

**State of Arizona
Riverside Elementary School
District No. 2**

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2017



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INGRAM

CPAs and Advisors

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STATE OF ARIZONA
Riverside Elementary School District No. 2
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STATE OF ARIZONA
Riverside Elementary School District No. 2
Official Roster
June 30, 2017

<u>Name</u>	<u>Board of Education</u>	<u>Title</u>
Dr. Joyce Luckie		Board President
Martin Martinez		Board Vice President
Lillie Valencia		Board Member
 <u>Administrative Officials</u>		
Dr. Jaime Rivera		Superintendent
Ruben Gutierrez		Associate Superintendent
Jose Moreno		Executive Director of Business Services

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Governing Board of
Riverside Elementary School District No. 2
Phoenix, Arizona

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Riverside Elementary School District No. 2 (the "District"), as of and for the year ended June 30, 2017, 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 District'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 District'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 Riverside Elementary School District No. 2, as of June 30, 2017, and the respective changes in financial position 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* on pages 11 through 22, and Schedules I, II, III, and the notes to the required supplementary information on pages 62 through 65, 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 inquires 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 our opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, supporting schedule IV, note to the supplementary information, and Statistical Section schedules V through XIII are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards, supporting schedule IV, and note to the supplementary information are management's responsibility and was derived from and relates 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 Schedule of Expenditures of Federal Awards, supporting schedule IV, and note to the supplementary information are fairly stated in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the Statistical Section schedules V through XIII have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018, 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 the 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.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Albuquerque, New Mexico
March 22, 2018

STATE OF ARIZONA
Riverside Elementary School District No. 2
Management's Discussion And Analysis
For the Year Ended June 30, 2017
Unaudited

As management of the Riverside Elementary School District No. 2, we offer readers of the Riverside Elementary School District No. 2 financial statements this narrative overview and analysis of the financial activities of the Riverside Elementary School District No. 2 for the fiscal year ended June 30, 2017. Please read in conjunction with the basic financial statements, which follow this section. The discussion and analysis includes comparative data for the prior year.

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 \$28.5 million. This is an increase of \$1.5 million, or 5.5 percent, from fiscal year 2015-16.
- District-wide general revenues of \$12.8 million accounted for 84 percent of all fiscal year 2016-17 revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2.4 million, or 15.8 percent, of total fiscal year 2016-17 revenues.
- District-wide expenses increased \$1.4 million, or 10.8 percent, from \$13 million in fiscal year 2016-17 to \$14.4 million in fiscal year 2016-17.
- The District had \$14.4 million in expenses related to governmental activities; of which \$2.4 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues of \$12.8 million were adequate to provide support for the remaining \$12 million costs of these programs.
- In fiscal year 2016-17, the General Fund reported \$5.8 million in revenues and \$5.7 million in expenditures. The revenues consisted primarily of \$5.5 million in property taxes. The General Fund's fund balance increased \$202 thousand, or 44 percent, from \$461 thousand, as of June 30, 2016, to \$664 thousand, as of June 30, 2017.
- During fiscal year 2016-17, the District made bond principal payments of \$5.5 million and bond interest payments of \$1.5 million. As of June 30, 2017, the District had \$37.9 million in outstanding bond principal and \$7.1 million in interest that are due through the fiscal year 2030-31. For additional information see financial statement note 6.
- In fiscal year 2016-17, the District issued \$7.6 million in School Improvement Bonds. For further information regarding new bonds, see financial statement note 6.

Overview of Financial Statements

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

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Riverside Elementary School District No. 2
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Notes to the financial statements, which are included just following the basic financial statements, provide more detailed data and explain some of the information in the statements. The supplementary information sections provide further explanations and additional support for the financial statements, including comparisons of the District's budget to actual revenues and expenditures for the year.

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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these items 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, central services, operation and maintenance of plant, student transportation, operation of non-instructional services, and interest and other charges on long-term debt.

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. Both the governmental fund *Balance Sheet* and the *Statement of Revenues, Expenditures, and Changes in Fund Balances* provide a reconciliation to facilitate this comparison between governmental funds and district-wide governmental activities.

Information is presented separately in both the governmental funds' *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balances* for the General Fund, Adjacent Ways Fund, Bond Building Fund, and the Debt Service Fund. Information from the other governmental funds are combined into a single, aggregated presentation.

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.

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Management's Discussion And Analysis
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Unaudited

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.

Other 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* has been provided for the General Fund starting on page 62.

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 plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$28.5 million as of June 30, 2017.

By far the largest portion of the District's net position, \$26.4 million reflects its investment in capital assets (e.g., land, buildings, other improvements, and vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, \$0.24 million of net position is restricted for debt service payments of bond principal and interest, and \$0.32 million of net position is restricted by state legislation for voter approved initiatives and food service. The remaining portion of net position, \$1.5 million, is considered unrestricted.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

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Riverside Elementary School District No. 2
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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, 2017 and 2016.

	As of June 30, 2017	As of June 30, 2016	Change	Percent Change
Assets				
Current assets	\$ 14,113,744	\$ 19,767,291	\$ (5,653,547)	-28.6%
Capital assets	61,071,909	57,363,711	3,708,198	6.5%
Total assets	<u>75,185,653</u>	<u>77,131,002</u>	<u>(1,945,349)</u>	<u>-2.5%</u>
Deferred outflows of resources				
Deferred amount on refunding	412,385	403,093	9,292	2.3%
Deferred outflows related to pensions	1,902,423	964,497	937,926	97.2%
Total deferred outflows of resources	<u>2,314,808</u>	<u>1,367,590</u>	<u>947,218</u>	<u>69.3%</u>
Total assets and deferred outflows of resources	<u>\$ 77,500,461</u>	<u>\$ 78,498,592</u>	<u>\$ (998,131)</u>	<u>66.7%</u>
Liabilities				
Current liabilities	\$ 1,271,983	\$ 5,555,556	\$ (4,283,573)	-77.1%
Noncurrent liabilities	46,705,206	45,304,413	1,400,793	3.1%
Total liabilities	<u>47,977,189</u>	<u>50,859,969</u>	<u>(2,882,780)</u>	<u>-5.7%</u>
Deferred inflows of resources				
Deferred inflows related to pensions	936,510	610,614	325,896	53.4%
Net position				
Net investment in capital assets	26,424,131	29,792,951	(3,368,820)	-11.3%
Restricted	582,761	1,114,274	(531,513)	-47.7%
Unrestricted	1,579,870	(3,879,216)	5,459,086	-140.7%
Total net position	<u>28,586,762</u>	<u>27,028,009</u>	<u>1,558,753</u>	<u>5.8%</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 77,500,461</u>	<u>\$ 78,498,592</u>	<u>\$ (998,131)</u>	<u>-1.3%</u>

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

- The decrease of \$5.7 million in current assets was primarily due to the decrease of cash in the Bond Building Fund for construction related expenditures.
- The District had \$5.7 million in additions to capital assets, a prior period restatement of \$0.7 million, that were offset by depreciation expense of \$2.7 million, resulting in an overall increase in capital assets of \$3.7 million.
- The decrease of \$4.3 million in current liabilities was primarily due to the decrease of construction contract payable balance of \$3.4 million and accounts payable balance of \$0.9 million.
- The increase of \$1.4 million in noncurrent liabilities was primarily due to an increase in bonds payable of \$0.6 million and net pension liability of \$0.8. For additional information, see financial statement note 6.

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Management's Discussion And Analysis
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Changes in net position. The District's total revenues for the fiscal year ended June 30, 2017, were \$15.2 million. The total cost of all programs and services was \$14.4 million. The following table presents a two-year comparison of the changes in net position for the fiscal years ended June 30, 2017 and 2016.

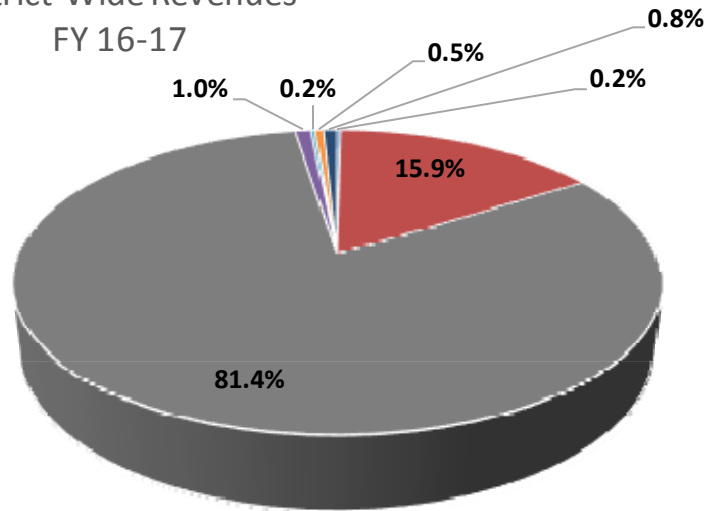
	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2016</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Program revenues:				
Charges for services	\$ 34,582	\$ 25,483	\$ 9,099	35.7%
Operating grants and contributions	2,416,853	2,159,654	257,199	11.9%
General revenues:				
Taxes	12,406,747	12,150,078	256,669	2.1%
Payment in lieu of taxes - SRP	145,712	144,031	1,681	1.2%
State aid	36,897	47,423	(10,526)	-22.2%
Investment income	72,365	118,273	(45,908)	-38.8%
Miscellaneous	123,571	56,163	67,408	100.0%
Total revenues	<u>15,236,727</u>	<u>14,701,105</u>	<u>535,622</u>	<u>3.6%</u>
Expenses:				
Instruction	6,109,450	5,463,737	645,713	11.8%
Support services - students and staff	1,705,904	1,332,920	372,984	28.0%
Support services - administration	2,588,092	2,157,932	430,160	19.9%
Operation and maintenance of plant	1,101,478	1,699,121	(597,643)	-35.2%
Student Transportation services	473,915	556,751	(82,836)	-14.9%
Operation of non-instructional services	855,505	606,116	249,389	41.1%
Interest on long-term debt	1,556,906	1,248,883	308,023	24.7%
Total expenses	<u>14,391,250</u>	<u>13,065,460</u>	<u>1,325,790</u>	<u>10.1%</u>
Change in net position	845,477	1,635,645	(790,168)	-48.3%
Beginning net position	<u>27,741,285</u>	<u>25,392,364</u>	<u>2,348,921</u>	<u>9.3%</u>
Ending net position	<u>\$ 28,586,762</u>	<u>\$ 27,028,009</u>	<u>\$ 1,558,753</u>	<u>5.8%</u>

Overall District-wide revenues increased \$536 thousand, or 3.6 percent, while expenses increased \$1.3 million, or 10 percent, resulting in an increase in net position of \$1.6 million, or 5.8 percent.

