

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2016

**Issued by:
Business and Finance Department**

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ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
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Independent Auditors' Report

Governing Board of
Round Valley Unified School District No. 10
Springerville, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Round Valley Unified School District No. 10, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of year ended June 30, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

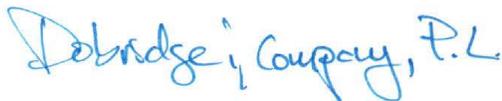
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis beginning on page 5, the budgetary comparison information beginning on page 53, the *Schedule of the District's Proportionate Share of the Net Pension Liability* on page 54, the *Schedule of District Pension Contributions* on page 55 and the related notes to required supplementary information beginning on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the the District's basic financial statements. The accompanying Maintenance and Operation Fund budgetary comparison schedule and related *General Fund Combining Schedule*, beginning on page 61, is presented for purposes of clarification of funds required to be grouped as the General Fund as required by Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and is not a required part of the basic financial statements. The information contained within the schedules are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Maintenance and Operation Fund budgetary comparison schedule and related General Fund Combining Schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.



Certified Public Accountants
Mesa, Arizona

March 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

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**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

As management of the Round Valley Unified School District No. 10 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year June 30, 2016, were as follows:

- As of June 30, 2016, the District's total net position was \$21.1 million. This is a decrease of \$1.5 million, or 6.5 percent, from fiscal year 2014-15.
- General revenues of \$8.1 million accounted for 70.3 percent of all fiscal year 2015-16 revenues. Program specific revenues in the form of charges for services, operating grants and contributions and capital grants and contributions of \$3.4 million accounted for 29.7 percent of total fiscal year 2015-16 revenues.
- The District had \$12.9 million in expenses related to governmental activities; of which \$3.4 million of these expenses were offset by program specific charges for services, operating grants and contributions and capital grants and contributions. General revenues of \$8.1 million provided resources for most of the remaining \$9.5 million of District costs. The deficiency between the general revenues and remaining District costs resulted in net position decreasing \$1.5 million.
- In fiscal year 2015-16, the General Fund reported \$7.5 million in revenues and \$9.1 million in expenditures. The revenues consisted primarily of \$5.3 million in property taxes and \$1.7 million in other local revenue. As a result of annual activity, the General Fund's fund balance decreased \$1.5 million.
- The District recorded \$1.5 million of revenue received in lieu of taxes from SRP from the operation of the Springerville Generating Station. See financial statement note 1.I.
- During the fiscal year 2015-16, the District's net capital assets decreased \$1.2 million as a result of activity throughout the year. For additional information regarding the capital assets, see financial statement note 5.
- On July 1, 2015, The District made a \$605,000 principal payment on outstanding bonds reducing the principal owed to \$5.8 million as of June 30, 2016. For further information regarding bonds, see financial statement note 9.

OVERVIEW OF FINANCIAL STATEMENTS

This annual financial report contains, in addition to this Management Discussion and Analysis, the District's basic financial statements, required supplementary information and supplementary information. These sections provide a comprehensive overview of the District's finances.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

OVERVIEW OF FINANCIAL STATEMENTS (continued)

The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- *District-wide financial statements*, which consist of the *Statement of Net Position* and the *Statement of Activities*, provide both short-term and long-term information about the District's overall financial position.
- *Fund financial statements*, which report on the individual funds of the District, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two 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 event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues. The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation services, and operation of non-instructional services.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on near-term inflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

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. 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.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

OVERVIEW OF FINANCIAL STATEMENTS (concluded)

Information is presented separately in the governmental fund *Balance Sheet* and in the governmental fund *Statement of Revenues, Expenditures, and Changes in Fund Balances* for all major funds. Data from the other non-major governmental funds are combined into a single, aggregated presentation.

Proprietary funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses the internal service fund to account for charges to other funds for the use of vehicles.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the district-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process. The District adopts an annual expenditure budget for all governmental funds. A budgetary comparison schedule is provided for the General Fund and any major special revenue funds beginning on page 53. Additionally, pension schedules detailing the District's proportionate share of net pension liability and pension contributions are presented beginning on page 54.

Supplementary information. Beginning on page 61, a budgetary comparison schedule is provided for the Maintenance and Operation Fund for the purpose of presenting additional information for the primary budget of the District. In addition, within the supplementary information section, a General Fund combining schedule has been provided to describe the individual funds that comprise the General Fund.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position. Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$21.1 million as of June 30, 2016.

By far, the largest portion of the District's net position, \$24.4 million, reflects its net investment in capital assets (e.g., land, land improvements, buildings, building improvements, and vehicles, furniture and equipment). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Additionally, \$2.4 million of the District's net position represents resources that are subject to external restrictions as detailed on page 18. The remaining deficit balance of net position, \$5.8 million, is considered unrestricted. For additional information regarding net position, see financial statement note 1.Q.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

SUMMARY OF STATEMENT OF NET POSITION

The following table presents a two-year comparison of the District's net position for the fiscal years ended June 30, 2016 and 2015.

	<u>As of June 30, 2016</u>	<u>As of June 30, 2015</u>	<u>Change</u>	<u>Percent Change</u>
ASSETS				
Current assets	\$ 7,536,764	\$ 8,488,089	\$ (951,325)	(11.2)%
Capital assets	<u>30,290,960</u>	<u>31,538,867</u>	<u>(1,247,907)</u>	<u>(4.0)%</u>
Total assets	<u>37,827,724</u>	<u>40,026,956</u>	<u>(2,199,232)</u>	<u>(5.5)%</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>1,255,750</u>	<u>1,715,942</u>	<u>(460,192)</u>	<u>(26.8)%</u>
LIABILITIES				
Current liabilities	524,240	1,301,972	(777,732)	(59.7)%
Noncurrent liabilities	<u>16,442,943</u>	<u>16,148,548</u>	<u>294,395</u>	<u>1.8 %</u>
Total liabilities	<u>16,967,183</u>	<u>17,450,520</u>	<u>(483,337)</u>	<u>(2.8)%</u>
DEFERRED INFLOW OF RESOURCES				
	<u>1,034,658</u>	<u>1,746,602</u>	<u>(711,944)</u>	<u>(40.8)%</u>
NET POSITION				
Net investment in capital assets	24,438,550	25,674,070	(1,235,520)	(4.8)%
Restricted	2,440,015	1,599,786	840,229	52.5 %
Unrestricted	<u>(5,796,932)</u>	<u>(4,728,080)</u>	<u>(1,068,852)</u>	<u>(22.6)%</u>
Total net position	<u>\$ 21,081,633</u>	<u>\$ 22,545,776</u>	<u>\$ (1,464,143)</u>	<u>(6.5)%</u>

The following are significant current year transactions that have had an impact on the *Statement of Net Position*:

- The District's current assets decreased \$951,325 primarily due to a decrease in cash.
- The District had \$441,876 in additions and \$108,799 of deletions to capital assets that were offset by depreciation expense of \$1.7 million, resulting in an overall net decrease in capital assets of \$1.2 million.
- Current liabilities decreased \$777,732 primarily due to a decrease in expenditures during the 60-day encumbrance period after year end as compared to the prior year.
- Noncurrent liabilities increased \$294,395 primarily due to the results of investment activity and participant activity when compared to Arizona State Retirement System's estimates.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

SUMMARY OF CHANGES IN NET POSITION

The following table presents a two-year comparison of the changes in net position for the fiscal years ended June 30, 2016 and 2015.

