

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, 2015.

FINANCIAL HIGHLIGHTS

- The district's net position of governmental activities as of August 31, 2015 was \$156,778,296.
- During the year, the district had revenues that were \$34.3 million greater than the \$176.4 million in expenses incurred for all governmental activities.
- The general fund revenues exceeded expenditures by \$900,871.
- The state implemented Statement No. 68 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Pensions* for fiscal year 2015 financial reporting which resulted in a decrease in the beginning balance of net position of \$93,541,690 in Governmental Activities.
- On February 11, 2014, Auburn voters approved a \$22 million technology replacement levy. The technology levy is a six-year levy and replaces the 2005 technology. The projected tax rate will remain approximately level at \$6.14 per thousand of assessed valuation. It provides funding to implement recommendations from the 2013 Technology Citizens Ad Hoc Committee. The technology recommendations include:
 - Providing 24/7 access to electronic resources for students, parents and teachers that allow for differentiation of learning, programs and support
 - Providing 1:1 student digital devices like computer tablets
 - Wireless access in all buildings
 - A robust broadband infrastructure to support varied learning structures.
- The Auburn School District board of directors unanimously approved placing a four-year Educational Program and Operations Replacement Levy on the February 9, 2016 ballot. This levy will replace the 2012 levy that expires in 2016. This levy provides 21 percent of the Auburn School District's budget. The total levy will collect \$176.85 million from 2017 to 2020, the total tax rate will remain level. Funds from the levy will be used for:
 - All athletics and activities
 - Special Education
 - Textbooks and Supplies
 - Counselors and Nurses
 - Grounds and Building Maintenance
 - Honors and Advanced Placement education and transportation

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 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 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 these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

STATEMENT OF NET POSITION

The financial statements of the district present a decreased 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 \$156,778,296 at the end of the fiscal year, August 31, 2015.

The **INCREASE** in total net position for the year was \$26,537,536. Key elements of this increase are as follows:

Auburn School District's Net Position			
August 31, 2015 and 2014			
	Governmental Activities		
	2015	2014	Change
Current and other assets	\$107,150,872	\$ 129,614,947	\$ (22,464,075)
Capital assets	341,116,463	304,266,268	36,850,195
Deferred charges on refunding	4,448,114	4,957,131	(509,017)
Deferred outflows on pensions	4,703,129	-	4,703,129
Total Assets & Deferred Outflows	<u>\$457,418,578</u>	<u>\$438,838,346</u>	<u>\$18,580,232</u>
			-
Other liabilities	10,369,853	20,872,353	(10,502,500)
Long-term debt outstanding	277,834,438	194,055,009	83,779,429
Deferred inflows on pensions	12,435,991	-	12,435,991
Total Liabilities & Deferred Inflows	<u>300,640,282</u>	<u>214,927,362</u>	<u>85,712,920</u>
			-
Net Position			-
Net investment in capital assets	180,154,494	174,403,405	5,751,089
Restricted	27,571,360	17,134,162	10,437,198
Committed	-	5,427,684	(5,427,684)
Assigned	-	2,100,000	(2,100,000)
Unrestricted	<u>(50,947,558)</u>	<u>24,845,733</u>	<u>(75,793,291)</u>
Total Net Position	<u><u>\$156,778,296</u></u>	<u><u>\$223,910,984</u></u>	<u><u>(\$67,132,688)</u></u>