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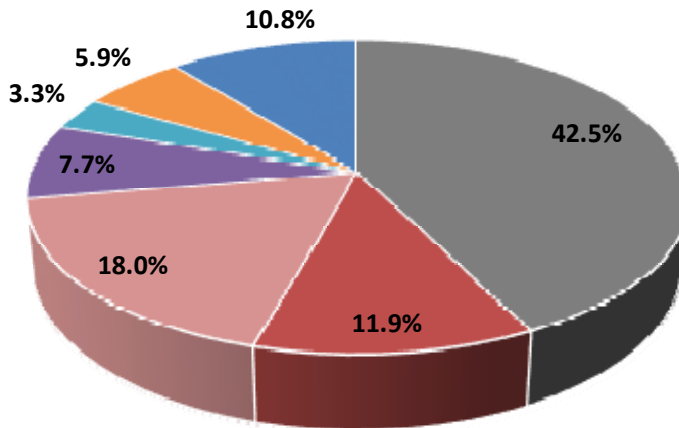
District-Wide Revenues
FY 16-17

- Charges for services
- Operating grants and contributions
- Taxes
- Payment in lieu of taxes - SRP
- State aid
- Investment income
- Miscellaneous



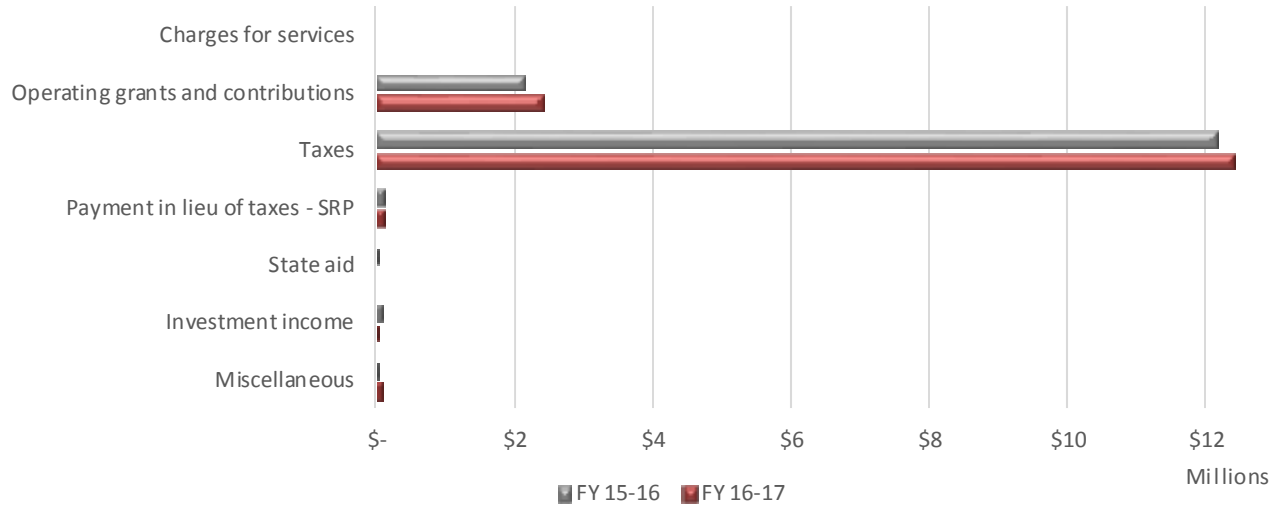
District-Wide Expenses
FY 16-17

- Instruction
- Support services - students and staff
- Support services - administration
- Operation and maintenance of plant
- Student Transportation services
- Operation of non-instructional services
- Interest on long-term debt

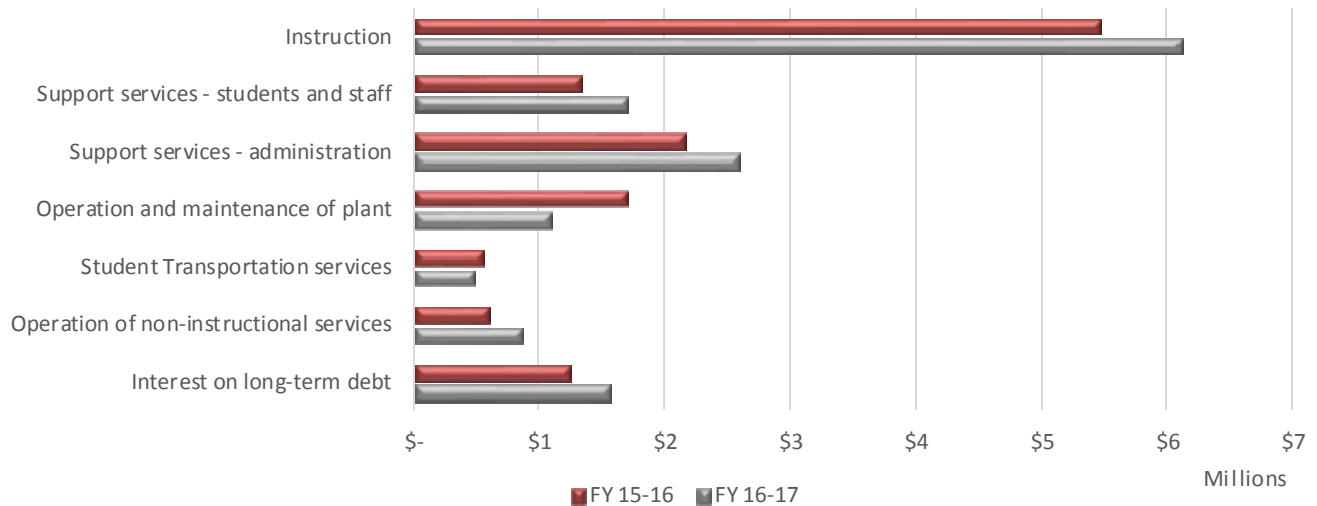


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Riverside Elementary School District No. 2
Management's Discussion And Analysis
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District-Wide Revenues
2 year Comparison



District-Wide Expenses
2 year Comparison



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Governmental Activities. The *Statement of Activities* on page 25 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 from one year to the next. The net cost of services increased by \$1.1 million due to expenses reported in the *Statement of Activities* increasing \$1.3 million, while program revenues decreased \$266 thousand.

Net Cost of Services

<u>Expense Function</u>	<u>As of June 30, 2017</u>	<u>As of June 30, 2016</u>	<u>Change</u>	<u>Percent Change</u>
Instruction	\$ (4,609,997)	\$ (4,216,543)	\$ (393,454)	9.3%
Support services - students and staff	(1,663,329)	(1,277,723)	(385,606)	30.2%
Support services - administration	(2,523,500)	(2,068,571)	(454,929)	22.0%
Operation and maintenance of plant	(1,073,988)	(1,628,760)	554,772	-34.1%
Student transportation services	(473,915)	(556,751)	82,836	-14.9%
Operation of non-instructional services	(38,180)	116,908	(155,088)	-132.7%
Interest on long-term debt	(1,556,906)	(1,248,883)	(308,023)	24.7%
Total	<u>\$ (11,939,815)</u>	<u>\$ (10,880,323)</u>	<u>\$ (1,059,492)</u>	<u>9.7%</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 to 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 involves the conveying of 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 primarily the cost of food service operations.
- *Interest on long-term debt* expenses are for the payment of interest on bonds issued by the District and lease-purchase agreement.

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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, unreserved 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 financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$7.2 million, a decrease of \$2.3 million, or 24.4 percent.

The fund balances consisted of the following: \$6.6 million is considered restricted. \$650 thousand of total governmental funds' fund balances are considered unassigned.

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

Governmental Fund Balances

<u>Fund</u>	<u>As of June 30, 2017</u>	<u>As of June 30, 2016</u>	<u>Change</u>	<u>Percent Change</u>
General Fund	\$ 663,705	\$ 461,463	\$ 202,242	43.8%
Adjacent Ways Fund	2,092,499	1,990,458	102,041	5.1%
Bond Building Fund	3,627,487	5,787,670	(2,160,183)	-37.3%
Debt Service Fund	268,243	677,661	(409,418)	-60.4%
Other Governmental Funds	578,768	647,920	(69,152)	-10.7%
Total	<u>\$ 7,230,702</u>	<u>\$ 9,565,172</u>	<u>\$ (2,334,470)</u>	<u>-24.4%</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 increased \$202 thousand, or 43.8 percent, primarily due to an increase of property taxes collected during the current year.
- The Adjacent Way Fund's fund balance increased \$102 thousand, or 5.1 percent, primarily due to a reduction of expenditures during the current year.
- The Bond Building Fund's fund balance decreased \$2.2 million, or 37.3 percent, primarily due to capital outlay expenditures in the current year.
- The Debt Service Fund's fund balance increased \$409 thousand, or 60.4 percent, due to fluctuations based on principal and interest payments.
- The Other Governmental Funds' fund balances overall decrease of \$69 thousand, or 10.7 percent, was primarily due to an increase in expenditures over revenues during the current year.

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Unaudited

Maintenance and Operation Fund Budgetary Highlights

The District's budget is prepared according to Arizona law and is based on the modified accrual basis of accounting. The Maintenance and Operation Fund Budgetary Comparison Schedule is supplementary information and is presented on page 68. The adopted and final budget amounts as well as the variances between the final budget and the actual expenditures incurred are presented.

Over the course of the year, the District revised the Maintenance and Operation Fund annual expenditure budget for reclassification of salaries, benefits, and other expenditures across functional categories. The final budgeted expenditures decreased only \$280 thousand, or 4.7 percent, from the adopted budget.

The actual amounts expended in the Maintenance and Operation Fund were \$112 thousand, or 2 percent, less than the final budget. This was primarily due to the District budgetary planning to carry forward funds to the next year in case of a reduction in state funding were to occur, and due to an increase in budget capacity as a result of the successful passing of Proposition 123 (inflation lawsuit settlement agreement election held on May 17, 2016).

Maintenance and Operation Fund – Budget to Actual

<u>Expenditures</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>	<u>Percent Variance</u>
Instruction	\$ 2,472,478	\$ 2,422,311	\$ 50,167	2.1%
Student services	425,269	418,248	7,021	1.7%
Instruction services	365,653	360,212	5,441	1.5%
General administration services	248,448	245,226	3,222	1.3%
School administration services	292,778	299,983	(7,205)	-2.4%
Central and other support services	741,149	713,217	27,932	3.9%
Operation and maintenance of plant	710,470	737,907	(27,437)	-3.7%
Student transportation	353,220	300,421	52,799	17.6%
Total	<u>\$ 5,609,465</u>	<u>\$ 5,497,525</u>	<u>\$ 111,940</u>	<u>2.0%</u>

Capital Assets

As of June 30, 2017, the District had invested \$61 million in capital assets (net of accumulated depreciation), including school buildings, athletic facilities, buses and other vehicles, computers and other equipment. Total depreciation expense for the year was \$2.7 million.

The following schedule presents a two-year comparison of the capital asset balances for the fiscal years ended June 30, 2017 and 2016.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Management's Discussion And Analysis
For the Year Ended June 30, 2017
Unaudited

Capital Assets (continued)

	As of June 30, 2017	As of June 30, 2016	Change	Percent Change
<u>Governmental activities</u>				
Land	\$ 2,855,758	\$ 2,855,758	\$ -	0.0%
Construction in progress	75,686	17,443,471	(17,367,785)	100.0%
Buildings and improvements	60,771,840	39,458,956	21,312,884	54.0%
Other improvements	7,938,238	6,712,608	1,225,630	18.3%
Vehicles, furniture and equipment	8,016,490	6,916,318	1,100,172	15.9%
 Total	 <u>\$ 79,658,012</u>	 <u>\$ 73,387,111</u>	 <u>\$ 6,270,901</u>	 <u>8.5%</u>
 Less: Accumulated depreciation	 <u>\$ (18,586,103)</u>	 <u>\$ (16,023,400)</u>	 <u>\$ (2,562,703)</u>	 <u>16.0%</u>
 Capital assets, net	 <u>\$ 61,071,909</u>	 <u>\$ 57,363,711</u>	 <u>\$ 3,708,198</u>	 <u>6.5%</u>

The increase in capital assets of \$3.7 million, or 6.5 percent, was due to depreciation expense of \$2.6 million being less than the net capital additions of \$6.3 million. Additional information on the District's capital assets can be found in financial statement note 4.