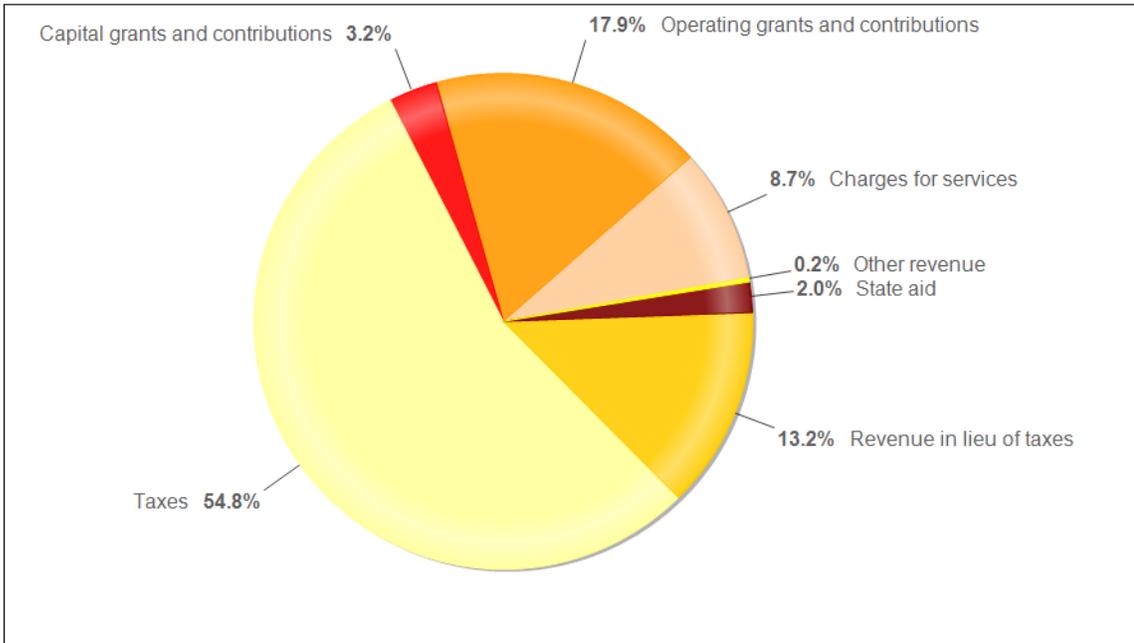
	Fiscal Year Ended <u>June 30, 2016</u>	Fiscal Year Ended <u>June 30, 2015</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Program revenues:				
Charges for services	\$ 995,046	\$ 391,824	\$ 603,222	154.0 %
Operating grants and contributions	2,053,065	2,165,352	(112,287)	(5.2)%
Capital grants and contributions	362,800	20,148	342,652	1,700.7 %
General revenues:				
Taxes	6,291,252	6,673,931	(382,679)	(5.7)%
Revenue in lieu of taxes	1,513,554	1,372,140	141,414	10.3 %
State aid	228,032	129,602	98,430	75.9 %
Federal aid	-	538,411	(538,411)	(100.0)%
Investment income	30,953	51,138	(20,185)	(39.5)%
Miscellaneous	10,508	105,594	(95,086)	(90.0)%
Total revenues	<u>11,485,210</u>	<u>11,448,140</u>	<u>37,070</u>	<u>0.3 %</u>
Expenses:				
Instruction	6,572,820	6,798,530	(225,710)	(3.3)%
Support services - students and staff	1,615,253	1,601,549	13,704	0.9 %
Support services - administration	1,107,789	1,135,841	(28,052)	(2.5)%
Operation and maintenance of plant	2,171,605	2,523,403	(351,798)	(13.9)%
Student transportation services	713,053	828,059	(115,006)	(13.9)%
Operation of non-instructional services	516,808	715,244	(198,436)	(27.7)%
Interest on long-term debt	252,025	261,482	(9,457)	(3.6)%
Total expenses	<u>12,949,353</u>	<u>13,864,108</u>	<u>(914,755)</u>	<u>(6.6)%</u>
Change in net position	(1,464,143)	(2,415,968)	951,825	39.4 %
Beginning net position	<u>22,545,776</u>	<u>24,961,744</u>	<u>(2,415,968)</u>	<u>(9.7)%</u>
Ending net position	<u>\$ 21,081,633</u>	<u>\$ 22,545,776</u>	<u>\$ (1,464,143)</u>	<u>(6.5)%</u>

- Revenues increased \$37,070 primarily due to an increase in charges for services.
- Expenses decreased \$914,755 due to decreases in instructional and operation and maintenance of plant expenses.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

