

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2017

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
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JUNE 30, 2017

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John C. Todd II, P.C.
Certified Public Accountants

21630 North 19th Avenue
Suite B-5
Phoenix, Arizona 85027
Telephone: (623) 581-8117
Fax: (623) 581-8906
E-Mail: cpas@jctodd2cpa.com

Member
American Institute of CPAs
Arizona Society of CPAs
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Independent Auditors' Report

Governing Board
Osborn Elementary School District No. 8

Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Osborn Elementary School District No. 8 (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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Osborn Elementary School District No. 8 as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2017, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, Schedule of Proportionate Share of Net Position Liability, and Schedule of Pension Contributions on pages 7 through 15 and 47 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The continuing disclosure requirement tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The continuing disclosure requirement tables 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 January 29, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's 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.



Phoenix, Arizona
January 29, 2018

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**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

As management of the Osborn Elementary School District No. 8, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

- The District's total net position of governmental activities had a net increase of \$52,651, which represents a .73 percent increase from fiscal year 2016. Factors of this change include an increase in state funding levels resulting in increased state aid.
- General revenues accounted for \$22.4 million in revenue, or 76.1 percent of all fiscal year 2017 revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7.0 million or 23.9 percent of total fiscal year 2017 revenues.
- The District had approximately \$29.4 million in expenses related to governmental activities, of which \$7.0 million of these expenses were offset by Program specific revenues in the form of charges for services and grants and contributions. General revenues of \$22.4 million were adequate to provide for the remaining costs of these programs.
- Among major funds, the General Fund had \$16.9 million in fiscal year 2017 revenues, which primarily consisted of state equalization funding and property taxes, and \$17.8 million in expenditures. The General Fund's fund balance decreased by \$0.9 million to \$1,581,554 as of June 30, 2017. Factors of this change include a decrease in the property tax levy of approximately \$0.3 million, decrease reserve for prepaid items of approximately \$0.3 million and an increase in general fund expenditures.
- Total debt of the District increased by \$12.5 million during the current fiscal year. The key factors in this change were attributed regular bond payments of \$3.1 million plus early retirement of an additional \$7.0 million paid from proceeds from the issuance of refunding bonds plus bond premium totaling \$22.6 million.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)

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

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

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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

The government-wide financial statements can be found on pages 17 and 18 of this report.

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 government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable 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 government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. These reconciliations are on pages 20 and 22, respectively.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)

In accordance with the Arizona Revised Statutes (A.R.S.), the District maintains 29 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service which are considered to be major funds. Data from the other 27 governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 19 and 21 of this report.

Fiduciary funds. The District's fiduciary fund is used to account for resources held for the benefit of parties outside the District. The fiduciary fund is *not* reflected in the government-wide financial statements because the resources of the fund are *not* available to support the District's own programs. The accrual basis of accounting is used for the fiduciary fund. The basic fiduciary fund financial statement can be found on page 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 45 of this report.

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 and net pension liability. The District adopts an annual expenditure budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund as required supplementary information. The required supplementary information can be found on pages 47 through 50 of this report.

GOVERNMENT-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 exceeded liabilities by \$7,251,965 as of June 30, 2017.

One portion of the District's net position reflects amounts restricted for its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are 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, a portion of the District's net position are restricted by statute for the specified purposes of debt service repayment and capital outlay investment.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

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.

The following table presents a summary of the District's net position as of June 30, 2017 and 2016.

	2017 Governmental <u>Activities</u>	2016 Governmental <u>Activities</u>
Current and other assets	\$ 26,859,388	13,163,222
Capital assets	<u>45,402,290</u>	<u>47,628,329</u>
Total assets	<u>72,261,678</u>	<u>60,791,551</u>
 Total deferred outflows of resources	 <u>4,923,052</u>	 <u>2,135,868</u>
Long-term liabilities	46,316,558	47,707,687
Other liabilities	<u>20,029,590</u>	<u>4,876,621</u>
Total liabilities	<u>66,346,148</u>	<u>52,584,308</u>
 Total deferred inflows of resources	 <u>3,586,617</u>	 <u>3,143,797</u>
 Net position		
Net investment in capital assets	23,288,175	22,811,624
Restricted	5,034,443	5,120,404
Unrestricted	<u>(21,070,653)</u>	<u>(20,732,714)</u>
Total net assets	<u>\$ 7,251,965</u>	<u>7,199,314</u>

At the end of the current fiscal year the District reported positive balances in all three categories of net position. The same situation held true for the prior fiscal year.