Long-Term Debt

The District reported \$46.7 million in long-term debt for the year ended June 30, 2017.

	As of June 30, 2017	As of June 30, 2016	Change	Percent Change
Bonds payable	\$ 37,940,000	\$ 37,380,000	\$ 560,000	1.5%
Discount on bonds	(24,838)	(26,908)	2,070	-7.7%
Premium on bonds	758,647	757,218	1,429	0.2%
Compensated absences	390,243	301,018	89,225	29.6%
Net pension liability	7,641,154	6,893,085	748,069	10.9%
 Total	 <u>\$ 46,705,206</u>	 <u>\$ 45,304,413</u>	 <u>\$ 1,400,793</u>	 <u>3.1%</u>

The District had the following significant transactions regarding long-term debt:

- The increase in bonds payable was due the issuance of \$7.6 million in School Improvement Bonds offset by a bond principal payment of \$7.1 million. For additional information see financial statement note 6.
- The increase in the premium on bonds was due to the premium associated with the current year bond issuance being offset by the amortization of the bonds.
- The increase in compensated absences of \$89 thousand was due to the earning and use of accumulated leave balances.
- The net pension liability increased \$748 thousand due to deferred inflows of resources related to pensions exceeding pension expenses and deferred outflows of resources related to pensions during the fiscal year. For more information on net pension liability see financial statement note 8.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Management's Discussion And Analysis
For the Year Ended June 30, 2017
Unaudited

Economic Factors and Next Year's Budget and Rates

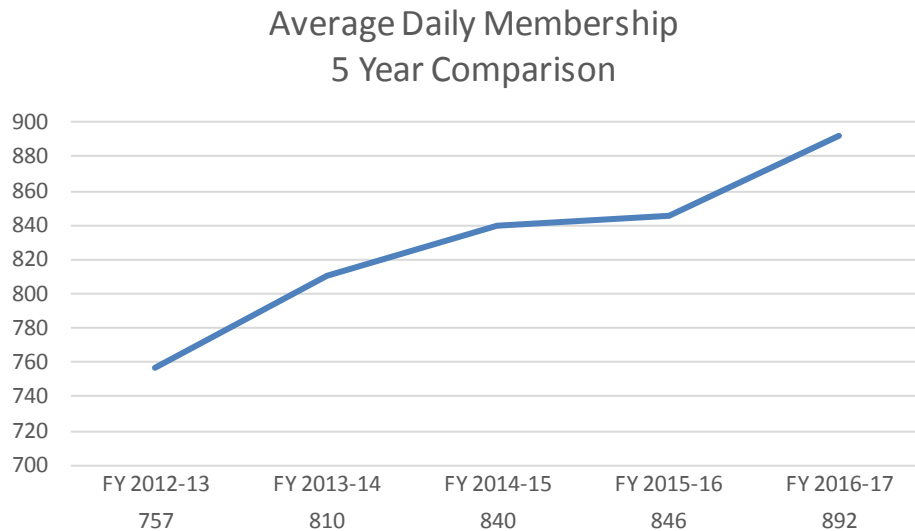
Many factors were considered by the District's administration during the process of developing the budget for the next fiscal year (fiscal year 2017-18). The primary factors considered in developing fiscal year 2017-18's budget were the District's student population and employee salaries. Also considered in the development of the budget is the local economy and inflation of the surrounding area.

The following table presents a comparison with the Maintenance and Operation Fund's final budget for this fiscal year (fiscal year 2016-17) and the adopted budget for next fiscal year (fiscal year 2017-18).

General Fund:		Adopted		
Expenditures:	Final Budget FY	Budget 2017-	Increase	Percent
	2016-2017	2018	(Decrease)	Change
Regular education	\$ 4,155,809	\$ 4,011,165	\$ (144,644)	-3.6%
Special education	1,048,357	1,078,339	29,982	2.8%
Student transportation services	353,084	359,428	6,344	1.8%
K-3 reading program	52,217	47,702	(4,515)	-9.5%
Total	<u>\$ 5,609,467</u>	<u>\$ 5,496,634</u>	<u>\$ (112,833)</u>	<u>-2.1%</u>

Amounts available in the Maintenance and Operation Fund's fiscal year 2017-18's budget are \$5.5 million, a decrease of \$112,833, or 2.1 percent, which are relatively the same as the prior year. Property taxes and state aid are expected to be the primary funding source of the expenditures for fiscal year 2017-18.

The District's attendance has seen growth over the past five years. Average daily membership (ADM) has grown from 757 ADM in fiscal year 2012-13 to 892 ADM in fiscal year 2016-17, an increase of 135 or 17.8% percent. The District expects attendance to level out and remain in the same range or with moderate increases for the next several years.



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and 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 Department, Riverside Elementary School District No. 2, 1414 S. 51st Ave., Phoenix, Arizona 85043.

**BASIC
FINANCIAL STATEMENTS**

STATE OF ARIZONA
Riverside Elementary School District No. 2
Statement of Net Position
June 30, 2017

Exhibit A-1

	Governmental Activities
Assets	
Cash, investments, and cash equivalents	\$ 7,694,307
Cash held by paying agent	6,139,434
Receivables:	
Property taxes	170,023
Other	23,600
Due from other governments	86,380
Capital assets	79,658,012
Less: accumulated depreciation	<u>(18,586,103)</u>
<i>Total assets</i>	<u>75,185,653</u>
Deferred outflows of resources	
Deferred charges on debt refunding	412,385
Deferred outflows related to pensions	<u>1,902,423</u>
<i>Total deferred outflows of resources</i>	<u>2,314,808</u>
<i>Total assets and deferred outflows of resources</i>	<u><u>\$ 77,500,461</u></u>
Liabilities	
Accounts payable	\$ 80,347
Accrued payroll and benefits	113,939
Contracts payable	393,373
Accrued interest	684,324
Noncurrent liabilities	
Due within 1 year	5,728,730
Due in more than 1 year	<u>40,976,476</u>
<i>Total liabilities</i>	<u>47,977,189</u>
Deferred inflows of resources	
Deferred inflows related to pensions	<u>936,510</u>
<i>Total deferred inflows of resources</i>	<u>936,510</u>
Net position	
Net investment in capital assets	26,424,131
Restricted for:	
Debt service	244,143
Food service	112,816
Other purposes	225,802
Unrestricted	<u>1,579,870</u>
<i>Total net position</i>	<u>28,586,762</u>
<i>Total liabilities, deferred inflows of resources, and net position</i>	<u><u>\$ 77,500,461</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Statement of Activities
For the Year Ended June 30, 2017

Exhibit A-2

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Government Activities
Governmental Activities:				
Instruction	\$ 6,109,450	\$ -	1,499,453	\$ (4,609,997)
Support services:				
Students	735,883	-	18,366	(717,517)
Instruction	970,021	-	24,209	(945,812)
General administration	782,201	-	19,522	(762,679)
School administration	386,382	-	9,643	(376,739)
Central services	1,419,509	-	35,427	(1,384,082)
Operation and maintenance of plant	1,101,478	-	27,490	(1,073,988)
Student transportation	473,915	-	-	(473,915)
Operation of noninstructional services	855,505	34,582	782,743	(38,180)
Interest and other charges	1,556,906	-	-	(1,556,906)
<i>Total governmental activities</i>	<u>\$ 14,391,250</u>	<u>\$ 34,582</u>	<u>\$ 2,416,853</u>	<u>(11,939,815)</u>
General Revenues:				
Taxes:				
Property taxes, levied for operating programs				5,554,507
Property taxes, levied for debt services				6,190,204
Property taxes, levied for capital projects				662,036
Payment in lieu of taxes - SRP				145,712
State aid:				
General purposes				36,897
Investment income				72,365
Miscellaneous				123,571
<i>Total general revenues</i>				<u>12,785,292</u>
Change in net position				845,477
<i>Net position, beginning</i>				27,028,009
Net position, restatement (note 14)				<u>713,276</u>
Net position - as restated				<u>27,741,285</u>
<i>Net position, ending</i>				<u>\$ 28,586,762</u>

The accompanying notes are an integral part of these financial statements.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Balance Sheet
Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Adjacent Ways Fund</u>	<u>Bond Building Fund</u>
<i>Assets</i>			
Cash, investments, and cash equivalents	\$ 735,001	\$ 2,092,267	\$ 4,026,031
Cash held by paying agent	-	-	-
Receivables:			
Property taxes	108,248	4,551	-
Other	-	-	-
Due from other governments	42,012	-	-
	<u>885,261</u>	<u>2,096,818</u>	<u>4,026,031</u>
<i>Total assets</i>	<u><u>\$ 885,261</u></u>	<u><u>\$ 2,096,818</u></u>	<u><u>\$ 4,026,031</u></u>
<i>Liabilities, deferred inflows of resources, and fund balances</i>			
<i>Liabilities</i>			
Accounts payable	\$ 41,839	\$ -	\$ -
Accrued payroll and benefits	77,731	-	5,171
Contracts payable	-	-	393,373
Bonds payable	-	-	-
Bond interest payable	-	-	-
	<u>119,570</u>	<u>-</u>	<u>398,544</u>
<i>Total liabilities</i>	<u>119,570</u>	<u>-</u>	<u>398,544</u>
<i>Deferred inflows of resources</i>			
Unavailable revenue - property taxes	101,986	4,319	-
	<u>101,986</u>	<u>4,319</u>	<u>-</u>
<i>Total deferred inflows of resources</i>	<u>101,986</u>	<u>4,319</u>	<u>-</u>
<i>Fund balances</i>			
Spendable:			
Restricted for:			
Debt service	-	-	-
Capital expenditures	-	2,092,499	3,627,487
Voter approved initiatives	-	-	-
Food service	-	-	-
Instruction	-	-	-
Operation of noninstructional services	-	-	-
Unassigned	663,705	-	-
	<u>663,705</u>	<u>2,092,499</u>	<u>3,627,487</u>
<i>Total fund balances</i>	<u>663,705</u>	<u>2,092,499</u>	<u>3,627,487</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u><u>\$ 885,261</u></u>	<u><u>\$ 2,096,818</u></u>	<u><u>\$ 4,026,031</u></u>

The accompanying notes are an integral part of these financial statements.

Debt Service Fund	Other Governmental Funds	Total
\$ 261,049	\$ 579,959	\$ 7,694,307
6,139,434	-	6,139,434
53,284	3,940	170,023
-	23,600	23,600
-	44,368	86,380
<u>\$ 6,453,767</u>	<u>\$ 651,867</u>	<u>\$ 14,113,744</u>
\$ -	\$ 38,508	\$ 80,347
-	31,037	113,939
-	-	393,373
5,485,000	-	5,485,000
654,434	-	654,434
<u>6,139,434</u>	<u>69,545</u>	<u>6,727,093</u>
46,090	3,554	155,949
<u>46,090</u>	<u>3,554</u>	<u>155,949</u>
268,243	-	268,243
-	233,538	5,953,524
-	202,096	202,096
-	120,195	120,195
-	130	130
-	36,816	36,816
-	(14,007)	649,698
<u>268,243</u>	<u>578,768</u>	<u>7,230,702</u>
<u>\$ 6,453,767</u>	<u>\$ 651,867</u>	<u>\$ 14,113,744</u>

The accompanying notes are an integral part of these financial statements.