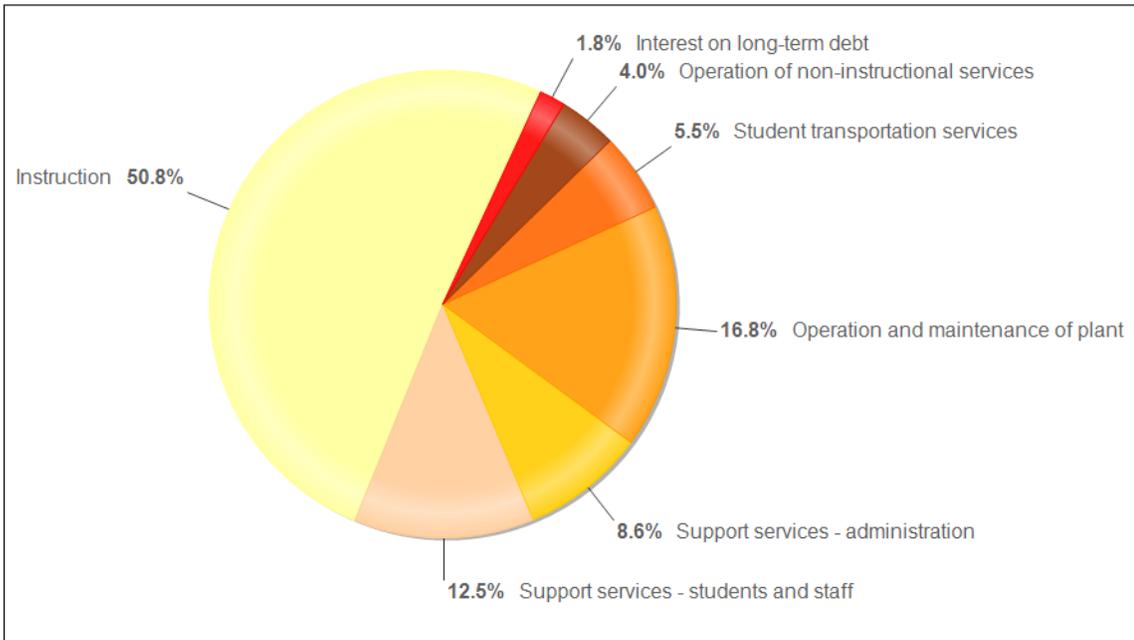
District-Wide Revenues

FY 2015-16



District-Wide Expenses

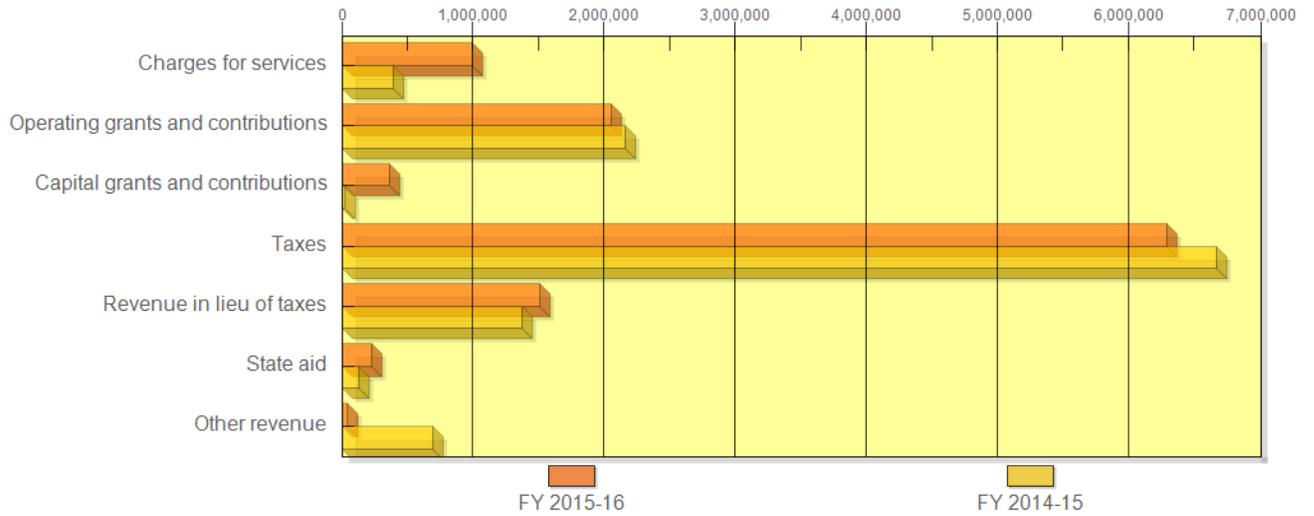
FY 2015-16



**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

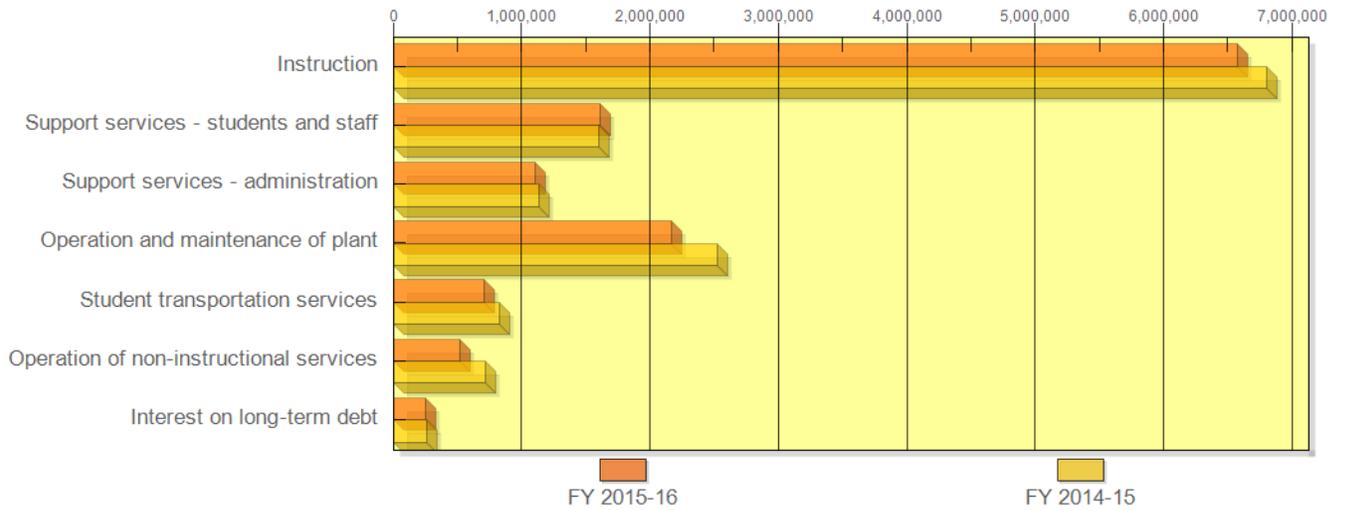
District-Wide Revenues

2 Year Comparison



District-Wide Expenses

2 Year Comparison



**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

NET COST OF SERVICES

The *Statement of Activities* on page 19 shows the cost of program services and the charges for services and grants offsetting those services. The following table displays information from the *Statement of Activities* governmental activities and compares the net cost of services for the two years ended June 30, 2016 and 2015. The net cost of services decreased \$1.7 million, or 15.5 percent, due to overall expenses decreasing \$914,755 while program revenues increased \$833,587.

Expense Function	Net (Expense)	Net (Expense)	Change	Percent Change
	Revenue	Revenue		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>		
Instruction	\$ (5,028,018)	\$ (4,836,124)	\$ (191,894)	(4.0)%
Support services - students and staff	(1,234,972)	(1,424,856)	189,884	13.3 %
Support services - administration	(1,102,604)	(1,097,297)	(5,307)	(0.5)%
Operation and maintenance of plant	(1,728,471)	(2,411,600)	683,129	28.3 %
Student transportation services	(497,580)	(828,059)	330,479	39.9 %
Operation of non-instructional services	305,228	(427,366)	732,594	171.4 %
Interest on long-term debt	(252,025)	(261,482)	9,457	3.6 %
Total	<u>\$ (9,538,442)</u>	<u>\$ (11,286,784)</u>	<u>\$ 1,748,342</u>	<u>15.5 %</u>

The program expense categories shown above are summarized below:

- *Instruction* expenses are the cost of activities directly dealing with the teaching of students and the interaction between teacher and student.
- *Support services - students and staff* expenses include the cost of activities involved with assisting staff with the content and process of teaching students.
- *Support services - administration* expenses are associated with the cost of administrative and financial supervision of the District.
- *Operation and maintenance of plant* expenses involve keeping the school grounds, buildings and equipment in good working condition.
- *Student transportation services* expenses involve conveying students to and from school as provided by state law. This includes trips between home and school and trips to school activities.
- *Operation of non-instructional services* expenses are the costs of providing noninstructional services. These expenses for the District are primarily the costs of providing food service.
- *Interest on long-term debt* expense is the payment of interest on long-term debt.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The following table provides analysis of the District's major and other governmental funds' fund balances and the total change in fund balances from the prior year.

GOVERNMENTAL FUND BALANCES

<u>Fund</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>	<u>Percent Change</u>
General Fund	\$ 3,667,371	\$ 5,194,436	\$ (1,527,065)	(29.4)%
Debt Service Fund	1,510,084	1,207,569	302,515	25.1 %
Other Governmental Funds	900,399	575,489	324,910	56.5 %
Total	<u>\$ 6,077,854</u>	<u>\$ 6,977,494</u>	<u>\$ (899,640)</u>	<u>(12.9)%</u>

The following are significant current year transactions that have had an impact on the Governmental Funds' fund balances:

- The General Fund's fund balance decreased \$1.5 million, or 29.4 percent, primarily due to the spending of excess cash due to a lower tax rate that resulted in decreased property tax collections.
- The Debt Service Fund's fund balance increased \$302,515, or 25.1 percent, due to increased property taxes revenues and revenues in lieu of taxes.
- The Other Governmental Funds' fund balances increased \$324,910, or 56.5 percent, primarily due to reclassification of beginning fund balances. For additional information see financial statement note 14.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared according to Arizona law and is based on the modified accrual basis of accounting. The General Fund Budgetary Comparison Schedule is required supplementary information and is presented on page 53. The adopted and final budget amounts, as well as the variances between the final budget and the actual expenditures incurred are presented. In addition, a schedule of individual fund's budgets that comprise the General Fund is presented within the notes to required supplementary information.

The General Fund's adopted budget for the fiscal year ending June 30, 2016, was \$9.7 million. Over the course of the year, the District revised the General Fund annual expenditure budget to \$9.6 million. The actual amounts expended in the General Fund were \$9.0 million, which is \$530,369, or 5.5 percent, less than the final budget.

CAPITAL ASSETS

As of June 30, 2016, the District had invested \$30.3 million in capital assets (net of accumulated depreciation) including school buildings, athletic facilities, buses, computers and other equipment.

The following schedule presents a two year comparison of the capital asset balances for the fiscal years ended June 30, 2016 and 2015.

<u>Governmental activities:</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>	<u>Percent Change</u>
Land	\$ 854,405	\$ 854,405	\$ -	- %
Construction in progress	26,332	-	26,332	100.0 %
Land improvements	4,282,219	4,282,219	-	- %
Buildings and improvements	51,879,418	51,493,097	386,321	0.8 %
Vehicles, furniture, and equipment	<u>4,070,932</u>	<u>4,150,508</u>	<u>(79,576)</u>	<u>(1.9)%</u>
Total	<u>61,113,306</u>	<u>60,780,229</u>	<u>333,077</u>	<u>0.5 %</u>
Less: accumulated depreciation	<u>(30,822,346)</u>	<u>(29,241,362)</u>	<u>(1,580,984)</u>	<u>(5.4)%</u>
Capital assets, net	<u>\$ 30,290,960</u>	<u>\$ 31,538,867</u>	<u>\$ (1,247,907)</u>	<u>(4.0)%</u>

Additional information on the District's capital assets can be found in financial statement notes 5 and 6.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

LONG TERM DEBT

The following schedule presents a two-year comparison of long term debt for the fiscal years ended June 30, 2016 and 2015.

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>	<u>Percent Change</u>
Bonds payable	\$ 5,780,000	\$ 6,385,000	\$ (605,000)	(9.5)%
Bond premium	84,323	96,650	(12,327)	(12.8)%
Net pension liability	10,289,809	9,988,054	301,755	3.0 %
Compensated absences	<u>288,811</u>	<u>283,844</u>	<u>4,967</u>	<u>1.7 %</u>
Total	<u>\$ 16,442,943</u>	<u>\$ 16,753,548</u>	<u>\$ (310,605)</u>	<u>(1.9)%</u>

Bonds payable decreased \$605,000, or 9.5 percent, due to the required payments of principal according to terms of debt agreements.

Net pension liability increased \$301,755, or 3.0 percent, due to the results of investment activity and participant activity when compared to anticipated results as determined by the Arizona State Retirement System's actuaries.

Compensated absences increased \$4,967, or 1.7 percent, due to the accrual and use of available leave balances by employees.

For additional information regarding long-term debt, see financial statement note 8.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

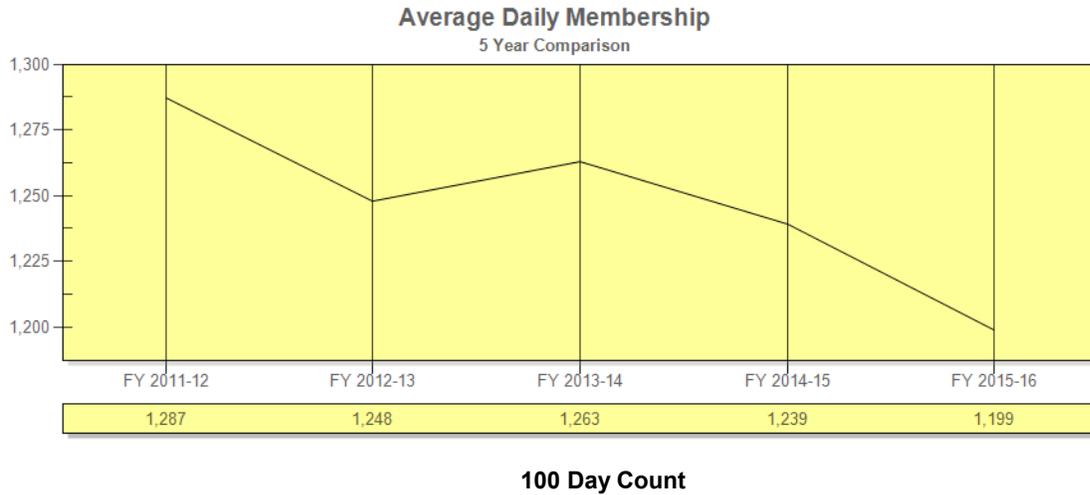
Many factors were considered by the District's administration during the process of developing the General Fund's budget for the next fiscal year (fiscal year 2016-17). The primary factors considered in developing fiscal year 2016-17's budget were the District's student population and employee salaries. Also considered in the development of the budget is the local economy and inflation of the surrounding area.

