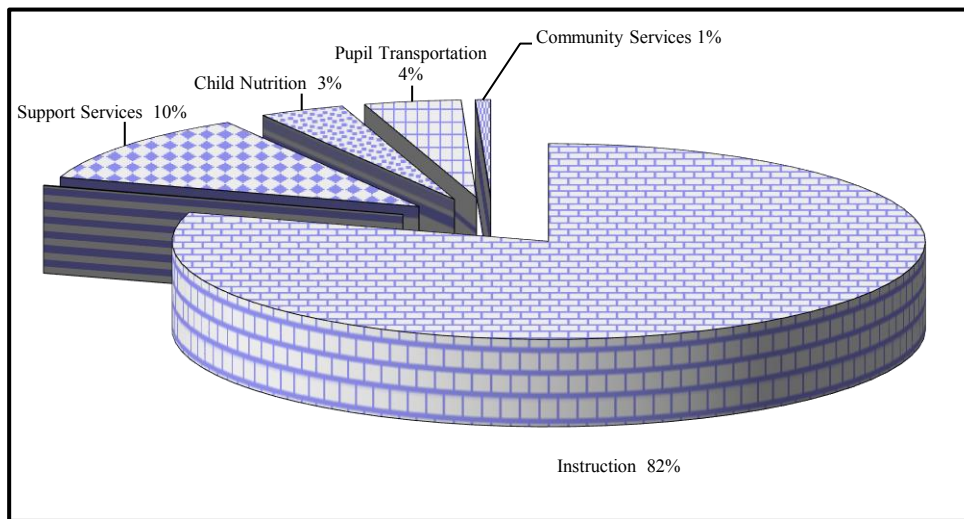
Child Nutrition cost's increased by \$51,736 last year due to the new federal nutrition guidelines. New guidelines define what types of ingredients the District can purchase, and ultimately serve for student meals.

Pupil Transportation costs increased by 8.99% or \$567,232 during the year. The increase was due to hiring additional staff to transport increasing enrollment.

Special Education expenditures increase by \$2,366,914 during the year. Increased costs occurred due to an increased need to provide services for a growing special needs student population.

Other Instructional expenditures decreased mainly due to the Gates grant closing out.

EXPENDITURE USES



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 2015-16 budget adopted by the Board of Directors for the district totaled \$273,109,977.00 including General Fund appropriations of \$195,187,148, Special Revenue Fund (ASB) appropriations of \$4,256,116, Debt Service Fund appropriations of \$13,107,213 Capital Projects Fund appropriations of \$58,899,500 and Transportation Vehicle Fund appropriations totaling \$1,660,000.

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

- Total actual general fund revenues were \$2,880,085 less than budgeted. Almost all of that decrease was due to an over estimation of local non tax revenue received.
- Expenditures of \$184,954,564 were \$10,232,584 less than budgeted as a result of conservative budget practices.

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

- State revenues were \$2,058,088 less than budgeted due to the District receiving less in state match revenue due to the Auburn High School project winding down.
- Expenditures were \$40,709,259 million less than budgeted. Expenditures are largely based on the progress of the Auburn High School re model project.
- Revenues were less than projected in the Associated Study Body Fund by approximately \$1.9 million and expenditures were less than projected by \$1.9 million. Students and their adult advisors did an outstanding job of living within their budget.
- Transportation Vehicle expenditures were \$1,660,000 less than projected due to delayed plans to replace aging buses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The District's investment in capital assets for its governmental type activities as of August 31, 2016 amounted to \$278,494,387 (net of accumulated depreciation of \$132,980,313). This investment in capital assets includes land, buildings, land and building improvements, furniture and equipment.

During the fiscal year, \$16,798,635 was added to buildings for improvements that met the capitalization policy of \$100,000. In addition, \$599,236 was added to equipment that met the capitalization policy of \$5,000 per unit, and \$5,055,112 was taken out from construction in progress primarily for projects finalized. Surplused equipment that originally cost \$407,571 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	\$40,494,475	\$ (302,368)	40,192,107
Building & Improvements	391,667,787	(117,526,872)	274,140,915
Equipment	19,806,912	(15,151,073)	4,655,839
Construction In Progress	25,683,425	-	25,683,425
Total	\$477,652,599	\$ (132,980,313)	\$ 344,672,286

DEBT ADMINISTRATION

At the end of the current fiscal year, the district had \$155,750,000 in unlimited general obligation bonds outstanding. This debt is secured by a pledge of the full faith and credit of the district. \$10,635,000 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, 2016, the maximum GO debt authorized by statutory limit was \$455.9 million. The district had \$155,750,000 of debt outstanding at August 31, 2016, that was subject to that limitation. With \$7.8 million of assets in the Debt Service Fund available for payment of principal, there is a legal debt margin of \$299.9 million.

The district's most recent underlying bond rating from Moody's is Aa2.

See Note 8, Long-Term Liabilities, for more information.

NEXT YEAR'S APPROPRIATIONS AND BUDGET RATES

The 2016-17 appropriations for governmental funds of the district were approved at \$264,802,813, a decrease of 3% from total appropriations of \$273,109,977 million last year.

Property tax rates of \$5.83 per \$1,000 were projected for 2017, consistent with the 2016 actual tax rates of \$5.83 per \$1,000.

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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