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STATE OF ARIZONA
Riverside Elementary School District No. 2
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2017

Exhibit B-1
Page 2 of 2

Amounts reported for governmental activities in the Statement of Net Position are different because:

Fund balances - total governmental funds	\$ 7,230,702
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	61,071,909
Property taxes not collected within sixty days after year end are not considered "available" revenues and are considered to be unavailable revenue in the fund financial statements, but are considered revenue in the Statement of Activities.	155,949
Long-term liabilities, including net pension liability, bonds payable, and current and long term portions of accrued compensated absences are not due and payable in the current period and, therefore, are not reported as a liability in the funds:	
Bonds payable	(32,455,000)
Accrued interest payable	(29,890)
Unamortized discount	24,838
Unamortized premiums	(758,647)
Compensated absences	(390,243)
Net pension liability	(7,641,154)
Deferred outflows and inflows of resources related to pensions and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	1,902,423
Deferred inflows of resources related to pensions	(936,510)
Deferred amount on refunding	412,385
<i>Total net position - governmental funds</i>	<u><u>\$ 28,586,762</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Adjacent Ways Fund</u>	<u>Bond Building Fund</u>
<i>Revenues</i>			
Property taxes	\$ 5,529,337	\$ 210,935	\$ -
Intergovernmental grants and aid:			
Federal	41,348	-	-
State	55,112	-	-
Local	10,319	-	330
Charges for services	-	-	-
Payment in lieu of taxes - SRP	65,423	2,553	-
Investment income	3,831	11,852	-
Miscellaneous	48,050	-	-
<i>Total revenues</i>	<u>5,753,420</u>	<u>225,340</u>	<u>330</u>
<i>Expenditures</i>			
Current:			
Instruction	2,401,347	-	622,902
Support services:			
Students	426,423	-	143,257
Instruction	366,416	-	399,888
General administration	250,382	-	5,542
School administration	307,833	-	34,258
Central and other support services	740,575	-	658,971
Operation and maintenance of plant	781,546	-	-
Student transportation	309,208	-	2,148
Operation of noninstructional services	6,508	-	62,840
Debt service:			
Principal	-	-	-
Interest	-	-	-
Bond issuance costs	-	-	-
Capital outlay	152,863	123,299	5,305,707
<i>Total expenditures</i>	<u>5,743,101</u>	<u>123,299</u>	<u>7,235,513</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>10,319</u>	<u>102,041</u>	<u>(7,235,183)</u>
<i>Other financing sources (uses)</i>			
Transfers in	191,923	-	-
Transfers (out)	-	-	-
Bond premium	-	-	-
Bond proceeds	-	-	5,075,000
Proceeds of refunding bonds	-	-	-
Payment to refunded bond escrow agent	-	-	-
<i>Total other financing sources (uses)</i>	<u>191,923</u>	<u>-</u>	<u>5,075,000</u>
<i>Net change in fund balances</i>	202,242	102,041	(2,160,183)
<i>Fund balances - beginning</i>	<u>461,463</u>	<u>1,990,458</u>	<u>5,787,670</u>
<i>Fund balances - end of year</i>	<u>\$ 663,705</u>	<u>\$ 2,092,499</u>	<u>\$ 3,627,487</u>

The accompanying notes are an integral part of these financial statements.

Debt Service Fund	Other Governmental Funds	Total
\$ 6,184,418	\$ 457,671	\$ 12,382,361
223,553	1,742,564	2,007,465
-	376,337	431,449
-	4,187	14,836
-	34,582	34,582
72,384	5,352	145,712
55,813	869	72,365
72,223	3,298	123,571
<u>6,608,391</u>	<u>2,624,860</u>	<u>15,212,341</u>
-	1,253,055	4,277,304
-	52,822	622,502
-	193,683	959,987
-	18,856	274,780
-	37,860	379,951
-	6,968	1,406,514
-	11,481	793,027
-	19,585	330,941
-	757,735	827,083
5,485,000	-	5,485,000
1,501,170	-	1,501,170
74,024	-	74,024
-	150,044	5,731,913
<u>7,060,194</u>	<u>2,502,089</u>	<u>22,664,196</u>
<u>(451,803)</u>	<u>122,771</u>	<u>(7,451,855)</u>
-	-	191,923
-	(191,923)	(191,923)
138,775	-	138,775
-	-	5,075,000
2,565,000	-	2,565,000
<u>(2,661,390)</u>	<u>-</u>	<u>(2,661,390)</u>
<u>42,385</u>	<u>(191,923)</u>	<u>5,117,385</u>
(409,418)	(69,152)	(2,334,470)
<u>677,661</u>	<u>647,920</u>	<u>9,565,172</u>
<u>\$ 268,243</u>	<u>\$ 578,768</u>	<u>\$ 7,230,702</u>

The accompanying notes are an integral part of these financial statements.

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STATE OF ARIZONA
Riverside Elementary School District No. 2
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Exhibit B-2
Page 2 of 2

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

Net change in fund balances - total governmental funds	\$ (2,334,470)
--	----------------

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:

Capital outlay	5,731,913
Depreciation expense	(2,726,533)

In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of capital assets sold.

(10,458)

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:

District pension contributions	528,148
Pension expense	(664,187)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Change in unavailable property taxes	(24,386)
--------------------------------------	----------

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is issued, whereas these amounts are amortized in the Statement of Activities:

Bond proceeds	(7,640,000)
Principal payments on bonds	8,146,390
Bond premium capitalized	(138,775)
Current year amortization of bond premium	119,575
Current year amortization of bond discount	(2,070)
Amortization of deferred charges on bond refunding	(50,445)

In the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities expenses are reported regardless of when the financial resources are available:

Increase in compensated absences	<u>(89,225)</u>
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<i>Change in net position of governmental activities</i>	<u><u>\$ 845,477</u></u>
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The accompanying notes are an integral part of these financial statements.

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STATE OF ARIZONA
Riverside Elementary School District No. 2
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2017

Exhibit C-1

	<u>Student Activities</u>	<u>Employee Insurance Program</u>	<u>Total</u>
<i>Current Assets</i>			
Cash and cash equivalents	\$ 9,090	\$ 245,681	\$ 254,771
<i>Total assets</i>	<u>\$ 9,090</u>	<u>\$ 245,681</u>	<u>\$ 254,771</u>
<i>Current Liabilities</i>			
Due to student organizations	\$ 9,090	\$ -	\$ 9,090
Deposits held for others	<u>-</u>	<u>245,681</u>	<u>245,681</u>
<i>Total liabilities</i>	<u>\$ 9,090</u>	<u>\$ 245,681</u>	<u>\$ 254,771</u>

The accompanying notes are an integral part of these financial statements.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies

Riverside Elementary School District No. 2 “the 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 applicable to governmental units adopted by the Governmental Accounting Standards Boards (GASB).

During the year ended June 30, 2017, the District adopted GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (partial)*, No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 77, *Tax Abatement Disclosures*, No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. These five Statements are required to be implemented as of June 30, 2017, if applicable.

GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement was effective and was implemented for the June 30, 2016 year end, and a portion is effective for June 30, 2017 year end. Effective for June 30, 2017 are the provisions of the statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. This does not have a material effect on the financial statements of the District, as its pension plan is within the scope of Statement 68.

The objective of GASB Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement does not affect the District’s financial statements directly; however, the effects on the District’s OPEB plan, administered through the Arizona State Retirement System, will be seen in future periods.

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources came from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed after time – by including information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens – such as the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

For tax abatement agreements entered into by other governments, the following should be disclosed:

- The names of the governments that entered into the agreements;
- The specific taxes being abated; and
- The gross dollar amount of taxes abated during the period.

The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers. The District's pension plan does not meet the criteria for exclusion.

The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Reporting Entity

The District is a special-purpose government that a separately elected governing body governs. It is legally separate from and fiscally independent of other state and local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements present only the activities of those organizational entities for which its elected governing board is financially accountable.

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 three 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 and construction of District facilities.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61, and GASB Statement No. 80. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the District has no component units, and is not a component unit of another governmental agency.

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. The District does not have any business-type activities.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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

Government-wide 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.

These statements report the financial activities of the overall government, except for fiduciary activities. 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. The District does not allocate indirect expenses to programs or functions. 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. Property taxes, state aid, and investment earnings are revenues that are not classified as program revenues and 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: Governmental 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. Other governmental 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 reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources used for maintenance and operation, except those required to be accounted for and reported in another fund.

The *Adjacent Ways Fund* is a capital projects fund that accounts for restricted revenues (largely property taxes) received to finance such improvements as public streets or alleys adjacent to school property.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The *Bond Building Fund* is a capital projects fund that accounts for monies received from District bond issues that are used to acquire sites, construct or renovate school buildings, supply school buildings with furniture and equipment, improve school grounds and purchase pupil transportation vehicles.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of long-term debt principal, interest and related costs.

Additionally, the District reports the following fund type:

The *agency funds* account for assets of others for which the District 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 for employee insurance, retirement benefits and tax withholdings temporarily held by the District.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements: The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met. As a general rule the effect of internal activity has been eliminated from the government-wide financial statements.

Under the terms of grant agreements, the District funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. The District applies grant resources to such programs before using general revenues.

Fund Financial Statements: Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end.

The District's major revenue sources that are susceptible to accrual are property taxes, tuition, intergovernmental grants and aids, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

D. Expenses and Expenditures

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. Food services and 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.

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 related to compensated absences and claims and judgments, are recorded only when payment is due. Bond payments, including interest due July 1, 2016, were accrued as resources from the current year were used for the payments. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. 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.

E. Payment in Lieu of Taxes - SRP

Payments received from the Salt River Project in lieu of taxes it 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.

F. Investment Earnings

Investment earnings is composed of interest, dividends, and net changes in the fair value of applicable investments.

G. Property Tax Calendar

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 Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies real and personal property taxes on or before the third Monday in August that 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.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

G. Property Tax Calendar (continued)

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 A.R.S., 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.

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.

H. Federal Revenue Sources

The District receives federal awards for the enhancement of various educational programs. Federal awards 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.

I. Cash and Investments

A.R.S. 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.

J. Capital Assets

Capital assets, which include land, construction in progress, other improvements, buildings and improvements, and vehicles, furniture, and equipment are reported in the government-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.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

J. Capital Assets (continued)

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Other improvements	5-40
Vehicles, furniture and equipment	5-15

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.

L. 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.

M. 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. The District includes unspent bond proceeds in the amount of \$4,026,031 in the calculation of net investment in capital 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 enabling legislation. Unrestricted net position are net positions that do not meet the definition of either of the first two categories of net position.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

N. Fund Balance Classifications

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 governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories and prepaid expenses, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources.

Committed fund balance are 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 are 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.

The unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not reported in the other classifications. 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.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the District's policy to use restricted fund balance first. It is the District's policy to use committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 1. Summary of Significant Accounting Policies (continued)

O. Compensated Absences

Compensated absences consists of vacation and sick leave employees earned based on services already rendered.

Professional staff (12 month administrators) earn vacation in accord with the provisions of their respective employment agreements, with a max accumulation of up to 25 days. Upon leaving the District, the employee is entitled to compensation of unused vacation days (max of 25 days) at a rate equal to the current daily rate of pay for the respective employee. Support staff earn vacation at the rate of 10 working days per fiscal year during the first 5 years of employment, accumulable to a maximum of 20 days. Support staff with more than 5 years employment, earn vacation at the rate of 15 days per fiscal year, accumulable to a maximum of 30 days. Upon leaving the District, the employee is entitled to compensation of unused vacation days at a rate equal to the employee's regular daily rate of pay.

