

MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of Auburn School District No. 408, we offer readers of the district’s generally accepted accounting principles (GAAP) this narrative overview and analysis of the financial activities of the district for the fiscal year ended August 31, 2017.

FINANCIAL HIGHLIGHTS

- The district’s net position of governmental activities as of August 31, 2017 was \$182,201,400.
- During the year, the district had revenues that were \$11.2 million greater than the \$231.8 million in expenses incurred for all governmental activities.
- The general fund revenues exceeded expenditures by \$1,968,441.
- In November 2016, the Auburn community passed a \$456,056,000 bond 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. In January 2017, the District issued the first UTGO bonds for \$90,535,000 of the authorized \$456,056,000.

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 \$182,201,400 at the end of the fiscal year, August 31, 2017.

The **INCREASE** in total net position for the year was \$11,227,716. Key elements of this increase are as follows:

Auburn School District's Net Position August 31, 2017 and 2016			
	Governmental Activities		
	2017	2016	Change
Current and other assets	\$219,005,561	\$109,121,201	\$ 109,884,360
Capital assets	329,720,994	344,672,286	(14,951,292)
Deferred charges on refunding	3,430,077	3,939,095	(509,018)
Deferred outflows on pensions	8,532,822	12,896,195	(4,363,373)
Total Assets & Deferred Outflows	\$560,689,454	\$470,628,777	\$90,060,677
			-
Other liabilities	6,951,592	5,140,630	1,810,962
Long-term debt outstanding	360,090,875	292,788,400	67,302,475
Deferred inflows on pensions	11,445,587	1,726,063	9,719,524
Total Liabilities & Deferred Inflows	378,488,054	299,655,093	78,832,961
			-
Net Position			-
Net investment in capital assets	75,661,958	181,169,526	(105,507,568)
Restricted	142,021,982	45,415,030	96,606,952
Unrestricted	(35,482,540)	(55,610,872)	20,128,332
Total Net Position	\$182,201,400	\$170,973,684	\$11,227,716

The largest portion of the Auburn School District's net position (59 %) 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 (78 %) 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 \$11,227,716. 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, 2017 and 2016			
<u>Revenues</u>	2017	2016	Changes
Program Revenues			
Charges for services	\$5,893,554	\$ 5,587,997	\$ 305,557
Operating grants and contributions	44,786,220	52,682,617	(7,896,397)
Capital grants and contributions	3,681,477	3,119,462	562,015
General revenues			
Property taxes for levies for educational programs	40,881,803	39,871,612	1,010,191
Property taxes for levies for debt service	31,189,580	17,250,630	13,938,950
Property taxes for levies for capital improvements and technology	3,594,153	1,263,161	2,330,992
Unallocated state apportionment and other	-	-	-
Interest and investment earnings	112,003,798	104,950,853	7,052,945
	1,070,165	580,856	489,309
Total Revenues	243,100,750	225,307,188	17,793,562
<u>Expenses</u>			
Regular instruction	133,818,795	120,063,554	13,755,241
Special instruction	25,948,721	24,574,378	1,374,343
Vocational instruction	7,363,356	7,084,268	279,088
Compensatory education	16,102,382	15,168,627	933,756
Other instructional programs	1,015,936	1,120,813	(104,877)
Community services	1,011,670	1,075,778	(64,108)
Support services	22,225,468	20,286,010	1,939,458
Child nutrition services	6,294,914	6,107,915	186,999
Pupil transportation services	8,109,756	7,732,771	376,985
Extracurricular activities (ASB)	2,132,581	2,333,145	(200,564)
Interest on long-term debt	7,377,844	5,696,997	1,680,847
Bond issuance costs	471,611	-	471,611
Total Expenses	231,873,034	211,244,255	20,628,779
Increase (decrease) in Net Position	11,227,716	14,062,933	(2,835,217)
Beginning Net Position	170,973,684	156,778,296	14,195,388
Other Prior Period Adjustments	-	132,455	(132,455)
Ending Net Position	\$ 182,201,400	\$ 170,973,684	\$ 11,227,716

The largest revenue increase of \$13.9 million was the increase in property tax levies for the current year bond issue of \$90.5 million. Also, the increase in general apportionment is due to an increase in enrollment.