Amounts available in the General Fund's fiscal year 2016-17 budget are \$9.2 million, a decrease of 3.5 percent, which reflects an expected decrease in student enrollment.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (concluded)

The District's attendance has fluctuated for the past five years; this is primarily due to the nature of the District's population. This chart provides the District's average daily membership over the past five years. The District expects attendance to remain within the current range.



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Business and Finance Department, Round Valley Unified School District No. 10, 940-B E Maricopa, Springerville, Arizona 85938.

**DISTRICT-WIDE
FINANCIAL STATEMENTS**

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 5,817,419
Cash held by paying agent	751,013
Refundable deposits	23,500
Property taxes receivable	129,527
Due from other governments	747,225
Inventories	20,693
Prepaid expenses	47,387
Capital assets not being depreciated	880,737
Capital assets being depreciated, net	<u>29,410,223</u>
Total assets	<u>37,827,724</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pensions	<u>1,255,750</u>
LIABILITIES	
Accounts payable	249,223
Due to other governments	21,508
Accrued payroll and benefits	124,407
Advances from grantors	3,089
Interest payable	126,013
Noncurrent liabilities:	
Due within one year	662,327
Due in more than one year	<u>15,780,616</u>
Total liabilities	<u>16,967,183</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pensions	<u>1,034,658</u>
NET POSITION	
Net investment in capital assets	24,438,550
Restricted for:	
Debt service	1,510,084
Capital outlay	278,072
Food service	45,714
Voter approved initiatives	1,080
Other purposes	605,065
Unrestricted	<u>(5,796,932)</u>
Total net position	<u>\$ 21,081,633</u>

The accompanying notes are an integral part of these statements.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net</u>
		<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>(Expense) Revenue and Change in Net Position</u>
Governmental activities:					<u>Governmental Activities</u>
Instruction	\$ 6,572,820	\$ 331,185	\$ 1,213,617	\$ -	\$ (5,028,018)
Support services - students and staff	1,615,253	-	380,281	-	(1,234,972)
Support services - administration	1,107,789	-	5,185	-	(1,102,604)
Operation and maintenance of plant	2,171,605	-	80,334	362,800	(1,728,471)
Student transportation services	713,053	215,473	-	-	(497,580)
Operation of non-instructional services	516,808	448,388	373,648	-	305,228
Interest on long-term debt	252,025	-	-	-	(252,025)
Total governmental activities	<u>\$ 12,949,353</u>	<u>\$ 995,046</u>	<u>\$ 2,053,065</u>	<u>\$ 362,800</u>	<u>(9,538,442)</u>

General revenues:

Taxes:

Property taxes, general purposes	5,313,771
Property taxes, debt service	938,633
Property taxes, capital outlay	38,848
Revenue in lieu of taxes	1,513,554
State aid:	
General purposes	171,715
Capital outlay	1,105
Instructional improvement	55,212
Investment income	30,953
Miscellaneous	10,508

Total general revenues 8,074,299

Change in net position (1,464,143)

Net position, July 1, 2015 22,545,776

Net position, June 30, 2016 \$ 21,081,633

The accompanying notes are an integral part of these statements.

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**FUND BASED
FINANCIAL STATEMENTS**

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ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 3,776,594	\$ 1,505,068	\$ 299,671	\$ 5,581,333
Cash held by paying agent	-	751,013	-	751,013
Refundable deposits	-	-	23,500	23,500
Property taxes receivable	109,567	19,170	790	129,527
Due from other governments	5,245	2,080	739,900	747,225
Inventories	-	-	20,693	20,693
Prepaid expenses	47,387	-	-	47,387
Total assets	<u>\$ 3,938,793</u>	<u>\$ 2,277,331</u>	<u>\$ 1,084,554</u>	<u>\$ 7,300,678</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 53,221	\$ -	\$ 158,994	\$ 212,215
Due to other governments	21,508	-	-	21,508
Accrued payroll and benefits	102,965	-	21,442	124,407
Advances from grantors	-	-	3,089	3,089
Interest Payable	-	126,013	-	126,013
Bonds payable	-	625,000	-	625,000
Total liabilities	<u>177,694</u>	<u>751,013</u>	<u>183,525</u>	<u>1,112,232</u>
Deferred inflows of resources:				
Unavailable revenue - property tax	93,728	16,234	630	110,592
Total liabilities and deferred inflows of resources	<u>271,422</u>	<u>767,247</u>	<u>184,155</u>	<u>1,222,824</u>
Fund balances:				
Nonspendable:				
Inventory	-	-	20,693	20,693
Prepays	47,387	-	-	47,387
Restricted:				
Debt service	-	1,510,084	-	1,510,084
Capital outlay	-	-	278,072	278,072
Food service	-	-	45,714	45,714
Voter approved initiatives	-	-	1,080	1,080
Other purposes	-	-	605,065	605,065
Unrestricted	3,619,984	-	(50,225)	3,569,759
Total fund balances	<u>3,667,371</u>	<u>1,510,084</u>	<u>900,399</u>	<u>6,077,854</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,938,793</u>	<u>\$ 2,277,331</u>	<u>\$ 1,084,554</u>	<u>\$ 7,300,678</u>

The accompanying notes are an integral part of these statements.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2016**

Fund balances - total governmental funds		\$ 6,077,854
<p>Amounts reported on governmental activities in the <i>Statement of Net Position</i> are different because:</p>		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund statements.		30,290,960
Revenues reported in the <i>Statement of Activities</i> that do not provide current financial resources are not reported as revenues in the governmental fund statements.		
Property taxes		110,592
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the governmental fund statements.		
Deferred outflows of resources related to pensions	\$ 1,255,750	
Deferred inflows of resources related to pensions	<u>(1,034,658)</u>	
		221,092
The internal service fund is used by management to charge the costs transportation to individual funds. The current assets and liabilities of the internal service fund are included in governmental activities in the <i>Statement of Net Position</i> .		
Internal service net position	\$ 250,617	
Less internal service capital assets	<u>(51,539)</u>	
		199,078
Some liabilities, including long-term debt, are not due and payable in the current period and, therefore, are not reported in the governmental fund statements.		
Bonds payable	\$ (5,155,000)	
Bond premium	(84,323)	
Net pension liability	(10,289,809)	
Compensated absences	<u>(288,811)</u>	
		<u>(15,817,943)</u>
Net position of governmental activities		<u>\$ 21,081,633</u>

The accompanying notes are an integral part of these statements.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Property taxes	\$ 5,298,018	\$ 932,346	\$ 38,218	\$ 6,268,582
State aid and grants	171,715	-	999,791	1,171,506
Federal aid and grants	385,394	-	926,398	1,311,792
Other local revenue	<u>1,672,735</u>	<u>247,694</u>	<u>578,225</u>	<u>2,498,654</u>
Total revenues	<u>7,527,862</u>	<u>1,180,040</u>	<u>2,542,632</u>	<u>11,250,534</u>
Expenditures:				
Current:				
Instruction	4,381,323	-	1,146,534	5,527,857
Support services - students and staff	1,323,388	-	251,758	1,575,146
Support services - administration	1,082,362	500	49,962	1,132,824
Operation and maintenance of plant	1,747,980	-	22,466	1,770,446
Student transportation services	442,210	-	14,702	456,912
Operation of non-instructional services	90,771	-	308,753	399,524
Capital outlay	-	-	441,876	441,876
Debt service:				
Principal	-	625,000	-	625,000
Interest	<u>-</u>	<u>252,025</u>	<u>-</u>	<u>252,025</u>
Total expenditures	<u>9,068,034</u>	<u>877,525</u>	<u>2,236,051</u>	<u>12,181,610</u>
Excess (deficiency) of revenues over expenditures	(1,540,172)	302,515	306,581	(931,076)
Other financing sources (uses):				
Transfers in	2,364	-	-	2,364
Transfers out	<u>-</u>	<u>-</u>	<u>(2,364)</u>	<u>(2,364)</u>
Total other financing sources (uses)	<u>2,364</u>	<u>-</u>	<u>(2,364)</u>	<u>-</u>
Net change in fund balances	(1,537,808)	302,515	304,217	(931,076)
Fund balances, July 1, 2015	5,194,436	1,207,569	575,489	6,977,494
Change in inventories	(36,644)	-	20,693	(15,951)
Change in prepaid expenses	<u>47,387</u>	<u>-</u>	<u>-</u>	<u>47,387</u>
Fund balances, June 30, 2016	<u>\$ 3,667,371</u>	<u>\$ 1,510,084</u>	<u>\$ 900,399</u>	<u>\$ 6,077,854</u>

The accompanying notes are an integral part of these statements.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net change in fund balances - total governmental funds **\$ (931,076)**

Amounts reported in the governmental activities in the *Statement of Activities* are different because:

Governmental funds report capital outlays as expenditures. However, in the *Statement of Activities*, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following is the effect of transactions within capital assets for the current year:

Capital outlay	\$	441,876	
Depreciation		(1,687,983)	
Loss on disposal of capital assets		(1,800)	
Internal service depreciation		<u>17,786</u>	
			(1,230,121)

Property taxes and other receipts in the *Statement of Activities* that do not provide current financial resources are not reported as revenues in the governmental funds.