Employees may accumulate an unlimited number of sick leave hours. Each staff member shall be credited with a sick leave allowance at the rate of 1 day per month up to 10 or 12 days, determined by the number of months employed; 12 month employee receives 12 days, 10 month employees receive 10 days. Upon retirement or voluntary termination in good standing, an employee with 5 or more years of service to the District shall be compensated for unused accumulated sick leave in accordance with the following provisions:

- 5 to 9 years of service – $\frac{1}{2}$ of the per-diem of the then current step rate of pay for the employee's position and individual salary classification times the number of unused accumulated sick leave days.
- 10 or more years of service – $\frac{3}{4}$ of the per-diem of the then current step rate of pay for the employee's position and individual salary classification times the number of unused accumulated sick leave days

The noncurrent compensated absences liability consists of the estimated amounts due within one year and the amounts due after one year, including related benefits, for accumulated sick leave and vacation are reported on the government-wide financial statements. A liability for these amounts, including related benefits, 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.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 2. Deposits and Investments

Arizona Revised Statutes require the District to deposit all cash with the County Treasurer, except as discussed below. Cash with the County Treasurer is pooled for investment purposes, except for cash in the bond building and debt service funds, which may be invested separately.

Statute authorizes the District to separately invest monies of the bond building and debt service funds in the State Treasurer's investment pool, obligations issued or guaranteed by the United States or any of its agencies or instrumentalities, specified state and local government bonds and notes, and interest-bearing savings accounts or certificates of deposit.

Statute authorizes the District to deposit monies of the auxiliary operations and student activities funds in bank accounts. The District may also invest these monies. In addition, statute authorizes the District to maintain various bank accounts such as clearing accounts to temporarily deposit receipts before they are transmitted to the County Treasurer, revolving accounts to pay minor disbursements, and withholdings accounts for taxes and employee insurance programs. Some of these bank accounts may be interest bearing. Statutes require collateral for deposits at 102 percent of all deposits not covered by federal depository insurance. Statute does not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk.

Cash Held by the District

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2017 the District's carrying amount of demand deposits and bank balances were \$241,213 in the fiduciary funds. The Federal deposit Insurance Corporation protects the District against loss on the first \$250,000 of demand deposits and \$250,000 of time deposits located within the state. The demand and time deposits in excess of \$250,000 are covered by collateral held by the pledging financial institution's trust department in the District's name.

Investments Held by Maricopa County Treasurer

§15-996, A.R.S. authorizes the Maricopa County Treasurer to receive and hold all District monies and pool the monies with other school districts for investment purposes. As of June 30, 2017, the District's governmental funds and agency funds reported \$7,694,307 and \$13,558, respectively, on deposits with the Maricopa County Treasurer's investment pool (MCTIP), a local government investment pool. The Maricopa County Treasurer invests the cash in a pool under policy guidelines established by the county. The county 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 MCTIP are included in the *Comprehensive Annual Financial Report of Maricopa County*. The fair value of each participant's position in the MCTIP approximates the value of the participant's shares in the pool. The Maricopa County Treasurer's investment pool is an external investment pool with no regulatory oversight. The MCTIP is not required to register (and is not registered) with the Securities and Exchange Commission. As of June 30, 2017, the MCTIP had not received a quality credit rating from a national rating agency.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 2. Deposits and Investments (continued)

Debt Service: §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. The purchase of the securities is required to be made by the Maricopa County Treasurer. All earnings on the invested debt service monies shall be credited to the debt service fund. The Debt Service Fund reported cash and investments as of June 30, 2017, in the amount of \$261,049, all of which was invested in the MCTIP. In addition, the Debt Service Fund reported cash held by paying agent as of June 30, 2017, in the amount of \$6,139,434 for the July 1, 2017, bond principal and interest payments.

Interest Rate Risk - Investments: 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 a formal 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.

Custodial Credit Risk - Investments: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty's failure, the District will not be able to recover the value of the investments or collateral securities that are in an outside party's possession. The District does not have a formal policy for custodial credit. At June 30, 2017, the District's investment of \$7,707,865, \$13,558 of which is part of the District's agency funds, invested in the County investment pool was not subject to custodial credit risk because the related securities are uninsured, unregistered and held by Maricopa County not in the District's name.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not have a formal policy for concentration of credit risk. At June 30, 2017, the District's investment of \$7,707,865 invested in the county investment pool was subject to concentration of credit risk.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 3. Receivables

Receivable balances have been disaggregated by type and presented separately in the financial statements with the exception of the amounts due from other governments.

As of June 30, 2017, the District had a total of \$23,600 in other receivables which was due from Aspin Food Service Cooperative for funds held as a deposit on account.

As of June 30, 2017, the District had the following amounts due from other governments:

	General Fund	Other Governmental Funds	Total
Due from state government			
State grants	\$ -	\$ 9,960	\$ 9,960
Due from federal government			
Federal grants	-	34,408	34,408
E-Rate	42,012	-	42,012
	<u>42,012</u>	<u>-</u>	<u>42,012</u>
Totals	<u>\$ 42,012</u>	<u>\$ 44,368</u>	<u>\$ 86,380</u>

The above receivables are deemed 100% collectible.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 4. Capital Assets

Capital asset activity for the year ended June 30, 2017, were as follows. Land and construction in progress are not subject to depreciation.

Governmental activities:

	<u>Balance June 30, 2016</u>	<u>Restatement</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated:					
Land	\$ 2,855,758	\$ -	\$ -	\$ -	\$ 2,855,758
Construction in progress	17,443,471	686,151	75,686	(18,129,622)	75,686
depreciated	<u>20,299,229</u>	<u>686,151</u>	<u>75,686</u>	<u>(18,129,622)</u>	<u>2,931,444</u>
Capital assets being depreciated:					
Buildings and improvements	39,458,956	27,312	21,285,572	-	60,771,840
Other improvements	6,712,608	354	1,225,276	-	7,938,238
Vehicles, furniture and equipment	<u>6,916,318</u>	<u>-</u>	<u>1,275,001</u>	<u>(174,829)</u>	<u>8,016,490</u>
Total capital assets being depreciated	<u>53,087,882</u>	<u>27,666</u>	<u>23,785,849</u>	<u>(174,829)</u>	<u>76,726,568</u>
Less accumulated depreciation:					
Buildings and improvements	(9,940,631)	(772)	(1,597,862)	-	(11,539,265)
Other improvements	(2,435,443)	231	(302,563)	-	(2,737,775)
Vehicles, furniture and equipment	<u>(3,647,326)</u>	<u>-</u>	<u>(826,108)</u>	<u>164,371</u>	<u>(4,309,063)</u>
Total accumulated depreciation	<u>(16,023,400)</u>	<u>(541)</u>	<u>(2,726,533)</u>	<u>164,371</u>	<u>(18,586,103)</u>
Total capital assets, net of depreciation	<u>\$ 57,363,711</u>	<u>\$ 713,276</u>	<u>\$ 21,135,002</u>	<u>\$ (18,140,080)</u>	<u>\$ 61,071,909</u>

Depreciation expense was charted to functions as follows:

Instruction	\$ 1,746,781
Support services - students and staff	108,068
Support services - administration	436,620
Operation and maintenance of plant	275,218
Student transportation services	138,036
Operation of non-instructional services	<u>21,810</u>
Total depreciation expense	<u>\$ 2,726,533</u>

Adjustments in the current year were due to management fees related to construction project in prior years.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 5. Construction and Other Commitments

The District had major contractual commitments related to various capital projects at June 30, 2017, for the following construction contracts:

Project	Contract Amount	Amount Paid as of June 30, 2017	Contract Balance
New Conference Room Lighting and Controls at Maricopa Institute of Technology	\$ 16,742	\$ 3,439	\$ 13,303
Remodel of Lobby at Kings Ridge Preparatory Academy	18,697	17,247	1,450
Totals	\$ 35,439	\$ 20,686	\$ 14,753

NOTE 6. Long-term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Bonds payable	\$ 37,380,000	\$ 7,640,000	\$ (7,080,000)	\$ 37,940,000	\$ 5,485,000
Discount on bonds	(26,908)	-	2,070	(24,838)	(2,070)
Premium on bonds	757,218	138,775	(137,346)	758,647	162,501
Compensated absences payable	301,018	172,524	(83,299)	390,243	83,299
Net pension liability	6,893,085	2,221,143	(1,473,074)	7,641,154	-
Total Long-Term Debt	\$ 45,304,413	\$ 10,172,442	\$ (8,771,649)	\$ 46,705,206	\$ 5,728,730

The retirements presented above for the bonds payable do not present the same as the debt service principal payments on the Statement of Revenues, Expenditures, and Changes in Fund Balance, exhibit B-2. The District has selected to follow guidance from the National Council on Governmental Accounting Statement 1, paragraph 72, which permits accrual of debt service liabilities and expenditures if a government has provided financial resources to a debt service fund for payment of liabilities that will mature early in the following year. The exhibit B-2 presents this July 1, 2017 payment in accordance with the above statement, however the government wide statements do not recognize this payment until the payments is officially paid on July 1, 2017.

Bonds: The District's bonded debt consists of various issues of general obligation bonds that are generally callable and noncallable with interest payable semiannually. Bond proceeds pay primarily for acquiring or constructing capital facilities. Bonds have also been issued to advance-refund previously issued bonds. The District repays general obligation bonds from voter-approved property taxes, which are specifically assessed for debt service and are recorded in the Debt Service Fund.

During the year, the District issued School Improvement Bonds (Private Placement, Tax Exempt) in the amount of \$7,640,000 for the purpose of construction, student technology integration, and remodeling projects across the District. Of the total amount originally authorized during the November 5, 2014 Bond Election, \$32,160,000 remains unissued.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 6. Long-term Liabilities (continued)

The following bonds were outstanding at June 30, 2017:

	Original Amount Issued	Interest Rates	Outstanding Maturities	Outstanding Principal June 30, 2017	Due Within One Year
School Improvement Bonds:					
Project 2006, Series B-2 (2010)	\$ 7,545,000	5.4-6.6%	7/1/2029	\$ 6,155,000	\$ 370,000
Project 2011, Series C (2013)	14,465,000	2.0-4.5%	7/1/2028	11,960,000	1,975,000
Project 2011, Series D (2014)	4,565,000	2.0-3.0%	7/1/2017	1,465,000	1,465,000
Project 2014, Series A (2015)	10,200,000	3.10%	7/1/2021	10,200,000	1,675,000
Project 2014, Series B (2016)	5,075,000	1.03-1.42%	7/1/2021	5,075,000	-
Refunding Bonds:					
Series 2011	3,820,000	4.0-5.0%	7/1/2030	520,000	-
Series 2016	2,565,000	1.42-4.5%	7/1/2021	2,565,000	-
				<u>\$ 37,940,000</u>	<u>\$ 5,485,000</u>

Annual requirements to amortize all bonded debt outstanding as of June 30, 2017, are as follows:

Fiscal Year Ending	Principal	Interest	Total Debt Service
2018	\$ 5,485,000	\$ 1,296,850	\$ 6,781,850
2019	5,880,000	1,108,945	6,988,945
2020	6,320,000	935,786	7,255,786
2021	5,770,000	759,807	6,529,807
2022	5,110,000	605,605	5,715,605
2023-2027	6,510,000	2,066,875	8,576,875
2027-2031	2,865,000	324,025	3,189,025
	<u>\$ 37,940,000</u>	<u>\$ 7,097,893</u>	<u>\$ 45,037,893</u>

Defeased Debt: In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the District's financial statements.