The District's financial position is the product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Position.

- The increase of accumulated depreciation of approximately \$2.1 million.
- The retirement of approximately \$3.0 million of bond debt plus early retirement of an additional \$7.0 million paid from proceeds from the issuance of refunding bonds plus bond premium totaling \$22.6 million.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT WIDE FINANCIAL ANALYSIS (CONT'D)

Changes in net position. The District's total revenues for the fiscal years ended June 30, 2017 and 2016 were \$29.4 and \$29.2 million, respectively. The total cost of all programs and services for the fiscal years ended June 30, 2017 and 2016 were \$29.4 and \$27.1 million, respectively. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 278,551	365,049
Operating grants and contributions	6,319,525	6,474,335
Capital grants and contributions	426,350	
General revenues:		
Interest on investments	46,159	44,464
Property taxes	13,846,117	14,063,347
County aid	676,383	622,237
State aid	7,846,277	7,610,934
	<hr/>	<hr/>
Total revenues	29,439,362	29,180,366
	<hr/>	<hr/>
Expenses:		
Instruction	14,951,115	13,646,749
Support services	10,824,282	10,418,341
Operation of noninstructional services	1,789,010	1,662,914
Interest on long-term debt	1,822,304	1,365,969
	<hr/>	<hr/>
Total expenses	29,386,711	27,093,973
	<hr/>	<hr/>
Increase in net position	52,651	2,086,393
Net position, beginning of year	<hr/>	<hr/>
	7,199,314	5,112,921
Net position, end of year	<hr/>	<hr/>
	\$ 7,251,965	7,199,314
	<hr/>	<hr/>

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONT'D)

Governmental activities. The following table presents the cost of the 4 major District functional activities: instruction, support services, operation of non-instructional services, and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>2017</u>		<u>2016</u>	
	Total	Net (Expenses)	Total	Net (Expenses)
	<u>Expenses</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Revenue</u>
Instruction	\$ 14,951,115	(12,647,333)	13,646,749	(11,010,929)
Support services	10,824,282	(8,040,291)	10,418,341	(7,961,021)
Operation of noninstructional services	1,789,010	147,643	1,662,914	83,330
Interest on long-term debt	<u>1,822,304</u>	<u>(1,822,304)</u>	<u>1,365,969</u>	<u>(1,365,969)</u>
 Total expenses	 <u>\$ 29,386,711</u>	 <u>(22,362,285)</u>	 <u>\$ 27,093,973</u>	 <u>(20,254,589)</u>

- The cost of all governmental activities for the years ended June 30, 2017 and 2016 was \$29.4 and \$27.1 million, respectively.
- Net cost of the governmental activities for the years ended June 30, 2017 and 2016 were (\$22.4 million) and (\$20.3 million), respectively. For the year ended June 30, 2017 the net cost of governmental activities were primarily financed by property taxes of \$13.8 million and State and County Aid of \$8.5 million.
- Interest on investments, property taxes, state and county aid increased approximately \$0.1 million due primarily to increased state funding levels per pupil.
- Additionally, operating grant and contribution funding increased approximately \$0.2 million due to increases in grant funding for the community preschool, Medicaid and E-Rate programs of approximately \$.8 million. The District's funding for 21st century learners was reduced and the scopes counseling grant was eliminated of approximately \$.6 million.
- Expenses increased 2.3 million due to salary increases for all employee groups, implementation of longevity compensation for certified and support staff after 5 and 10 years of service, and one time appreciation compensation for all returning staff in FY17.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

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 spendable 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 \$6.6 million, the decrease of \$1.0 million was primarily due to the decrease in investments of \$0.7 million and a decrease in prepaid items of \$0.3 million.