Prior year unavailable property tax	\$	(87,922)	
Current year unavailable property tax		<u>110,592</u>	
			22,670

The internal service fund is used by management to charge the costs of transportation to individual funds. The revenues and expenses of the internal service fund are included in governmental activities in the *Statement of Activities*.

60,591

District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the *Statement of Net Position* because the reported net pension liability is measured a year before the District's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the *Statement of Activities*.

Pension contribution	\$	666,434	
Pension expense		<u>(716,437)</u>	
			(50,003)

Some expenses reported on the *Statement of Activities* do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Bonds payable	\$	625,000	
Bond premium		12,327	
Compensated absences		(4,967)	
Change in inventories using purchases method		(15,951)	
Change in prepaid expenses using purchases method		<u>47,387</u>	
			<u>663,796</u>

Change in net position of governmental activities **\$ (1,464,143)**

The accompanying notes are an integral part of these statements.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO.10
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016**

	<u>Governmental Activities Internal Service Fund</u>
Assets:	
Current Assets:	
Cash	\$ 236,086
Noncurrent assets:	
Capital assets, net of depreciation	<u>51,539</u>
Total assets	<u>\$ 287,625</u>
Liabilities and net position:	
Current liabilities:	
Accounts payable	\$ 37,008
Net position:	
Unrestricted	<u>250,617</u>
Total liabilities and net position	<u>\$ 287,625</u>

The accompanying notes are an integral part of these statements.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO.10
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

	Governmental Activities <u>Internal Service</u> <u>June 30, 2016</u>
Operating revenues:	
Charges for services	\$ <u>211,186</u>
Total operating revenues	<u>211,186</u>
Operating expenses:	
Cost of sales and service	133,629
Depreciation	<u>17,786</u>
Total operating expenses	<u>151,415</u>
Operating gain	59,771
Nonoperating revenues:	
Interest	<u>820</u>
Change in net position	60,591
Net position, July 1, 2015	<u>190,026</u>
Net position, June 30, 2016	<u><u>\$ 250,617</u></u>

The accompanying notes are an integral part of these statements.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO.10
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2016**

	Governmental Activities
Cash flows from operating activities:	
Cash received from interfund services provided	\$ 211,186
Cash payments for supplies	(103,143)
Net cash provided by operating activities	108,043
Cash flows from investing activities:	
Interest income	820
Net cash from investing activities	820
Net increase in cash	108,863
Cash, beginning	127,223
Cash, ending	\$ 236,086
Reconciliation of operating loss to net cash used by operating activities:	
Operating gain	\$ 59,771
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	17,786
Changes in assets and liabilities:	
Decrease in accounts payable	30,486
Total adjustments	30,486
Net cash provided by operating activities	\$ 108,043

The accompanying notes are an integral part of these statements.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2016

	Agency Funds		
	Student Activities	Employee Withholding	Total
ASSETS			
Cash in bank	\$ 73,193	\$ 34,744	\$ 107,937
Total assets	<u>\$ 73,193</u>	<u>\$ 34,744</u>	<u>\$ 107,937</u>
LIABILITIES			
Due to student groups	\$ 73,193	\$ -	\$ 73,193
Deposits held for others	<u>-</u>	<u>34,744</u>	<u>34,744</u>
Total liabilities	<u>\$ 73,193</u>	<u>\$ 34,744</u>	<u>\$ 107,937</u>

The accompanying notes are an integral part of these statements.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Round Valley Unified School District No. 10 (District) accounts for its financial transactions in accordance with the policies and procedures of the Arizona Department of Education's *Uniform School Financial Reporting Manual*. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Although the County Treasurer collects taxes for the District, it exercises no control over its expenditures/expenses.

The Governing Board is organized under §15-321 of the Arizona Revised Statutes (A.R.S.). Management of the District is independent of other state or local governments. The membership of the Governing Board consists of five members elected by the public. Under existing statutes, the Governing Board's duties and powers include, but are not limited to, the acquisition, maintenance and disposition of school property; the development and adoption of a school program; and the establishment, organization and operation of schools. The Board also has broad financial responsibilities, including the approval of the annual budget, and the establishment of a system of accounting and budgetary controls. The District's major operations include education, student transportation, food service, and maintenance of District facilities.

Criteria for determining if other entities are potential component units which should be reported within the District's basic financial statements are identified and described in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, §'s 2100 and 2600. The application of these criteria provides for identification of any entities for which the District is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Accordingly, for the year ending June 30, 2016, the District does not have any component units and is not a component unit of any other reporting entity.

Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges to external users for support. Accordingly, for the year ending June 30, 2016, the District does not have any business-type activities.

B. Basis of Presentation

The basic financial statements include both district-wide financial statements and fund financial statements. The district-wide financial statements focus on the District as a whole, while the fund financial statements focus on fund reporting. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

District-wide Financial Statements - District-wide financial statements are prepared using the *economic resources measurement focus* and the *accrual basis of accounting*. The approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for the governmental funds.

District-wide financial statements include a *Statement of Net Position* and a *Statement of Activities*. These statements report the financial activities of the overall government. Eliminations have been made to minimize the effect of the interfund activities.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Non-program generated sources of revenue and other revenues that do not qualify as program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements separately report detailed information about the District in the governmental and fiduciary funds even though the fiduciary funds are excluded from the district-wide financial statements. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Non-major funds are aggregated and reported in a single column. Because the focus of governmental fund financial statements differs from the focus of district-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The District's accounts are organized into major governmental funds, other governmental funds, and fiduciary funds as follows:

Major Governmental Funds:

General Fund - to account for all resources used to finance District operations except those required to be accounted for in other funds. The General Fund as presented includes the District's Maintenance and Operation Fund and other special revenue funds that do not have a substantial restriction on expenditures. For further information, see the *Budgetary Comparison Schedule - General Fund* on page 53.

Debt Service Fund - to account for monies collected and used for the payment of bond principal, interest and related costs.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Governmental Funds:

Special Revenue Funds - to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains twenty other governmental special revenue funds.

Capital Project Funds - to account for the acquisition and construction of all major governmental general capital assets. The District maintains five other governmental capital project funds.

Fiduciary Funds:

Internal Service Fund - to account for activities that provide goods or services to other funds, departments, component units, or other governmental entities on a cost-reimbursement basis. The District maintains one internal service fund to account for the financial activity associated with the operation of vehicles.

Agency Funds - to account for assets of others for which the District acts as an agent. The District maintains two agency funds to account for student club activities and employee withholdings. The Student Activities Fund accounts for monies raised by students to finance student clubs and the Employee Insurance Program Withholdings Fund accounts for unremitted payroll deductions temporarily held by the District.

C. Measurement Focus and Basis of Accounting

District-wide Financial Statements - The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the district-wide financial statements.

Fund Financial Statements - Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences which are recorded only when a payment is due.

Property taxes, state aid, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Expenses and Expenditures

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, expenditures are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental fund statements. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. However, since debt service resources are provided during the current year for payment of long term debt due the first day (July 1) in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

E. Cash and Investments

Arizona Revised Statutes require the District to deposit certain cash with the County Treasurer. That cash is pooled by the County Treasurer for investment purposes. Interest earned from investments purchased with pooled monies is allocated to each of the District's funds based on their average balances.

All investments are stated at fair value. For additional information regarding investments, see financial statement note 2.

F. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Investment Income

Investment income is composed of interest and net changes in the fair value of applicable investments. Investment income is included in other local revenue in the governmental fund financial statements.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Advances from Grantors

Advances from grantors arise when assets are received before revenue recognition criteria have been satisfied. Advances from grantors generally comprise of federal and state entitlement revenues received before eligibility requirements are met.

I. Revenue in Lieu of Taxes

Payments received from the Salt River Project in lieu of taxes the District would have had to pay had its property or other tax base been subject to taxation on the same basis as privately owned property. Such revenue would include payments made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the local governmental unit.

J. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the *Statement of Activities*. Interfund transfers in the fund financial statements are reported as other financing sources/uses in governmental funds.