By far, the largest portion of the Auburn School District's net position (76%) 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 (18%) 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 \$26,537,536. 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, 2015 and 2014			
<u>Revenues</u>	2015	2014	Changes
Program Revenues			
Charges for services	\$4,982,693	\$ 5,062,256	\$ (79,563)
Operating grants and contributions	52,591,086	35,973,323	16,617,763
Capital grants and contributions	2,593,835	3,074,239	(480,404)
General revenues			
Property taxes for levies for educational programs	37,948,616	32,260,282	5,688,334
Property taxes for levies for debt service	10,862,080	17,783,458	(6,921,378)
Property taxes for levies for capital improvements and technology	9,941,113	4,611,473	5,329,640
Unallocated state apportionment and other	-	-	-
Interest and investment earnings	91,291,659	85,893,906	5,397,753
	499,289	794,000	(294,711)
Total Revenues	210,710,371	185,452,937	25,257,434
<u>Expenses</u>			
Regular instruction	99,499,733	94,330,409	5,169,324
Special instruction	21,915,880	19,551,130	2,364,750
Vocational instruction	6,736,229	6,397,317	338,912
Compensatory education	13,072,853	12,031,943	1,040,910
Other instructional programs	1,438,772	1,207,119	231,653
Community services	994,727	1,016,496	(21,769)
Support services	19,105,868	17,882,044	1,223,824
Child nutrition services	6,067,066	5,572,688	494,378
Pupil transportation services	7,219,884	7,219,697	187
Extracurricular activities (ASB)	2,189,386	2,263,529	(74,143)
Interest on long-term debt	5,932,437	5,590,734	341,703
Bond issuance costs	-	227,669	(227,669)
Total Expenses	184,172,835	173,290,775	10,882,060
Increase (decrease) in Net Position	26,537,536	12,162,162	14,375,374
Beginning Net Position	223,910,984	211,748,822	12,162,162
Cumulative Change in Accounting Principle Pensions	(93,541,690)	-	(93,541,690)
Other Prior Period Adjustments	(128,534)	-	(128,534)
Ending Net Position	\$ 156,778,296	\$ 223,910,984	\$ (67,132,688)

The largest revenue increase of \$16.6 million was the states construction match portion for the High School Project.

The largest revenue decrease of slightly under \$7 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 2015.

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 \$63,358,779 a decrease of \$25,166,865 over the prior year combined fund balance of \$88,525,644. 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.

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

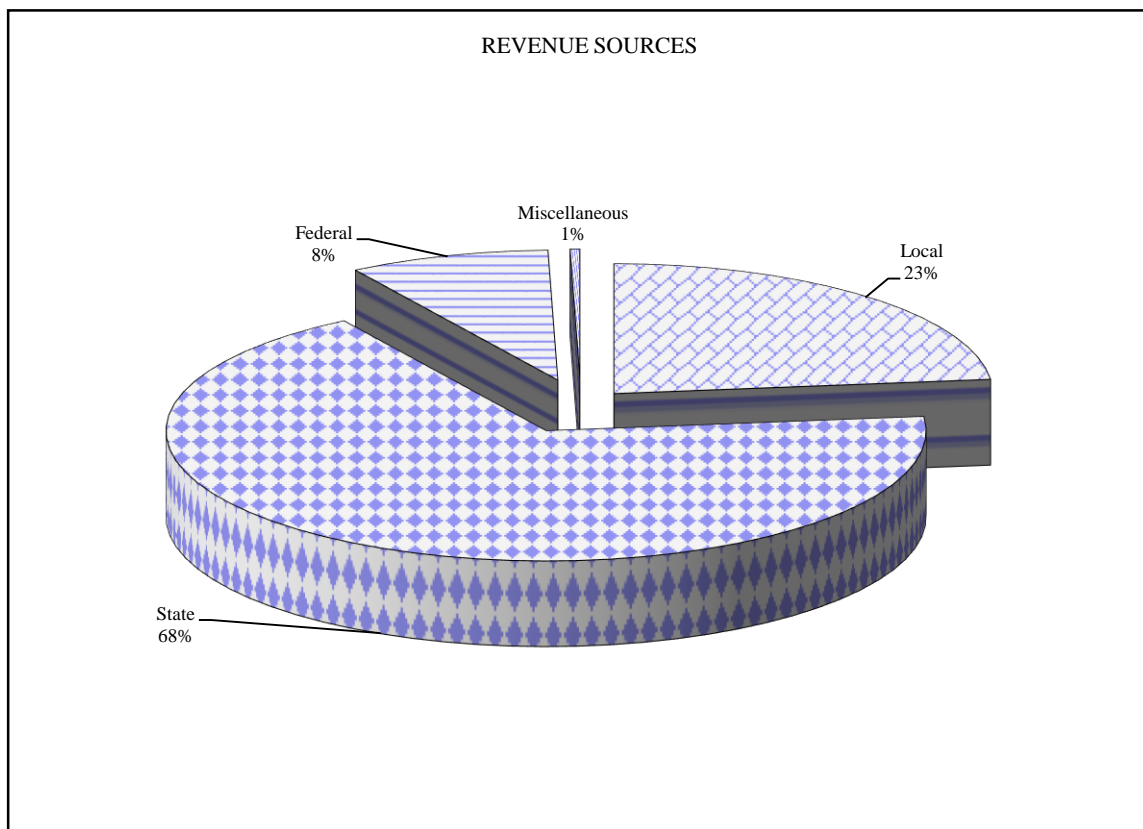
Revenues for the General Fund totaled \$168,658,512 in the fiscal year ending August 31, 2015. This was \$13,345,904 or 8.59% more than the prior year. The State of Washington provides over 68% or the largest portion of the District's revenue. Local revenues from local property taxes, and local fees and charges account for over 23% of total revenues. Federal grants provide just over 8% of revenue.