The General Fund equity decreased by \$890,325 to \$1,581,554 as of June 30, 2017 due to the factors detailed on page 7.

The Debt Service Fund shows a decrease in fund equity of \$41,562 to \$98,872 as of June 30, 2017, due primarily to debt service requirements in excess of tax collections.

The Other Governmental Fund shows a decrease in fund equity of \$44,399 to \$4,935,571 as of June 30, 2017, due primarily to the use of cash reserves in capital outlay funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual General Fund expenditure budget. Differences between the original budget and the final amended budget represented a 0.65% decrease. The \$117,441 decrease can be briefly summarized as follows:

- Adjustments to the District's base support levels due to decreases in the current year funded student counts as compared to the projected student counts used at time of original budget adoption.
- Final carryforward funds decreased from the original projections used at time of original budget adoption due to increased expenditures during the FY16 encumbrance period.

There were no revisions to the Food Service Fund Budget.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund is provided in this report as required supplementary information on Page 47.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2017, the District had invested \$45.4 million in capital assets, net of \$39 million of accumulated depreciation. This amount represents a net decrease prior to depreciation of approximately \$0.1 million from last year, primarily due to disposal and trade-in of outdated technology equipment of approximately \$0.4 million and the addition of \$0.3 million in new assets. Total depreciation expense for the year was \$2.1 million. The following schedule presents capital asset balances net of depreciation for the fiscal years ended June 30, 2017 and 2016.

	2017 <u>Amount</u>	2016 <u>Amount</u>
Land and improvements	\$ 6,687,383	6,789,572
Buildings and improvements	37,692,313	39,826,864
Vehicles, furniture and equipment	<u>1,022,594</u>	<u>1,011,893</u>
Total	<u>\$ 45,402,290</u>	<u>47,628,329</u>

Additional information on the District's capital assets can be found in Note 6 on page 36 of this report.

Debt Administration. At year-end, the District had \$40.4 million in general obligation bonds and other long-term debt outstanding, \$18.6 million due within one year. The increase was due to issuance of \$20,510,000 of refunding bonds series 2016 to advance refund \$21,300,000 of general obligation bonds. The following table presents a summary of the District's outstanding long-term debt for the fiscal years ended June 30, 2017 and 2016.

	2017 <u>Amount</u>	2016 <u>Amount</u>
General obligation bonds outstanding	\$ 40,419,115	27,936,705
Compensated absences	<u>522,023</u>	<u>528,728</u>
Total	<u>\$ 40,941,138</u>	<u>28,465,433</u>

The District's general obligation bonds are subject to two limits; the Constitutional debt limit (total debt limit) on all general obligation bonds (up to 15% of the total secondary assessed valuation) and the statutory debt limit on Class B bonds (the greater of 10% of the secondary assessed valuation or \$1,500 per student). The current total debt limitation for the District is \$56.3 million and the Class B debt limit is \$37.6 million.

Additional information on the District's long-term debt can be found in Note 7 on pages 37 through 38 of this report.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONT'D)

In November 2016, the District advance refunded the general obligation bonds, to reduce its total debt services payments through 2024 by \$2,143,448, which resulted in an economic gain (i.e., difference between the present values of the debt service payments on the old and new debt) of \$2,013,479.

In November 2017, voters authorized \$50 million in bond funding to remodel, renovate and improve school facilities, buildings and grounds; this includes supply and upgrading safety and security, roofing, flooring, furniture, equipment and school buses, as well as increased technology for student learning.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

Many factors were considered by the District's administration during the process of developing the fiscal year 2017-18 budget. The primary factors were increasing student enrollment, salary increase and related costs. Fluctuations in student enrollment necessitate the development of a budget focused on service to students along with improving efficiencies in operations.