At June 30, 2017, the following outstanding bonds were considered defeased:

Description	Amount
School Improvement Bonds, Project 2000, Series C (2005)	\$ 675,000
School Improvement Bonds, Project 2006, Series A (2007)	<u>2,260,000</u>
Total	<u>\$ 2,935,000</u>

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 7. 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.

For employee health insurance, the District is a member of the Arizona School Boards Association Insurance Trust (ASBAIT), together with other school districts. ASBAIT was established in 1981 by the Arizona School Board Association. Its formation was in response to Arizona school administrators desire to obtain comprehensive health benefits at reasonable costs. ASBAIT operates by an "Agreement and Declaration of Trust" in accordance with the laws of the State of Arizona, including, without limitation, A.R.S. §15-382. The agreement provides that ASBAIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified amounts. School districts have the authority to join ASBAIT without competitive bidding.

The District carries commercial insurance for workers' compensation and dental insurance.

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 8. 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.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 8. Pensions and Other Postemployment Benefits (continued)

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 age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, 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.

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, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll. In addition, the District was required by statute to contribute at the actuarially determined rate of 9.47 percent (9.17 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.07 percent for long-term disability) of annual covered payroll of retired members who worked for the District in positions that an employee who contributes to the ASRS would typically fill. The District's contributions to the pension plan for the year ended June 30, 2017, were \$528,148. The District's contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 8. Pensions and Other Postemployment Benefits (continued)

Year ended June 30,	Retirement Fund	Health benefit supplement fund	Long-term disability fund	Alternative Required Contribution	Total Contributions
2017	\$ 495,814	\$ 22,849	\$ 6,163	\$ 3,322	\$ 528,148
2016	466,259	2,187	5,152	7,778	500,676
2015	437,046	23,678	4,816	8,121	473,661
2014	399,113	21,623	8,934	5,139	434,809

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

Fund	Pension and OPEB Contribution	Percentage by Fund
General Fund	\$ 378,929	71.7%
Bond Building Fund	25,187	4.8%
Other Governmental Funds	124,032	23.5%
	<u>\$ 528,148</u>	

Pension liability: At June 30, 2016, the District reported a liability of \$7,641,154 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. 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, 2016. The District's proportion measured as of June 30, 2016, was 0.04734 percent, which was an increase of 0.003 percent from its proportion measured as of June 30, 2015.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 8. Pensions and Other Postemployment Benefits (continued)

Pension expense and deferred outflows/inflows of resources: For the year ended June 30, 2017, the District recognized pension expense for ASRS of \$664,187. At June 30, 2017, 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	\$ 46,435	\$ 525,655
Net difference between projected and actual earnings on pension plan investments	828,046	-
Changes in proportion and differences between district contributions and proportionate share of contributions	499,794	6,577
Changes in assumptions	-	404,278
District contributions subsequent to the measurement date	528,148	-
Total	<u>\$ 1,902,423</u>	<u>\$ 936,510</u>

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 8. Pensions and Other Postemployment Benefits (continued)

The \$528,148 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:

<u>Year ended June 30,</u>	<u>Amount</u>
2018	\$ (81,981)
2019	(81,592)
2020	369,156
2021	232,182

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Asset valuation	Fair value
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2015, 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 8.75 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%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.84%
Total	<u>100%</u>	

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 8. Pensions and Other Postemployment Benefits (continued)

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 8.75 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:

	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
District's proportionate share of the net pension liability	\$ 9,743,048	\$ 7,641,154	\$ 5,955,890

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

Pension contributions payable: The District's accrued payroll and employee benefits included \$10,850 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2017.

NOTE 9. Interfund Balances and Activity

All of the District's transfers between funds were related to the indirect cost charged to the Federal Project Funds, which are transferred into the General Fund. The total amount of these transfers was \$191,923 to the General Fund from Other Governmental Funds.

NOTE 10. Subsequent Events

The District entered into two new bond agreements subsequent to year end. The School Improvement Bonds, Project of 2014, Series C (2017) ("Improvement Bonds") were closed on September 6, 2017 in the amount of \$10,235,000 with an interest rate from 4.00% to 5.00% and maturing on July 1, 2025. And the Refunding Bonds, Series 2017 (2020 Crossover) ("Refunding Bonds") were closed on September 6, 2017 in the amount of \$4,510,000 with an interest rate from 4.00% to 5.00% and maturing on July 1, 2029.

The date to which events occurring after June 30, 2017, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statement or disclosures is March 22, 2018 which is the date on which the financial statements were issued.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 11. Agreements

The District has an intergovernmental agreement with the Maricopa County on behalf of the Maricopa County Education Service Agency (MCESA) for the management and support of the School District Financial System. MCESA will host the Financial System. MCESA will invoice and receive reimbursement from the District.

The District has an agreement with the Estrella Educational Foundation, an Arizona non-profit corporation. The District agrees to allow the Foundation to utilize portions of the new MIT STEM Magnet School. The Foundation agrees to pay the District an annual fee in the amount of 10% of the revenues received from the Foundation.

NOTE 12. Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosures of certain information concerning individual funds including deficit fund balance of individual funds. The District had the following funds that maintained deficit fund balance at June 30, 2017:

Nonmajor Funds

Title I School Improvement Priority & Focus	\$ 135
ESEA Title II - Teacher Quality	381
English Language Learners	546
IDEA Basic Entitlement Part B	40
IDEA Preschool Grant	22
Preschool Development Grant	12,674
First Things First - Valley of the Sun	168
State Tutoring Grant Spring	28
State Tutoring Grant Fall	13
	<hr/>
	\$ 14,007

NOTE 13. 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 there from. The District has comprehensive general liability insurance with the Arizona School Risk Retention Trust. The District is not aware of any litigation that might result in a materially adverse outcome.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to the Financial Statements
June 30, 2017

NOTE 14. Net Position Restatement

The District has a prior period adjustment of \$713,276 which was required for correcting prior period balance of capital assets. Management fees for construction projects were not recorded as and has been added as of June 30, 2017. See Note 4 for more information.

NOTE 15. Subsequent Pronouncements

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended June 30, 2018. The District does not expect this pronouncement to have a material effect on the financial statements as they do not participate in such a plan.

In March 2016, GASB Statement No. 81 *Irrevocable Split-Interest Agreements* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84 *Fiduciary Activities* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85 *Omnibus 2017* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The District is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86 *Certain Debt Extinguishment Issues* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

In June 2017, GASB Statement No. 87 *Leases* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District is still evaluating how this pronouncement will affect the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ARIZONA
Riverside Elementary School District No. 2
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

Schedule I

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<i>Revenues</i>				
Property taxes	\$ -	\$ -	\$ 5,529,337	\$ 5,529,337
Intergovernmental grants and aid:				
Federal	-	-	41,348	41,348
State	-	-	55,112	55,112
Local	-	-	10,319	10,319
Payment in lieu of taxes - SRP	-	-	65,423	65,423
Investment Income	-	-	3,831	3,831
Miscellaneous	-	-	48,050	48,050
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>5,753,420</u>	<u>5,753,420</u>
<i>Expenditures</i>				
Current				
Instruction	2,910,686	2,705,066	2,401,347	303,719
Support services:				
Students	429,901	452,251	426,423	25,828
Instruction	299,215	373,813	366,416	7,397
General administration	223,332	253,844	250,382	3,462
School administration	280,555	300,734	307,833	(7,099)
Central and other support services	784,115	790,495	740,575	49,920
Operation and maintenance of plant	1,133,515	1,018,410	781,546	236,864
Student transportation	381,446	362,046	309,208	52,838
Operation of noninstructional services	1,133	6,997	6,508	489
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Capital outlay	50	250	152,863	(152,613)
<i>Total expenditures</i>	<u>6,443,948</u>	<u>6,263,906</u>	<u>5,743,101</u>	<u>520,805</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(6,443,948)</u>	<u>(6,263,906)</u>	<u>10,319</u>	<u>6,274,225</u>
<i>Other financing sources (uses):</i>				
Transfers in	-	-	191,923	191,923
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>191,923</u>	<u>191,923</u>
<i>Net change in fund balance</i>	<u>(6,443,948)</u>	<u>(6,263,906)</u>	<u>202,242</u>	<u>6,466,148</u>
<i>Fund balance - beginning of year</i>	<u>461,463</u>	<u>461,463</u>	<u>461,463</u>	<u>-</u>
<i>Fund balance - end of year</i>	<u>\$ (5,982,485)</u>	<u>\$ (5,802,443)</u>	<u>\$ 663,705</u>	<u>\$ 6,466,148</u>

The accompanying notes are an integral part of these financial statements.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Notes to Required Supplementary Information
Budgetary Comparison Schedule
June 30, 2017

NOTE 1. Budgeting and Budgetary Control

The District adopts an annual operating budget for expenditures for all governmental fund types. The Governing Board presents a proposed budget to the Superintendent of Public Instruction and County School Superintendent on or by July 5. The Governing Board legally adopts the final budget by July 15, after a public hearing has been held. Once adopted, the budget can be increased or decreased only for specific reasons set forth in Arizona Revised Statutes.

Budgetary control over expenditures is exercised at the fund level. However, for budgetary control, the general fund includes only the maintenance and operation fund as defined by Arizona Revised Statutes, which is budgeted within three subsections titled regular education programs, special education programs, and pupil transportation, any of which may be overexpended with the Governing Board's prior approval at a public meeting, providing the expenditures for all subsections do not exceed the general fund's total budget.

The District can address the statutory requirement to report M&O Fund expenditures by subsection by using the assigned program code in the Uniform System of Financial Records Chart of Accounts. However, the District must total and report M&O Fund expenditures coded to programs 100, 550, 600, 700, 800, and 900 as the regular education subsection. Riverside Elementary School District No. 2 does not report expenditures coded to program codes 700, 800, or 900 as the District does not have any adult/continuing education programs, community college education programs, or community services programs.

The District is not required by the State of Arizona to prepare a revenue budget. For presentation purposes the budgeted revenues are shown as zero.

NOTE 2. Budgetary Basis of Accounting

The District budget is prepared on a basis consistent with generally accepted accounting principles, except for the following items:

- Certain activities reported in the general fund are budgeted in separate funds in accordance with Arizona Revised Statutes.
- Prepaid items are budgeted in the year prepaid.
- Net changes in the fair value of investments is not budgeted.
- Present value of net minimum capital lease payments is not budgeted at the inception of the agreement.
- USDA-donated commodities are not budgeted as an expenditure.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Schedule of District's Proportionate Share of the Net Pension Liability
June 30, 2017

Schedule II

	Reporting fiscal year (measurement date)			2014 through 2007
	2017 (2016)	2016 (2015)	2015 (2014)	
District's proportion of the net pension liability	0.0473%	0.0400%	0.0400%	Information not available
District's proportionate share of the net pension liability	\$ 7,641,154	\$ 6,893,085	\$ 6,190,510	
District's covered payroll	\$ 4,429,879	\$ 4,172,385	\$ 3,828,339	
District's proportionate share of the net pension liability as a percentage of its covered payroll	172.49%	165.21%	161.70%	
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%	

See independent auditors' report.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Schedule of District Pension Contributions
June 30, 2017

Schedule III

	Reporting fiscal year				2013 through 2007
	2017	2016	2015	2014	
Statutorily required contributions	\$ 528,148	\$ 500,676	\$ 473,661	\$ 434,809	Information not available
District's contributions in relation to the statutorily required contribution	<u>528,148</u>	<u>500,676</u>	<u>473,661</u>	<u>434,809</u>	
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
District's covered payroll	\$ 4,381,838	\$ 4,429,879	\$ 4,172,385	\$ 3,828,339	
District's contribution as a percentage of covered payroll	<u>12.05%</u>	<u>11.30%</u>	<u>11.35%</u>	<u>11.36%</u>	

See independent auditors' report.