GENERAL FUND REVENUES

<u>Revenue Source</u>	2014-15	2013-14	Increase (Decrease) Amount	Increase (Decrease) Percent
Local Taxes & Non-taxes	\$38,612,602	\$ 36,107,690	\$ 2,504,912	6.94%
State Revenues	114,521,643	105,319,277	9,202,366	8.74%
Federal Revenues	14,977,095	13,240,775	1,736,320	13.11%
Other Revenues	547,172	644,866	(97,694)	-15.15%
Totals	\$ 168,658,512	\$ 155,312,608	\$ 13,345,904	8.59%

The increase of \$9,202,366 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 \$1,736,320 primarily due to the Districts participation in the Race to the Top grant.



GENERAL FUND EXPENDITURES

Expenditures in the General Fund totaled \$167,761,387 for the fiscal year. This represents an increase of \$11,779,193 or 7.55% over the prior year.

<u>GENERAL FUND EXPENDITURES</u>	2014-15	2013-14	Increase (Decrease) Amount	Increase (Decrease) Percent
Current				
Regular Instruction	\$94,453,405	\$87,948,964	\$ 6,504,441	7.40%
Special Education	20,973,072	18,808,349	2,164,723	11.51%
Vocational Instruction	6,289,673	6,116,658	173,015	2.83%
Compensatory Education	12,400,497	11,408,052	992,445	8.70%
Other Instructional Programs	1,358,427	1,124,538	233,889	20.80%
Community Services	891,328	1,004,058	(112,730)	-11.23%
Support Services	18,692,312	17,456,816	1,235,496	7.08%
Child Nutrition Services	5,959,847	5,460,528	499,319	9.14%
Pupil Transportation Services	6,311,305	6,406,144	(94,839)	-1.48%
Capital Outlay				
Equipment	431,521	248,087	183,434	73.94%
Totals	\$167,761,387	\$ 155,982,194	\$ 11,779,193	7.55%

Increases of \$6.5 million in state funded regular instructional expenditures, \$2,164,723 in special education instructional expenditures and \$173,015 in vocational instruction were the result of increased student enrollments.