These indicators were considered when adopting the budget for fiscal year 2017-18. The Budget expenditures in the General Fund decreased 2.0% to \$17,598,720 in fiscal year 2017-18. The change in funding was a direct result of student enrollment. Additionally, in November 2017, voters authorized \$50 million in bond funding to remodel, renovate and improve school facilities, buildings and grounds; this includes supply and upgrading safety and security, roofing, flooring, furniture, equipment and school buses, as well as increased technology for student learning.

The Arizona State Retirement System increased both the employer and employee contribution from 11.48% of salary to 11.50% of employee salaries beginning with the 2017-18 fiscal year.

The district currently pays 100% the health insurance premium for all qualified employees. The District's cost for health insurance premiums increased by 3% from the prior year, and was considered in the development of the 2017-18 budget.

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, write to the Business Department, Osborn Elementary School District No. 8, 1226 W. Osborn Road, Phoenix, Arizona 85013 or call (602) 707-2000.

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OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
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<u>ASSETS</u>	
Cash and cash equivalents	\$ 22,369
Investments	8,219,609
Cash held by trustee	14,505,000
Property taxes receivable	727,548
Due from other governments	3,206,048
Accounts receivable	59,014
Inventory	40,646
Refundable deposits	79,154
Capital assets:	
Non-depreciable	4,580,083
Depreciable (net)	40,822,207
Total assets	<u>72,261,678</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows of resources related to pensions	
Total deferred outflows of resources	<u>4,923,052</u>
 <u>LIABILITIES</u>	
Accounts payable and accrued payroll	689,485
Accrued interest payable	632,945
Unearned revenues	24,413
Noncurrent liabilities	
Due within one year:	
Bonds payable	18,598,852
Compensated absences	83,895
Due in more than one year:	
Bonds payable	21,820,263
Compensated absences	438,128
Net pension liability	24,058,167
Total liabilities	<u>66,346,148</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred inflows of resources related to pensions	
Total deferred inflows of resources	<u>3,586,617</u>
 <u>NET POSITION</u>	
Net investment in capital assets	23,288,175
Restricted for:	
State projects	1,068,991
Food service	1,679,694
Debt service	98,872
Capital outlay	1,476,098
Other purposes	710,788
Unrestricted	<u>(21,070,653)</u>
Total net position	<u>\$ 7,251,965</u>

See accompanying notes to basic financial statements.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs					
Governmental activities					
Instruction	\$ 14,951,115	28,818	2,274,964		(12,647,333)
Support services	10,824,282	209,259	2,148,382	426,350	(8,040,291)
Operation of noninstructional services	1,789,010	40,474	1,896,179		147,643
Interest on long-term debt	1,822,304				(1,822,304)
Total governmental activities	\$ 29,386,711	278,551	6,319,525	426,350	(22,362,285)
General revenues:					
Interest on investments					46,159
Property taxes					13,846,117
Grants and contributions not restricted to specific programs					
County equalization assistance					676,383
State equalization assistance					7,846,277
Total general revenues and special items					22,414,936
Change in net position					52,651
Net position - beginning of year					7,199,314
Net position - end of year					\$ 7,251,965

See accompanying notes to basic financial statements.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,810		20,559	22,369
Investments		4,485,363	3,734,246	8,219,609
Cash held by trustee		14,505,000		14,505,000
Property taxes receivable	605,155	112,605	9,788	727,548
Accounts receivable			59,014	59,014
Due from other governments	2,149,301		1,045,747	3,195,048
Due from other funds			281,959	281,959
Inventory			40,646	40,646
Refundable deposit	25,074		54,080	79,154
Total assets	\$ 2,781,340	19,102,968	5,246,039	27,130,347
LIABILITIES				
Liabilities:				
Accounts payable and accrued payroll	\$ 410,438		279,047	689,485
Due to other funds	281,959			281,959
Accrued interest payable		632,945		632,945
Bonds payable		18,305,000		18,305,000
Unearned revenues			24,413	24,413
Total liabilities	692,397	18,937,945	303,460	19,933,802
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	507,389	66,151	7,008	580,548
Total deferred inflows of resources	507,389	66,151	7,008	580,548
FUND BALANCES				
Nonspendable			40,646	40,646
Restricted		98,872	4,397,201	4,496,073
Assigned			497,724	497,724
Unassigned	1,581,554			1,581,554
Total fund balances	1,581,554	98,872	4,935,571	6,615,997
Total liabilities, deferred inflows of resources and fund balances	\$ 2,781,340	19,102,968	5,246,039	27,130,347