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SUPPLEMENTARY INFORMATION

STATE OF ARIZONA
Riverside Elementary School District No. 2
Budgetary Comparison Schedule - Maintenance and Operation Fund
For the Year Ended June 30, 2017

Schedule IV

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<i>Revenues</i>				
Property taxes	\$ -	\$ -	\$ 5,529,337	\$ 5,529,337
Intergovernmental grants and aid:				
Federal	-	-	-	-
State	-	-	55,112	55,112
Local	-	-	10,284	10,284
Payment in lieu of taxes - SRP	-	-	65,423	65,423
Investment Income	-	-	3,126	3,126
Miscellaneous	-	-	(267)	(267)
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>5,663,015</u>	<u>5,663,015</u>
<i>Expenditures</i>				
Current				
Instruction	2,768,274	2,472,478	2,422,311	50,167
Support services:				
Students	399,885	425,269	418,248	7,021
Instruction	295,869	365,653	360,212	5,441
General administration	222,323	248,448	245,226	3,222
School administration	278,793	292,778	299,983	(7,205)
Central and other support services	746,116	741,149	713,217	27,932
Operation and maintenance of plant	805,436	710,470	737,907	(27,437)
Student transportation	372,705	353,220	300,421	52,799
Operation of noninstructional services	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>5,889,401</u>	<u>5,609,465</u>	<u>5,497,525</u>	<u>111,940</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(5,889,401)</u>	<u>(5,609,465)</u>	<u>165,490</u>	<u>5,774,955</u>
<i>Other financing sources (uses):</i>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	<u>(5,889,401)</u>	<u>(5,609,465)</u>	<u>165,490</u>	<u>5,774,955</u>
<i>Fund balance - beginning of year</i>	<u>230,168</u>	<u>230,168</u>	<u>230,168</u>	<u>-</u>
<i>Fund balance - end of year</i>	<u>\$ (5,659,233)</u>	<u>\$ (5,379,297)</u>	<u>\$ 395,658</u>	<u>\$ 5,774,955</u>

The accompanying notes are an integral part of these financial statements.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Note to Supplementary Information
For the Year Ended June 30, 2017

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.

Fund Number	Fund Description	Assets	Liabilities and Deferred Inflows of Resources	Fund Balance	Revenues and Transfers In	Expenditures
001	Maintenance & Operation	\$ 610,626	\$ 214,968	\$ 395,658	\$5,663,015	\$ 5,497,525
290	Medicaid Reimbursement	7,247	-	7,247	(664)	-
374	E-Rate	44,176	-	44,176	42,012	15,413
515	Civic Center	32,554	-	32,554	19,493	2,509
530	Gifts and Donations	25,131	613	24,518	29,463	12,219
555	Textbooks	77	-	77	1	-
570	Indirect Costs	159,898	5,594	154,304	191,938	213,881
575	Unemployment Insurance	5,552	381	5,171	85	1,554
	Total all funds	<u>\$ 885,261</u>	<u>\$ 221,556</u>	<u>\$ 663,705</u>	<u>\$5,945,343</u>	<u>\$ 5,743,101</u>

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STATISTICAL SECTION
(Unaudited)

STATE OF ARIZONA
Riverside Elementary School District No. 2
Average Daily Membership (Unaudited)
Last Seven Fiscal Years

Schedule V

Fiscal Year	A.D.M. (a)
2016-2017	892
2015-2016	846
2014-2015	840
2013-2014	810
2012-2013	757
2011-2012	745
2010-2011	676

(a) A.D.M. means average daily membership, and is computed by taking the average number of students enrolled over the first 100 days of the school year.

Source: The Arizona Department of Education and the District.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Secondary Assessed Valuation By Property Classification (Unaudited)
Last Six Fiscal Years

Schedule VI

Property Classification (a)	2011-2012 Secondary Assessed Valuation	2012-2013 Secondary Assessed Valuation	2013-2014 Secondary Assessed Valuation
Mining, Utilities, Commercial and Industrial (b)	\$ 375,143,771	\$ 336,951,854	\$ 302,841,974
Agriculture and Vacant Land (b)	12,379,375	10,417,085	9,207,770
Owner Occupied Residential	11,664,032	9,456,223	7,195,616
Leased or Rented Residential	2,652,563	3,245,453	4,271,059
Railroad	585,280	892,153	917,403
Historical Property	1,065,915	434,136	907,825
Totals	<u>\$ 403,490,936</u>	<u>\$ 361,396,904</u>	<u>\$ 325,341,647</u>

Property Classification (a)	2014-2015 Secondary Assessed Valuation	2015-2016 Secondary Assessed Valuation	2016-2017 Secondary Assessed Valuation
Mining, Utilities, Commercial and Industrial (b)	\$ 317,823,003	\$ 340,331,057	\$ 310,602,700
Agriculture and Vacant Land (b)	9,426,233	9,061,286	7,306,935
Owner Occupied Residential	8,393,509	10,706,073	8,165,665
Leased or Rented Residential	5,621,170	7,528,183	5,510,554
Railroad	1,006,900	951,393	845,643
Historical Property	3,630,816	5,232,260	4,747,899
Totals	<u>\$ 345,901,631</u>	<u>\$ 373,810,252</u>	<u>\$ 337,179,396</u>

Source: Information is an abstract of the State and County Assessment Roll, Arizona Department of Revenue.

(a) Additional classes of property exist, but seldom amount to a significant portion of a municipal body's total valuation.

(b) For tax year 2014, full cash values up to \$141,385 on commercial, industrial and agricultural personal property are exempt from taxation. This exemption is indexed annually for inflation. Any portion of the full cash value in excess of that amount will be assessed at the applicable rate. The assessment ratio for mining, utilities, commercial and industrial property will be reduced to 18.5% for tax year 2015 and further reduced one-half of one percent for each year to 18% for tax year 2016 and thereafter. The assessment ratio for agricultural and vacant property will be reduced to 15% for tax year 2016 and thereafter.

STATE OF ARIZONA
Riverside Elementary School District No.2
Assessed Valuation of Major Taxpayers (Unaudited)
June 30, 2017

Schedule VII

Major Taxpayer (a)	2016-2017	
	Secondary Assessed Valuation	Percentage of District's Net Assessed Valuation
Arizona Public Service Company	\$ 64,330,419	19.08%
Southwest Gas Company	41,980,495	12.45%
WESTERN C REIT AZ LLC	8,111,240	2.41%
Generation 3 Investments I LLC	4,608,915	1.37%
Icon Owner Pool 1 West/Southwest LLC	3,505,491	1.04%
EXETER 4570 W LOWER BUCKEYE LLC	3,327,514	0.99%
Roadway Package Systems Inc.	3,102,548	0.92%
Miref Riverside LLC	3,016,357	0.89%
Exeter 5555 W Lower Buckeye LLC	2,847,178	0.84%
Marshalls of MA Inc	2,765,232	0.82%
Total	<u>\$ 137,595,389</u>	<u>40.81%</u>

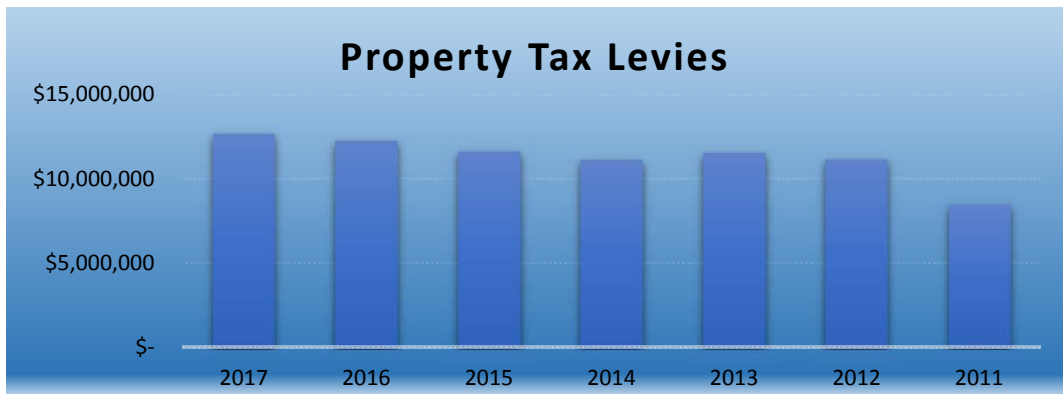
Source: Office of the Assessor of the County.

(a) Some of such taxpayers or their parent companies are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information (collectively, the "Filings") may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of the Filings can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the Filings may also be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005. The Filings may also be obtained through the Internet on the Commission's EDGAR database at <http://www.sec.gov>. None of the District, the Underwriter or their respective agents or consultants has examined the information set forth in the Filings for accuracy or completeness, nor do they assume responsibility for the same.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Property Tax Levies and Collections (Unaudited)
Last Seven Fiscal Years

Schedule VIII

Fiscal Year Ended 6/30/16	Taxes Levied for the Fiscal Year	Current Collections		Collections in Subsequent Fiscal Years	Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2017	\$ 12,679,907	\$ 12,580,600	99.22%	N/A	\$ 12,580,600	99.22%
2016	12,212,589	12,137,104	99.38%	\$ 72,471	12,209,574	99.98%
2015	11,623,866	11,475,219	98.72%	84,149	11,620,668	99.97%
2014	11,108,878	10,918,695	98.29%	156,394	11,106,485	99.98%
2013	11,551,355	11,444,729	99.08%	104,706	11,549,701	99.99%
2012	11,150,072	11,025,413	98.88%	116,361	11,143,163	99.94%
2011	8,435,411	8,297,856	98.37%	137,555	8,435,411	100.00%



Source: The source of this information is the Maricopa County Treasurer's records.

Note 1: Amounts collected are on a cash basis.

Note 2: Unsecured personal property taxes are not included in this schedule because the dates of the monthly rolls vary each year. On the average, 90% of unsecured property taxes are collected within 90 days after the due date.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Direct and Overlapping Governmental Activities Debt (Unaudited)
June 30, 2017

Schedule IX

Overlapping Jurisdiction	General Obligation Bonded Debt (b)	Proportion Applicable to the District (a)	
		Approximate Percent	Net Debt Amount
State of Arizona	None	0.71%	None
Maricopa County	None	1.16%	None
Maricopa County Community College District	\$ 654,190,000	1.16%	7,588,604
Maricopa County Flood Control District	None	1.31%	None
City of Phoenix	1,336,715,000	3.19%	42,641,209
Laveen Meadows Volunteer Fire District	None	4.90%	None
Phoenix Union High School District No. 210	273,636,188	9.18%	25,119,802
Riverside Elementary School District No. 2	37,940,000	100.00%	37,940,000
Net Direct and Overlapping General Obligation Bonded Debt			<u><u>\$ 113,289,615</u></u>

(a) Proportion applicable to the District is computed on the ratio of secondary assessed valuation for 2015-2016.