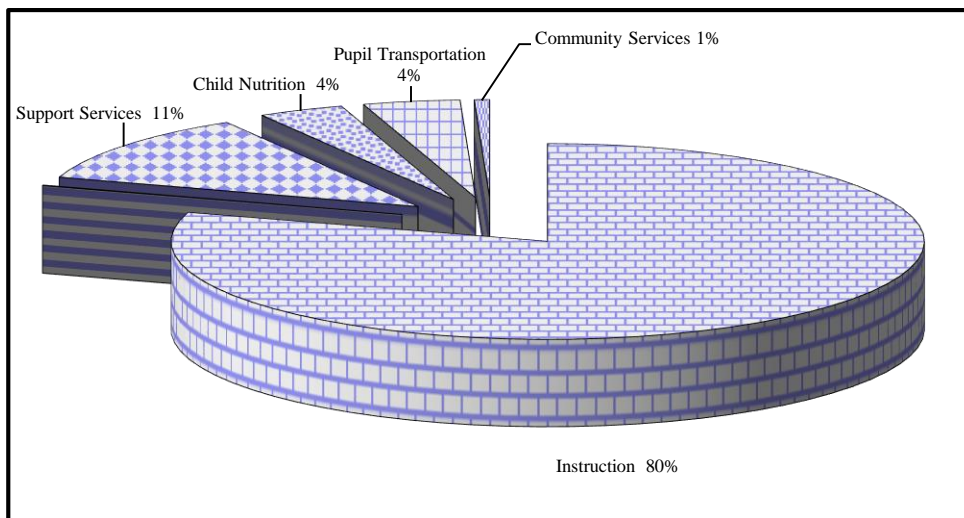
Compensatory education expenditures increased by \$992,445 due to increased federal dollars for Title I programs and increased state dollars for the state counterpart of Title I known as Learning Assistance (LAP). In addition, a continuing growing enrollment of students for whom English is not their first language generated additional state assistance to meet their educational needs.

Child Nutrition cost's increased by \$499,319 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 decreased by 1.48% or \$94,839 during the year. The decrease was mainly due to the decrease in fuel prices last year.

Special Education expenditures increase by \$2,164,723 during the year. Increased costs occurred due to an increased need to provide services for a growing special needs student population.

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 2013-14 budget adopted by the Board of Directors for the district totaled \$245,938,153 including General Fund appropriations of \$174,344,493, Special Revenue Fund (ASB) appropriations of \$4,025,302, Debt Service Fund appropriations of \$15,703,036 Capital Projects Fund appropriations of \$49,788,032 and Transportation Vehicle Fund appropriations totaling \$2,077,290.

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

- Total actual general fund revenues were \$1,626,450 less than budgeted. Almost all of that decrease was due to an over estimation of local non tax revenue received. The District received approximately \$600,000 less in state and federal aid in 2015.
- Expenditures of \$174,344,493 were \$6,583,106 less than budgeted as a result of continued cost saving initiatives.

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

- State revenues were \$12,741,661 higher than budgeted due to the District receiving \$12,271,179 in state match revenue.

- Expenditures were \$3,143,284 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 \$1.8 million. Students and their adult advisors did an outstanding job of living within their budget.
- Transportation Vehicle expenditures were \$1,273,318 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, 2015 amounted to \$270,185,819 (net of accumulated depreciation of \$124,298,580). This investment in capital assets includes land, buildings, land and building improvements, furniture and equipment.

During the fiscal year, \$102,389,247 was added to buildings for improvements that met the capitalization policy of \$100,000 and \$17,503,866 was added to Land. In addition, \$1,283,613 was added to equipment that met the capitalization policy of \$5,000 per unit. \$77,723,614 was deducted from construction in progress as a result of the Auburn High School reconstruction majority being completed and was in use, as well as for future school sites and other modernization projects. Surplused equipment that originally cost \$471,267 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	374,869,152	(109,787,786)	265,081,366
Equipment	19,615,247	(14,510,794)	5,104,453
Construction In Progress	30,738,537	-	30,738,537
Total	\$465,717,411	\$ (124,600,948)	\$ 341,116,463

DEBT ADMINISTRATION

At the end of the current fiscal year, the district had \$162,285,000 in unlimited general obligation bonds outstanding. This debt is secured by a pledge of the full faith and credit of the district. \$6,535,000 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, 2015, the maximum GO debt authorized by statutory limit was \$455.9 million. The district had \$162,285,000 of debt outstanding at August 31, 2015, that was subject to that limitation. With \$6.1 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 2015-16 appropriations for governmental funds of the district were approved at \$273,049,977, an increase of 11.6% from total appropriations of \$244,534,981 million last year.

Property tax rates of \$6.19 per \$1,000 were projected for 2016, an increase of less than 1% from the 2015 actual tax rates of \$6.14 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

Troy Dammell
Executive Director of Business Services
Auburn School District No. 408
915 4th Street NE
Auburn, WA 98002