See accompanying notes to basic financial statements.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Fund balances - total governmental funds	\$ 6,615,997
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	
Governmental capital assets	84,455,254
Less accumulated depreciation	<u>(39,052,964)</u>
Capital assets used in governmental activities	<u>45,402,290</u>
Deferred inflows and outflows of resources related to pensions and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, not reported in the governmental funds	
	<u>1,336,435</u>
Long-term liabilities, such as net position liabilities and bonds payable, are not due and payable in the current period and, therefore, are not reported as a liability in the governmental funds	
Net pension liability	(24,058,167)
Governmental bonds payable	(40,419,115)
Compensated absences	<u>(522,023)</u>
Long-term liabilities not due and payable in the current period	<u>(64,999,305)</u>
General obligation bond principal due early in the following year is recorded as an expenditure and liability in the governmental funds	
	<u>18,305,000</u>
Property tax revenues not received within 60 days after year end are deferred in the funds, but recognized as revenues on the government-wide accrual basis	
	<u>580,548</u>
Capital grants and contributions not received within 60 days after year end, but recognized as revenues on the government-wide accrual basis	
	<u>11,000</u>
Net position of governmental activities	<u>\$ 7,251,965</u>

See accompanying notes to basic financial statements.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Interest on investments	\$ 1,740	15,368	29,051	46,159
Property taxes	9,232,087	4,467,251	332,539	14,031,877
Intergovernmental grants and aid				
County	676,383			676,383
State	6,643,454		1,395,377	8,038,831
Federal	285,595		5,538,418	5,824,013
Food services sales			40,474	40,474
Other local	62,167	713	893,505	956,385
Total revenues	<u>16,901,426</u>	<u>4,483,332</u>	<u>8,229,364</u>	<u>29,614,122</u>
Expenditures:				
Current				
Instruction	9,415,670		3,500,784	12,916,454
Support Services	8,249,788		1,886,602	10,136,390
Operation of noninstructional services	99,662		1,644,095	1,743,757
Facilities acquisition and construction	8,439		934,604	943,043
Debt service				
Redemption of bonds		25,298,605		25,298,605
Interest and fiscal charges		1,822,304		1,822,304
Total expenditures	<u>17,773,559</u>	<u>27,120,909</u>	<u>7,966,085</u>	<u>52,860,553</u>
Excess (deficiency) of revenues over expenditures	(872,133)	(22,637,577)	263,279	(23,246,431)
Other financing sources (uses):				
Refunding bonds issued		20,510,000		20,510,000
Premium on refunding bonds issued		2,086,015		2,086,015
Transfers in	310,107		350,005	660,112
Transfers (out)			(660,112)	(660,112)
Total other financing sources (uses)	<u>310,107</u>	<u>22,596,015</u>	<u>(310,107)</u>	<u>22,596,015</u>
Net change in fund balances	(562,026)	(41,562)	(46,828)	(650,416)
Fund balances, beginning of year	2,471,879	140,434	4,979,970	7,592,283
Increase (decrease) reserve for prepaid items	(328,299)			(328,299)
Increase (decrease) reserve for inventory			2,429	2,429
Fund balances, end of year	<u>\$ 1,581,554</u>	<u>98,872</u>	<u>4,935,571</u>	<u>6,615,997</u>