(b) Includes total stated principal amount of general obligation bonds outstanding. Does not include outstanding principal amount of certificates of participation, revenue obligations or loan obligations outstanding for the jurisdictions listed above. Does not include outstanding principal amounts of various County improvement districts, as the bonds of these districts are presently being paid from special assessments against property within the various improvement districts.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Legal Debt Margin Information (Unaudited)
Current Fiscal Year

Schedule X

Legal Debt Margin Calculation for Fiscal Year 2017:

Net Assessed Full Cash Value	\$ 404,887,281
	15%
Debt Limit (15% of Assessed Value)	<u>\$ 60,733,092</u>
Less: Net Debt Applicable to limit	37,940,000
Legal Debt Margin	<u>\$ 22,793,092</u>

Class B Bond Legal Debt Margin Calculation for Fiscal Year 2017:

Secondary Assessed Valuation	\$ 404,887,281
	10%
Debt Limit (10% of Assessed Value)	<u>\$ 40,488,728</u>
Less: Net Debt Applicable to Limit	37,940,000
Legal Debt Margin	<u>\$ 2,548,728</u>

Source: Information obtained from the District's Financial Records.

STATE OF ARIZONA
Riverside Elementary School District no. 2
Direct and Overlapping Assessed Valuations and Tax Rates (Unaudited)
June 30, 2017

Schedule XI

Overlapping Jurisdiction	2016-2017 Secondary Assessed Valuation	2016-2017 Primary Assessed Valuation	2016-2017 Total Tax Rate Per \$100 Assessed Valuation
State of Arizona	\$ 56,589,592,481	\$ 56,589,592,481	None
Maricopa County (a)	36,135,494,474	36,135,494,474	1.8884
Maricopa County Community College District	36,135,494,474	36,135,494,474	1.4651
Maricopa County Fire District (b)	36,135,494,474	N/A	0.0112
Maricopa County Library District (b)	36,135,494,474	N/A	0.0556
Maricopa County Special Health Care District Maint and Oper. (b)	36,198,108,538	N/A	0.1955
Maricopa County Special Health Care District Bond Int/Princ (b)	36,198,108,538	N/A	0.1098
Maricopa County Flood Control District (b)	32,624,765,419	N/A	0.1792
Central Arizona Water Conservation District (b)	36,198,108,538	N/A	0.1400
Laveen Meadows Fire District (b)	39,559,414	N/A	2.7748
City of Phoenix	10,982,150,871	10,982,150,871	2.1700
Phoenix union High School No. 210	4,328,567,331	4,328,567,331	5.0684
Riverside Elementary School District No. 2	337,179,396	337,179,396	3.7219

(a) Includes the "State Equalization Assistance Property Tax." The State Equalization Assistance Property Tax is computed pursuant to Arizona Revised Statutes, Section 41-1276.

(b) The assessed valuation of the flood control district does not include the personal property assessed valuation of the County. All levies for fire districts, library districts, flood control districts, water conservation districts and special health care districts are levied on the secondary assessed valuation as shown here.

Source: Property Tax Rates and Assessed Values Maricopa County, the Arizona Department of Revenue

STATE OF ARIZONA
Riverside Elementary School District No. 2
Comparative Secondary Assessed Valuations (Unaudited)
Last Seven Fiscal Years

Schedule XII

Fiscal Year	Riverside Elementary District No. 2	Phoenix Union High School District No. 210	City of Phoenix	Maricopa County	State of Arizona
2016-2017	\$ 337,179,396	\$ 4,328,567,331	\$ 10,982,150,871	\$ 36,135,494,474	\$ 56,589,592,481
2015-2016	373,810,252	5,088,747,539	12,783,575,022	41,124,639,380	54,841,866,009
2014-2015	345,901,631	4,372,062,126	10,818,634,186	35,079,646,593	55,349,948,120
2013-2014	325,341,647	4,573,470,147	10,849,743,656	34,400,455,716	56,271,814,583
2012-2013	361,396,904	5,325,305,098	12,343,773,555	38,760,296,714	61,700,292,915
2011-2012	403,490,936	7,071,398,209	16,092,308,323	49,707,952,123	75,643,290,656
2010-2011	459,278,276	8,292,780,584	18,861,238,355	57,984,051,718	86,538,111,171

Source: Information is an abstract of the State and County Assessment Roll, Arizona Department of Revenue.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Estimated Full Cash Value History (Unaudited)
Last Six Fiscal Years

Schedule XIII

Fiscal Year	Estimated Net Full Cash Value (a)
2016-2017	\$ 2,118,895,254
2015-2016	2,283,339,214
2014-2015	1,940,119,629
2013-2014	1,742,148,911
2012-2013	1,890,909,461
2011-2012	2,111,362,100

(a) Estimated net full cash value is the total market value of the property within the District less the exempt.

Source: State and County Abstract of the Assessment Roll

COMPLIANCE SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITORS' REPORT

The Governing Board of
Riverside Elementary School District No. 2
Phoenix, Arizona

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Riverside Elementary School District No. 2 (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item FS 2017-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

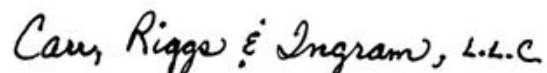
We noted certain matters that we reported to management of Riverside Elementary School District No. 2 in a separate document entitled Uniform System of Financial Records (USFR) Compliance Questionnaire dated March 22, 2018.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram, L.L.C." in a cursive script.

Carr, Riggs & Ingram, LLC
Albuquerque, New Mexico
March 22, 2018

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FEDERAL FINANCIAL ASSISTANCE

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITORS' REPORT

The Governing Board of
Riverside Elementary School District No. 2
Phoenix, Arizona

Report on Compliance for the Major Federal Program

We have audited Riverside Elementary School District No. 2's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2017. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Albuquerque, New Mexico
March 22, 2018

STATE OF ARIZONA
Riverside Elementary School District No. 2
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor or Pass-Through Grantor / Program Title	Pass Thru Number	Federal CFDA Number	Federal Expenditures	Funds Provided to Subrecipient	Noncash Assistance
U.S. Department of Education					
<i>Passed through Arizona Department of Education</i>					
Title I Grants Cluster					
Title I Grants to Local Educational Agencies	101	84.010	\$ 293,602	\$ -	\$ -
School Improvement Grants	117 & 118	84.377	2,259	-	-
Total Title I Cluster			<u>295,861</u>	<u>-</u>	<u>-</u>
Special Education Cluster					
Special Education Grants to States	220	84.027	117,830	-	-
Special Education Preschool Grants	222	84.173	586	-	-
Special Education Grants to States	227	84.027	303,068	-	-
Total Special Education Cluster			<u>421,484</u>	<u>-</u>	<u>-</u>
Supporting Effective Instruction State Grants	141	84.367	17,983	-	-
English Language Acquisition State Grants	194	84.365	19,710	-	-
Preschool Development Grant *	320	84.419	184,707	-	-
<i>Subtotal - Passed through Arizona Department of Education</i>			<u>939,745</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Education			<u>939,745</u>	<u>-</u>	<u>-</u>
U.S. Department of Agriculture					
<i>Passed through Arizona Department of Education</i>					
School Breakfast Program *	510	10.553	347,579	-	-
National School Lunch Program *	510	10.555	52,660	-	52,660
National School Lunch Program *	510	10.555	342,516	-	-
Total U.S. Department of Agriculture			<u>742,755</u>	<u>-</u>	<u>52,660</u>
Total Federal Financial Assistance			<u>\$ 1,682,500</u>	<u>\$ -</u>	<u>\$ 52,660</u>

* Denotes Major Federal Financial Assistance Program

See independent auditors' report.
See notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Riverside Elementary School District No. 2's federal grant activity for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform

2. Loans

The District did not expend federal awards related to loans or loan guarantees during the year.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

4. Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 Catalog of Federal Domestic Assistance. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier and the word "unknown" were used.

5. Indirect Cost Rate

The District did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

6. Federally Funded Insurance

The District has no federally funded insurance.

See independent auditors' report.

STATE OF ARIZONA
Riverside Elementary School District No. 2
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Schedule XV
Page 1 of 2

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors’ report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| c. Noncompliance material to the financial statements? | None noted |

Federal Awards:

- | | |
|---|------------|
| 1. Type of auditors’ report issued on compliance for major programs | Unmodified |
| 2. Internal control over major programs: | |
| a. Material weaknesses identified? | None noted |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516 (a) | None noted |
| 4. Identification of major programs: | |

CFDA Number	Federal Program
10.553 & 10.555 84.419	Child Nutrition Cluster Preschool Development Grant

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee? | No |

STATE OF ARIZONA
Riverside Elementary School District No. 2
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Schedule XV
Page 2 of 2

SECTION II – FINANCIAL STATEMENT FINDINGS

FS 2017-001 – Prior Period Restatement – Material Weakness

Condition: The Capital Asset listing provided by the District for the year ended June 30, 2017 did not contain the following:

- \$713,273 of prior year and \$527,650 of current year salary and professional fees for the project management of construction projects in the Bond Building Fund.

Criteria: The *Codification of Statements of Auditing Standards* AU Section 110.03 states that “management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements. The entity’s transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management.”

Effect: The Capital Asset listing provided by the District did not capitalize the salary and professional fees for the management of construction projects, resulting in an understated equity.

Cause: The District was not capitalizing salary and professional fees for the management of construction projects, instead it was expensing the costs. This required the auditor to propose that the District capitalize prior year and current year salary and profession fees which were being expensed in the Bond Building Fund.

Auditors’ Recommendation: The District should capitalize all salary and professional fees related to project management on all construction projects.

Views of Responsible Officials and Planned Corrective Actions: The District concurs with this recommendation and has corrected and capitalized prior year and current year salary and professional fees which were being expended in the Bond Building fund. This resulted in the adjustment and restatement of the capital assets activity for the year ended June 30, 2017. The District has also implemented additional internal controls to ensure all future salaries and professional fees related to project management on all construction projects are capitalized.

SECTION III – FEDERAL AWARD FINDINGS

None noted

SECTION IV – PRIOR YEAR AUDIT FINDINGS

None noted

Riverside School District No. 2

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President

Mr. Martin Martinez
Vice President

Ms. Lillie Valencia
Member

District Administration:

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CORRECTIVE ACTION PLAN JUNE 30, 2017

United States Department of Education
Riverside Elementary School District #2 respectfully submits the following corrective action plan for the year ended June 30, 2017.

Name and address of independent public accounting firm:
Carr, Riggs, & Ingram, LLC
2424 Louisiana Blvd NE
Albuquerque, NM 87110

Audit period: Year ended June 30, 2017.

The findings from the June 30, 2017 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT SIGNIFICANT DEFICIENCY

FS

2017-
001

Prior Period Restatement

Recommendation: The District should capitalize all salary and professional fees related to project management on all construction projects.

Action Taken: The District concurs with this recommendation and has corrected and capitalized prior year and current year salary and professional fees which were being expended in the Bond Building fund. This resulted in the adjustment and restatement of the capital assets activity for the year ended June 30, 2017. The District has also implemented additional internal controls to ensure all future salaries and professional fees related to project management on all construction projects are capitalized as of February 28, 2018.

If the United States Department of Education has questions regarding this plan, please call Jose Moreno at 602-477-8920

Sincerely yours,

Jose Moreno
Executive Director of Business Services
Riverside Elementary School District #2