K. Deferred Outflows and Inflows of Resources

The *Statement of Net Position* and *Balance Sheet* include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods. In addition, delinquent property taxes that will not be collected within the 60 day availability period are reported as deferred inflows of resources in the governmental fund financial statements.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Property Taxes

Property tax levies are obtained by applying tax rates against either the primary assessed valuation or the secondary assessed valuation. Primary and secondary valuation categories are composed of the exact same properties. However, the primary category limits the increase in property values to 10 percent from the previous year, while there is no limit to the increase in property values for secondary valuation. Override and debt service tax rates are applied to secondary assessed valuation and all other tax rates are applied to the primary assessed valuation.

The County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. The billings are considered past due after these dates, at which time the applicable property is subject to penalties and interest.

The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice, and become delinquent 30 days thereafter.

Pursuant to Arizona Revised Statutes, a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise. The property tax lien is only for the amount of delinquent taxes, interest and other fees. An "Action to Foreclose" filed in the Arizona Superior Court three years from the sale of the lien is the only method to compel payment.

Property tax receivables are reported at full value as they are considered 100 percent collectible due to the County attaching a lien against all amounts past due as noted above.

M. Capital Assets

Capital assets are reported in the district-wide financial statements. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) are \$5,000 for all assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	7 - 50 years
Buildings and improvements	5 - 50 years
Vehicles, furniture, and equipment	5 - 20 years

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Federal Revenue Sources

The District receives federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting agencies. For federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

O. Compensated Absences

The District's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay in varying amounts. Only benefits considered vested are recognized in the financial statements. The liability for vacation and sick leave is reported in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

P. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Q. Net Position

In the district-wide financial statements, net position is reported in three components: 1) net investment in capital assets; 2) restricted; and 3) unrestricted. Net investment in capital assets consists of capital assets (net of accumulated depreciation) reduced by the outstanding balances of any bonds, capital leases or construction contract payables used to acquire, construct or improve these assets. Restricted net position is reported when constraints placed on the net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or by state legislation. Unrestricted net position is used to account for the net position balance that does not meet the definition of either of the first two categories of net position.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

R. Fund Balance Classification

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - Amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. This would include items not expected to be converted to cash including inventories and prepaid expenses.

Restricted fund balance - Amounts with constraints placed on the use of resources that are either:

- a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b) imposed by law through constitutional provisions or state legislation.

Committed fund balance - Amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of the Governing Board. These amounts cannot be used for any other purposes unless the Governing Board removes or changes the specific purpose by taking the same kind of formal action previously used to commit these amounts. Adoption of the annual budget does not constitute a commitment as appropriations lapse at year end without Governing Board action. This also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance - Amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by the Governing Board or body or official to which the Governing Board has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balance in governmental funds, other than the General Fund, includes all spendable amounts that are not restricted or committed, if that amount is positive. In the General Fund, assigned amounts represent intended uses established by the Governing Board or a management official delegated that authority by the formal Governing Board action. The District does not have a formal policy or procedures for the utilization of assigned fund balance, accordingly, no assigned fund balance amounts are reported.

Unassigned fund balance - Spendable amounts in the General Fund that are not restricted, committed or assigned. The General Fund is the only fund that may report a positive unassigned fund balance amount. For governmental funds other than the General Fund, negative fund balances are reported here if restricted, committed, or assigned amounts exceed total spendable fund balance.

Hierarchy for use of fund balances - When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, the District uses restricted fund balance first. For the disbursement of unrestricted fund balances, the District uses committed amounts first, followed by assigned amounts, and, lastly, unassigned amounts.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's cash deposits may not be returned. The District does not have an adopted policy for custodial credit risk. As of June 30, 2016, the reported cash in bank balances were \$224,006 within the governmental funds and \$107,937 in the agency funds. The total actual bank balances were \$340,075 which were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for demand deposits held in each bank. Any deposits of cash in excess of \$250,000 were covered by collateral held by the pledging financial institution's trust department in the District's name.

Custodial Credit Risk - External Investment Pool. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the District will not be able to recover the value of deposits that are in possession of an outside party. A.R.S. §15-996, authorizes the Apache County Treasurer to receive and hold all District monies and pool the monies with other school districts for investment purposes. As of June 30, 2016, the District reported \$5,357,327 on deposit with the Apache County Treasurer's Investment Pool (ACTIP). The Apache County Treasurer invests the cash in a pool under policy guidelines established by the County. The Apache County Treasurer accounts for the investment pool in their Fiduciary Investment Trust Fund. Interest rate risk, credit risk, custodial credit risk and concentration of credit risk regarding the ACTIP are included in the Comprehensive Annual Financial Report of Apache County. The fair value of each participant's position in the ACTIP approximates the value of the participant's shares in the pool. The ACTIP is an external investment pool with no regulatory oversight. The ACTIP is not required to register (and is not registered) with the Securities and Exchange Commission. As of June 30, 2016, the ACTIP had not received a quality credit rating from a national rating agency. The District's investment in the ACTIP represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk.

Investments Held by Trustee - §15-1025 A.R.S. provides that the District may invest and reinvest all monies belonging to or credited to the school district as a Debt Service Fund. The Debt Service Funds may be invested in 1) obligations issued or guaranteed by the United States or any of its agencies or instrumentalities; 2) specified state and local government bonds; 3) interest bearing savings accounts or certificates of deposits that is insured as required by the general depository law of Arizona; and 4) bonds, debentures or other obligations issued by certain federal banks. All earnings on the invested debt service monies shall be credited to the Debt Service Fund. The Debt Service Fund reported cash as of June 30, 2016 in the amount of \$751,013, all of which was invested by the bond trustee in U.S government securities.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. The District does not have an adopted investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an insurer or other counterparty to an investment in a debt security will not fulfill its obligations. The District has no investment policy that would further limit its investment choices than what is allowable per A.R.S.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Receivable balances have been disaggregated by type and presented separately in the financial statements with the exception of the amounts due from other governments. The District's due from other governments as of June 30, 2016, are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Due from state government:				
State equalization	\$ 2,739	\$ -	\$ 28	\$ 2,767
Classroom site	-	-	45,098	45,098
Instructional improvement	-	-	14,173	14,173
School Facilities Board project	-	-	262,589	262,589
Due from county government:				
Interest on investments	2,506	2,080	-	4,586
Due from federal government:				
Federal grants	-	-	406,886	406,886
National School Lunch Program	-	-	11,126	11,126
Total due from other governments	<u>\$ 5,245</u>	<u>\$ 2,080</u>	<u>\$ 739,900</u>	<u>\$ 747,225</u>

NOTE 4 - DEFERRED INFLOWS OF RESOURCES / ADVANCES FROM GRANTORS

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with advances from grantors that have been received, but not yet earned. As of June 30, 2016, the various components of deferred inflows of resources and advances from grantors reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund:			
Unavailable revenue - property tax	\$ 93,728	\$ -	\$ 93,728
Debt Service Fund:			
Unavailable revenue - property tax	16,234	-	16,234
Other Governmental Funds:			
Unavailable revenue - property tax	630	-	630
Advances from state grants	-	3,089	3,089
Totals	<u>\$ 110,592</u>	<u>\$ 3,089</u>	<u>\$ 113,681</u>

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS

Capital asset governmental activity for the year ended June 30, 2016, was as follows:

<u>Governmental activities:</u>	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Non-depreciable capital assets:				
Land	\$ 854,405	\$ -	\$ -	\$ 854,405
Construction in progress	-	26,332	-	26,332
Total non-depreciable capital assets	<u>854,405</u>	<u>26,332</u>	<u>-</u>	<u>880,737</u>
Depreciable capital assets:				
Land improvements	4,282,219	-	-	4,282,219
Buildings and improvements	51,493,097	386,321	-	51,879,418
Vehicles, furniture, and equipment	4,150,508	29,223	(108,799)	4,070,932
Total depreciable capital assets	<u>59,925,824</u>	<u>415,544</u>	<u>(108,799)</u>	<u>60,232,569</u>
Less accumulated depreciation for:				
Land improvements	(2,080,789)	(169,491)	-	(2,250,280)
Buildings and improvements	(23,816,668)	(1,273,866)	-	(25,090,534)
Vehicles, furniture, and equipment	(3,343,905)	(244,626)	106,999	(3,481,532)
Total accumulated depreciation	<u>(29,241,362)</u>	<u>(1,687,983)</u>	<u>106,999</u>	<u>(30,822,346)</u>
Total depreciable capital assets, net	<u>30,684,462</u>	<u>(1,272,439)</u>	<u>(1,800)</u>	<u>29,410,223</u>
Total capital assets, net	<u>\$ 31,538,867</u>	<u>\$ (1,246,107)</u>	<u>\$ (1,800)</u>	<u>\$ 30,290,960</u>

Depreciation was charged to governmental functions as follows:

Instruction	\$ 1,013,412
Support services - students and staff	32,055
Support services - administration	15,492
Operation and maintenance of plant	357,951
Student transportation services	120,006
Operations of non-instructional services	149,067
Total depreciation expense	<u>\$ 1,687,983</u>

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - CONSTRUCTION CONTRACT COMMITMENTS

As of June 30, 2016, the District had the following construction commitments:

<u>Project</u>	<u>Contract</u>	<u>Amount Paid</u>	<u>Commitment</u>
Middle School Weatherproof Project	\$ 243,437	\$ 26,332	\$ 217,105

NOTE 7 - INTERFUND TRANSFERS

The following is a summary of interfund transfers reported as of June 30, 2016:

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,364	\$ -
Other Governmental Funds	-	2,364
Total	<u>\$ 2,364</u>	<u>\$ 2,364</u>

The transfer was made to move indirect costs from federal grant funds to the Indirect Costs Fund, which is grouped within the General Fund.