The largest revenue decrease of slightly under \$7.9 million is in operating grants and contributions. 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 \$169,177,083 and increase of \$99,084,188 over the prior year combined fund balance of \$70,092,896. This change is primarily the result of the \$90.5 million bond issue in January 2017. 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

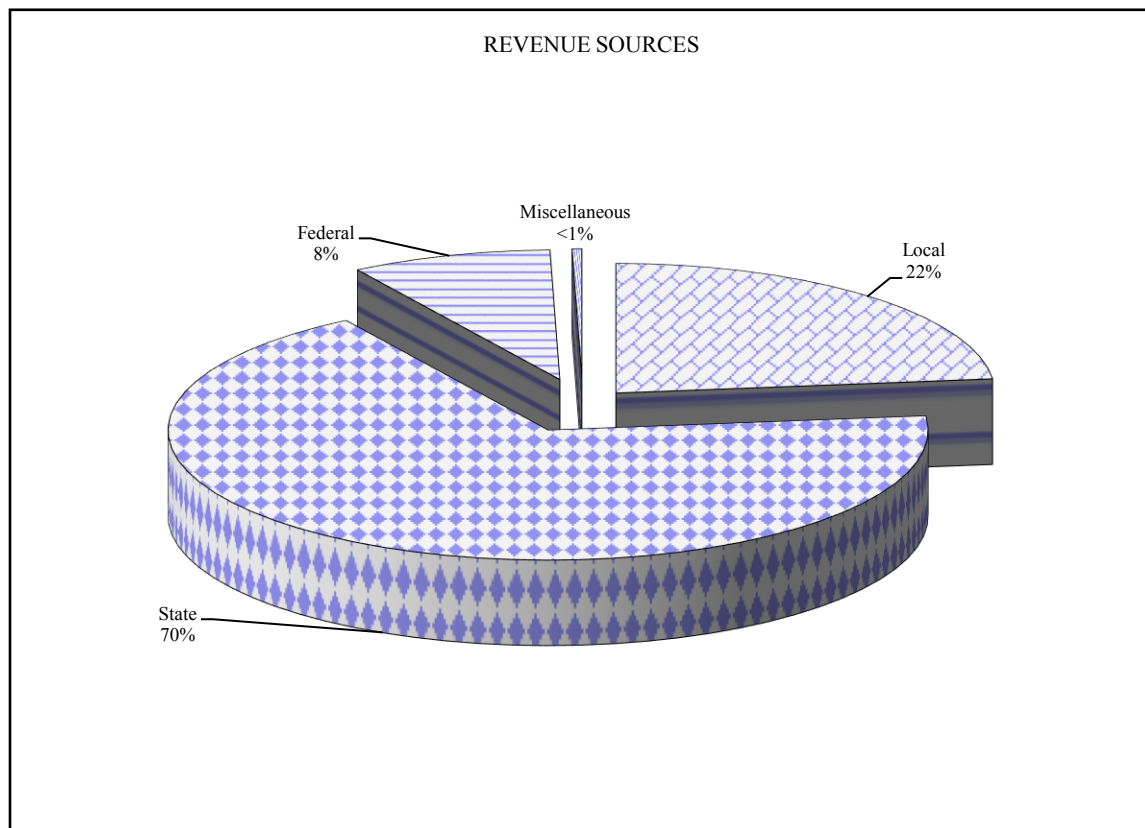
Revenues for the General Fund totaled \$199,870,490 in the fiscal year ending August 31, 2017.

This was \$10,998,095 or 5.8% more than the prior year. The State of Washington provides over 70% 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>	2016-17	2015-16	Increase (Decrease) Amount	Increase (Decrease) Percent
Local Taxes & Non-taxes	\$44,193,153	\$ 41,818,590	\$ 2,374,563	5.68%
State Revenues	139,023,834	130,555,954	8,467,881	6.49%
Federal Revenues	15,802,649	15,788,644	14,005	0.09%
Other Revenues	850,854	709,208	141,646	19.97%
Totals	\$ 199,870,490	\$ 188,872,396	\$ 10,998,095	5.82%

The increase of \$8,467,881 state revenues is due to an increase in enrollment, additional MSOC funding.



GENERAL FUND EXPENDITURES

Expenditures in the General Fund totaled \$197,902,049 for the fiscal year. This represents an increase of \$12,947,485 or 7% over the prior year.

<u>GENERAL FUND EXPENDITURES</u>	2016-17	2015-16	Increase (Decrease) Amount	Increase (Decrease) Percent
Current				
Regular Instruction	\$113,800,902	\$105,595,810	\$ 8,205,092	7.77%
Special Education	24,684,257	23,339,986	1,344,271	5.76%
Vocational Instruction	6,866,517	6,622,913	243,604	3.68%
Compensatory Education	15,161,857	14,286,026	875,831	6.13%
Other Instructional Programs	881,152	1,057,625	(176,473)	-16.69%
Community Services	971,631	1,044,885	(73,254)	-7.01%
Support Services	21,495,127	19,492,151	2,002,976	10.28%
Child Nutrition Services	6,206,085	6,011,583	194,502	3.24%
Pupil Transportation Services	7,185,911	6,878,537	307,374	4.47%
Capital Outlay				
Equipment	648,612	625,048	23,564	3.77%
Totals	\$197,902,049	\$ 184,954,564	\$ 12,947,485	7.00%

Increases of \$8.2 million in state funded regular instructional expenditures, \$1,344,271 in special education instructional expenditures and \$243,604 in vocational instruction were the result of increased student enrollments.