NOTE 8 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the District for the year ended June 30, 2016:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable	\$ 6,385,000	-	\$ (605,000)	\$ 5,780,000	\$ 625,000
Bond premium	96,650	-	(12,327)	84,323	12,327
Net pension liability	9,988,054	3,052,495	(2,750,740)	10,289,809	-
Compensated absences	283,844	177,004	(172,037)	288,811	25,000
Total	<u>\$ 16,753,548</u>	<u>\$ 3,229,499</u>	<u>\$ (3,540,104)</u>	<u>\$ 16,442,943</u>	<u>\$ 662,327</u>

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - BONDS PAYABLE

Bonds payable at June 30, 2016, consisted of the following outstanding school improvement revenue bonds. The bonds are noncallable with interest payable semiannually. Revenues recorded in the Debt Service Fund are used to pay bonded debt.

Bonds payable at June 30, 2016, are as follows:

<u>Governmental activities:</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2016</u>	<u>Due Within One Year</u>
School improvement bonds:					
2007, Series A (2008)	\$ 5,000,000	4.00-4.25%	7/1/16-23	\$ 2,435,000	\$ 265,000
2007, Series B (2009)	5,000,000	3.50-5.00%	7/1/16-23	<u>3,345,000</u>	<u>360,000</u>
Total bonds payable				<u>\$ 5,780,000</u>	<u>\$ 625,000</u>

Annual requirements to amortize all bonded debt outstanding as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 625,000	\$ 252,025	\$ 877,025
2018	650,000	228,825	878,825
2019	675,000	202,138	877,138
2020	700,000	173,550	873,550
2021	730,000	143,701	873,701
2022-2024	<u>2,400,000</u>	<u>227,089</u>	<u>2,627,089</u>
Total	<u>\$ 5,780,000</u>	<u>\$ 1,227,328</u>	<u>\$ 7,007,328</u>

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Plan description - District employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided - The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

Retirement initial membership date:

	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and ages equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years after age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the District is required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, 0.13 for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who may have worked for the District in positions an employee who contributes to the ASRS would typically fill. The District's contributions to the pension and OPEB for the current and two preceding years all of which were equal to the required contributions, were as follows:

Year ended June 30	Retirement Fund	Health Insurance Premium Benefit	Long-Term Disability Fund	Alternative Required Contribution	Total Contributions
2016	\$ 582,318	\$ 26,835	\$ 6,454	\$ 50,827	\$ 666,434
2015	644,398	35,821	7,286	18,149	705,654
2014	649,669	37,056	14,823	-	701,548

During fiscal year ending June 30, 2016, the District paid for pension and OPEB contributions as follows:

Fund:	Pension and OPEB Contribution	Percentage by Fund
General Fund	\$ 561,127	84.20 %
Other Governmental Funds	105,307	15.80 %
Total	<u>\$ 666,434</u>	<u>100.00 %</u>

Pension liability - At June 30, 2016, the District reported a liability of \$10,289,809 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The District's proportion measured as of June 30, 2015, was 0.0661 percent, which was a decrease of 0.0014 percent from its proportion measured as of June 30, 2014.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2016, the District recognized pension expense for ASRS of \$716,437. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 280,788	\$ 539,196
Net difference between projected and actual earnings on pension plan investments	-	329,766
Changes in proportion and differences between District contributions and proportionate share of contributions	308,528	165,696
District contributions subsequent to the measurement date	666,434	-
Total	\$ 1,255,750	\$ 1,034,658

The \$666,434 reported as deferred outflows of resources related to ASRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	Deferred Outflows (Inflows)
2017	\$ (56,358)
2018	(373,682)
2019	(253,353)
2020	238,050

Actuarial assumptions - The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8.00%
Projected salary increase	3.00 - 6.75%
Inflation	3.00%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (concluded)

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	58.00 %	6.79 %
Fixed income	25.00 %	3.70 %
Real estate	10.00 %	4.25 %
Multi-asset	5.00 %	3.41 %
Commodities	2.00 %	3.93 %
Total	100.00 %	

Discount rate - The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the ASRS net pension liability to changes in the discount rate - The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
District's proportionate share of the net pension liability	\$ 13,483,166	\$ 10,289,809	\$ 8,101,313

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Arizona School Risk Retention Trust, Inc (ASRRT), together with other school districts in the state. ASRRT is a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The District pays an annual premium to ASRRT for its general insurance coverage. The agreement provides that ASRRT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified amounts.

The District participates with several Arizona school districts and community colleges in the Navajo County Schools Employee Benefit Trust (Trust). The District uses the Trust to manage risks of loss related to employee health and accident claims. The Trust is a public entity risk pool operating as a common risk management and insurance program for its member school districts. The Trust is funded by irrevocable contributions from the District for employee coverage and from employees for dependent coverage. The Trust, which is managed by a separate board of directors, allows the fund to be self-funded, insured, or both. Additionally, if the Trust becomes insolvent, the District may be assessed, on a pro-rata basis, an additional assessment not to exceed the amount of the annual contribution. Should the District withdraw from the Trust, it would then be responsible for its proportional share of claims and would forfeit all rights to the return of any surplus, unearned contributions, or other legally permitted distributions from the Trust. Whether the District withdraws or the Trust becomes insolvent, the District remains liable for assessments for liabilities of the Trust incurred during the District's period of membership in the Trust.

The District carries commercial insurance for workers' compensation.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior fiscal years.

NOTE 12 - CONTINGENT LIABILITIES

Federal grants - In the normal course of operations, the District receives grant funds from various federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of audits of grant funds is not believed by District officials to be material.

Litigation - Each year the District receives notices of claims for damages occurring generally from negligence, bodily injury, breach of contract, and other legal matters. The filing of such claims commences a statutory period for initiating a lawsuit against the District arising therefrom. The District has comprehensive general liability insurance with the ASRRT. The District is not aware of any litigation that might result in a materially adverse outcome.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 13 - DEFICIT FUND BALANCES

The District reported a deficit fund balance in the following funds:

	Deficit
Other Governmental Fund:	
Building Renewal Grant	\$ 50,225

The deficit in the Building Renewal Grant fund is due to the difference of the District being allowed to expend up to approved award amounts and the timing of related revenue to be received by the District. Future receipts are expected to eliminate the deficit fund balance.

NOTE 14 - RECLASSIFICATION OF BEGINNING FUND BALANCES

The District has reviewed GASB Statement 54 as noted in Financial Note 1.R. on page 38 and elected to group together certain governmental funds as provided by the Uniform Standard Reporting System with the Maintenance and Operation Fund. See page 62 for funds that were grouped with the Maintenance and Operation and referred to as the General Fund. The chart below reconciles the current financial statements with the prior financial statements.

	Financial Report	As Reclassified	Difference
	June 30, 2015	July 1, 2015	
General Fund	\$ 5,637,564	\$ 5,194,436	\$ 443,128
Debt Service	1,207,569	1,207,569	-
Other Governmental Funds	132,361	575,489	(443,128)
Total	\$ 6,977,494	\$ 6,977,494	\$ -

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REQUIRED SUPPLEMENTARY INFORMATION

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**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		(Non-GAAP) Actual	Variance
	Adopted	Final	Amounts	
Revenues:				
Property taxes	\$ -	\$ -	\$ 5,298,018	\$ 5,298,018
State aid and grants	-	-	171,715	171,715
Federal aid and grants	-	-	385,394	385,394
Other local revenue	-	-	1,672,735	1,672,735
Total revenues	<u>-</u>	<u>-</u>	<u>7,527,862</u>	<u>7,527,862</u>
Expenditures:				
Instruction	4,712,109	4,637,706	4,380,752	256,954
Support services - students and staff	1,416,515	1,394,148	1,316,905	77,243
Support services - administration	1,153,581	1,135,366	1,072,461	62,905
Operation and maintenance of plant	1,872,825	1,843,253	1,741,127	102,126
Student transportation services	473,447	465,971	440,154	25,817
Operation of non-instructional services	97,637	96,095	90,771	5,324
Total expenditures	<u>9,726,114</u>	<u>9,572,539</u>	<u>9,042,170</u>	<u>530,369</u>
Excess (deficiency) of revenues over expenditures	(9,726,114)	(9,572,539)	(1,514,308)	8,058,231
Other financing sources:				
Transfers in	-	-	2,364	2,364
Net change in fund balances	(9,726,114)	(9,572,539)	(1,511,944)	8,060,595
Fund balance, July 1, 2015	5,194,436	5,194,436	5,194,436	-
Change in inventories	-	-	(36,644)	(36,644)
Change in prepaids	-	-	47,387	47,387
Fund balance (non-GAAP), June 30, 2016	<u>\$ (4,531,678)</u>	<u>\$ (4,378,103)</u>	3,693,235	<u>\$ 8,071,338</u>
Less current year accrued payroll			(26,793)	
Add prior year accrued payroll			929	
Fund balance (GAAP), June 30, 2016			<u>\$ 3,667,371</u>	

See notes accompanying this schedule.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2016

Arizona State Retirement System	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
District's proportion of the net pension liability	0.07 %	0.07 %	Information not available
District's proportionate share of the net pension liability	\$ 10,289,809	\$ 9,988,054	
District's covered-employee payroll	\$ 6,174,276	\$ 6,302,765	
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	166.66 %	158.47 %	
Plan fiduciary net position as a percentage of the total pension liability	68.35 %	69.49 %	

See notes accompanying this schedule.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
JUNE 30, 2016

Arizona State Retirement System	Reporting Fiscal Year			2013 through 2006
	2016	2015	2014	
Statutorily required contribution	\$ 666,434	\$ 705,654	\$ 701,548	Information not available
District's contributions in relation to the statutorily required contribution	<u>666,434</u>	<u>705,654</u>	<u>701,548</u>	
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
District's covered-employee payroll	\$ 6,082,917	\$ 6,174,276	\$ 6,302,765	
District's contributions as a percentage of covered-employee payroll	<u>10.96 %</u>	<u>11.43 %</u>	<u>11.13 %</u>	

See notes accompanying this schedule.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - BUDGETARY COMPLIANCE AND ACCOUNTABILITY

The District follows these procedures established by State statutes and the State Board of Education rules in establishing budget balances for governmental funds, as described below:

1. Budgets are prepared, public hearings are held and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
2. Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g. instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
3. Budgets are prepared using the same modified accrual basis as is used to account for governmental funds except for certain expenditures for the next fiscal year that were accrued subsequent to the fiscal year end for budgetary purposes (Non-GAAP). These amounts were added to the GAAP financial statements and removed from the budgetary schedule. A reconciliation of the difference between GAAP and Non-GAAP expenditures can be found at the end of the budgetary comparison schedules.
4. Budgetary information is integrated into the accounting system to facilitate budgetary control. The budget balances are encumbered when purchase orders are issued. However, appropriations lapse at year end and encumbrances outstanding at year-end do not constitute expenditures or liabilities, and are reversed before financial statements are prepared.
5. The District is not required by the State of Arizona to prepare a revenue budget, therefore, no budget is presented.
6. At June 30, 2016, the District had expenditures in cash-controlled funds that exceeded the budgets as follows:

Funds	Amount Over Budget
General Fund:	
Civic Center	\$ 10,123
Other Governmental Funds:	
Building Renewal Grant	412,675
Emergency Deficiencies Correction Grant	3,279

The amounts spent over-budget do not constitute a violation of any legal provisions, as the expenditures did not exceed the cash balance in any of the cash controlled funds.

**ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 2 - BUDGETARY COMPLIANCE AND GASB 54

Arizona Revised Statutes 15-271 requires the Arizona Office of the Auditor General to determine the accounting systems, accounting methods and accounting procedures for utilization by Arizona school districts. The Arizona Auditor General provides a chart of accounts that guides all Arizona school districts in recording revenues. For financial reporting, the Governmental Accounting Standards Board (GASB)'s Statement No. 54 defines a special revenue fund as a fund that reports specific revenues with the related expenditures substantially restricted. Noncapital funds that do not meet the definition of GASB 54's special revenue fund definition are recorded within the General Fund. In the schedule provided below, we have provided detail of the funds that comprise the General Fund, with budget to actual information. Furthermore, a separate budgetary schedule for Maintenance and Operation, the main budgetary fund for the District per Arizona Revised Statutes, is provided as supplementary information on page 61.

Fund		Budgeted Amounts		Expenditures	Difference
No.	Description	Adopted	Final		
001	Maintenance & Operation	\$ 8,474,514	\$ 8,690,539	\$ 8,326,598	\$ 363,941
	Other funds	1,251,600	882,000	741,436	140,564
Total all funds		<u>\$ 9,726,114</u>	<u>\$ 9,572,539</u>	<u>\$ 9,068,034</u>	<u>\$ 504,505</u>

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SUPPLEMENTARY INFORMATION

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ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
BUDGETARY COMPARISON SCHEDULE - MAINTENANCE AND OPERATION FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		(Non-GAAP) Actual	Variance
	Adopted	Final	Amounts	
Revenues:				
Property taxes	\$ -	\$ -	\$ 5,298,018	\$ 5,298,018
State aid and grants	-	-	171,715	171,715
Other local revenue	-	-	1,375,265	1,375,265
Total revenues	<u>-</u>	<u>-</u>	<u>6,844,998</u>	<u>6,844,998</u>
Expenditures:				
Regular education:				
Instruction	3,270,182	2,981,806	2,908,160	73,646
Support services - students and staff	541,049	997,720	922,117	75,603
Support services - administration	1,151,105	1,045,491	1,045,635	(144)
Operation and maintenance of plant	1,340,208	1,717,820	1,496,821	220,999
Operation of non-instructional services	14,000	14,000	37,000	(23,000)
Athletics	220,000	215,124	216,219	(1,095)
Total regular education	<u>6,536,544</u>	<u>6,971,961</u>	<u>6,625,952</u>	<u>346,009</u>
Special education:				
Instruction	805,797	863,670	857,205	6,465
Support services - students and staff	476,018	294,575	289,924	4,651
Operation and maintenance of plant	-	30,537	30,753	(216)
Total special education	<u>1,281,815</u>	<u>1,188,782</u>	<u>1,177,882</u>	<u>10,900</u>
Student transportation services:				
Student transportation services	600,678	479,760	437,831	41,929
K-3 reading program:				
Instruction	55,477	50,036	58,140	(8,104)
Total expenditures	<u>8,474,514</u>	<u>8,690,539</u>	<u>8,299,805</u>	<u>390,734</u>
Net changes in fund balances	(8,474,514)	(8,690,539)	(1,454,807)	7,235,732
Fund balance, July 1, 2015	4,563,518	4,563,518	4,563,518	-
Change in inventories	-	-	(36,644)	(36,644)
Fund balance (non-GAAP), June 30, 2016	<u>\$ (3,910,996)</u>	<u>\$ (4,127,021)</u>	3,072,067	<u>\$ 7,199,088</u>
Less current year accrued payroll			(26,793)	
Fund balance (GAAP), June 30, 2016			<u>\$ 3,045,274</u>	

See note accompanying this schedule.

ROUND VALLEY UNIFIED SCHOOL DISTRICT NO. 10
NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - GENERAL FUND COMBINING SCHEDULE

The Arizona Department of Education provides a Chart of Accounts that all Arizona school districts must follow. As such the District is required to place revenues in certain funds. By definition per GASB 54 a special revenue fund is a specific revenue with the expenditures substantially restricted. The following table provides the funds that do not have substantial restrictions that were grouped together with the District's Maintenance and Operation Fund.

<u>Fund No.</u>	<u>Fund Description</u>	<u>Assets and Deferred Outflows</u>	<u>Liabilities and Deferred Inflows</u>	<u>Fund Balances</u>	<u>Revenues</u>	<u>Expenditures</u>
001	Maintenance & Operation	\$ 3,315,427	\$ 270,153	\$ 3,045,274	\$ 6,844,998	\$ 8,326,598
290	Medicaid Reimbursement	1,808	-	1,808	7	-
349	National Forest Fees	59,542	-	59,542	283,556	388,269
353	Taylor Grazing	1,353	-	1,353	916	-
374	E-Rate	50	-	50	100,915	100,865
515	Civic Center	3,287	-	3,287	29,440	30,123
525	Auxiliary Operations	194,531	-	194,531	248,591	194,454
530	Gifts and Donations	283,930	-	283,930	18,924	5,194
555	Textbooks	10,711	-	10,711	41	-
570	Indirect Costs	16,012	1,269	14,743	107	22,531
595	Advertisement	4,755	-	4,755	367	-
800	Insurance	47,387	-	47,387	-	-
Total all funds		<u>\$ 3,938,793</u>	<u>\$ 271,422</u>	<u>\$ 3,667,371</u>	<u>\$ 7,527,862</u>	<u>\$ 9,068,034</u>