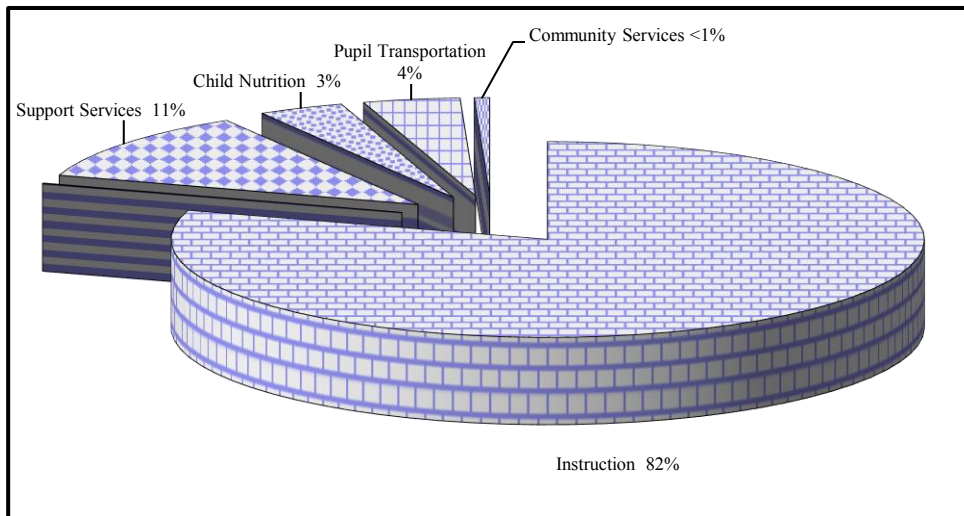
Compensatory education expenditures increased by \$875,831 due to increased federal dollars for Title I programs and increased state dollars for the state counterpart of Title I known as Learning Assistance (LAP). In addition, a continuing growing enrollment of students for whom English is not their first language generated additional state assistance to meet their educational needs.

Child Nutrition cost's increased by \$194,502 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 4.47% or \$307,374 during the year. The increase was due to hiring additional staff to transport increasing enrollment.

Special Education expenditures increase by \$1,344,271 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 2016-17 budget adopted by the Board of Directors for the district totaled \$267,717,533 including General Fund appropriations of \$209,728,203, Special Revenue Fund (ASB) appropriations of \$4,697,747, Debt Service Fund appropriations of \$18,111,583 Capital Projects Fund appropriations of \$32,920,000 and Transportation Vehicle Fund appropriations totaling \$2,260,000.

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

- Total actual general fund revenues were \$2,305,267 less than budgeted. Almost all of that decrease was due to an over estimation of local non tax revenue received.
 - This total includes \$284,592 of NBN premiums from plan members and \$1,346 in NBN interest earnings, as well as the net fair market value adjustments of negative \$47,110.
- Total actual general fund expenditures were \$11,826,154 less than budgeted as a result of conservative budget practices.
 - This total includes \$255,932 of NBN expenses

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

- State revenues were \$9,790,336 less than budgeted due to the District receiving less in state match revenue due to the Auburn High School project winding down.
- Expenditures were \$22,636,581 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 \$2.4 million and expenditures were less than projected by \$2.5 million. Students and their adult advisors did an outstanding job of living within their budget.
- Transportation Vehicle expenditures were \$913,925 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, 2017 amounted to \$326,316,114 (net of accumulated depreciation of \$128,473,813). This investment in capital assets includes land, buildings, land and building improvements, furniture and equipment.

During the fiscal year, \$19,985,552 was added to buildings for improvements that met the capitalization policy of \$100,000. In addition, \$2,044,158 was added to equipment that met the capitalization policy of \$5,000 per unit, and \$22,278,546 was taken out from construction in progress primarily for projects finalized. Disposed buildings and equipment that originally cost \$20,719,068 and \$130,636 were removed from the books along with the appropriate accumulated depreciation of \$14,155,707 and \$106,223, creating a net loss on disposal of \$6,587,774. Equipment 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	\$42,135,223	\$ (463,631)	41,671,592
Building & Improvements	390,934,271	(111,834,583)	279,099,688
Equipment	21,720,433	(16,175,599)	5,544,834
Construction In Progress	3,404,879	-	3,404,879
Total	\$458,194,807	\$ (128,473,813)	\$ 329,720,994

DEBT ADMINISTRATION

At the end of the current fiscal year, the district had \$235,650,000 in unlimited general obligation bonds outstanding. This debt is secured by a pledge of the full faith and credit of the district. \$19,210,000 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, 2017, the maximum GO debt authorized by statutory limit was \$544 million. The district had \$235,650,000 of debt outstanding at August 31, 2017, which was subject to that limitation. With \$12.4 million of assets in the Debt Service Fund available for payment of principal, there is a legal debt margin of \$320.7 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 \$6.30 per \$1,000 were projected for 2018, consistent with the 2017 actual tax rates of \$6.74 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