See accompanying notes to basic financial statements.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Net change in fund balances - total governmental funds	\$ (650,416)
Amounts reported for governmental activities in the statement of net position are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Expenditures for capital assets	333,572
Less current year depreciation	<u>(2,559,611)</u>
Excess capital expenditures over depreciation	<u>(2,226,039)</u>
Some revenues reported in the statement of activities do not provide current financial resources and therefore, are not reported as revenues in governmental funds	
Capital grants and contributions	11,000
Property tax revenues	<u>(185,760)</u>
	<u>(174,760)</u>
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 Town's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.	
Pension contributions	1,601,121
Pension expense	<u>(880,680)</u>
	<u>720,441</u>
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The issuance of long-term debt increases long-term liabilities on the statement of net position and the repayment of principal on long-term debt reduces long-term debt on the statement of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities	
Issuance of refunding bonds and premium	(22,596,015)
Principal payments on general obligation bonds	<u>25,298,605</u>
Differences in treatment of long-term debt and related items	<u>2,702,590</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.	
Change in long-term compensated absences	6,705
Change in inventory	2,429
Change in prepaid items	<u>(328,299)</u>
Expenses reported in statement of activities and not in governmental funds	<u>(319,165)</u>
Change in net position of governmental activities	<u>\$ 52,651</u>

See accompanying notes to basic financial statements.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 166,241
Investments	<u>577,761</u>
Total assets	<u><u>\$ 744,002</u></u>
<u>LIABILITIES</u>	
Accounts payable	\$ 1,580
Due to student groups	26,796
Deposits held for others	<u>715,626</u>
Total liabilities	<u><u>\$ 744,002</u></u>

See accompanying notes to basic financial statements.

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OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of Osborn Elementary School District No. 8 (District) have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

For the year ended June 30, 2017, the District implemented the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*, which establishes standards for disclosing tax abatement agreements a reporting government entered into and agreements that other governments entered into that reduced the reporting government's tax revenues.

A summary of the District's more significant accounting policies follows.

Reporting Entity - The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Additionally, the District is not included in any other governmental reporting entity.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and is either (1) able to impose its will on that organization or (2) there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District may be financially accountable if an organization is fiscally dependent on the District.

There are no component units combined with the District for financial reporting purposes. Accordingly, the District's basic financial statements include only the funds and account groups of those organizational entities for which its elected governing board is financially accountable.

The District's major operations include education, pupil transportation, construction and maintenance of District facilities, and food services.

Basis of Presentation – 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 usefulness of the information.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Government-Wide and Fund Financial Statements – The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The District does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. All indirect expenses are allocated to the support services function.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The District's major revenue sources that are susceptible to accrual are property taxes, tuition, intergovernmental grants and aid and investment earnings. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when to the extent they are due and payable. General capital assets are reported as expenditures in governmental funds. Issuances of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, intergovernmental grants and aid, tuition, and interest 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. Unearned revenues also arise when resources are received by the District before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider. The District's fiduciary fund, an agency fund, does not have a measurement focus but utilizes the accrual basis of accounting to recognize receivables and payables.

The District's fiduciary fund, an agency fund, does not have a measurement focus but utilizes the accrual basis of accounting to recognize receivables and payables.

The District reports the following major governmental funds:

The **General Fund** is the District's primary operating fund. It accounts for all resources used to finance District maintenance and operation except those required to be accounted for in other funds. It is described as the Maintenance and Operation Fund by Arizona Revised Statutes (A.R.S.).

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

Additionally, the District reports the following fund type:

Agency Funds account for monies raised by students to finance student clubs and organizations but held by the District as an agent and insurance premiums withheld from employees and paid by the District.

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.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash and Investments – The District considers cash on hand, demand deposits, cash on deposit with the County Treasurer, and only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents. Money market investments and certificate deposits with a remaining maturity of 1 year or less at time of purchase are stated at fair value.

Inventory – Inventories in the government-wide financial statements are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the first-in, first-out method.

The District accounts for its inventories in the governmental funds using the purchase method. Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. Amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and as nonspendable fund balance to indicate that they do not constitute “available spendable resources”, except for donated U.S.D.A. commodities which are recorded as unearned revenues. These inventories are stated at cost using the first-in, first-out method. Commodities received from the U.S.D.A. are recorded as an expenditure when consumed and are recorded at fair value based on guidelines provided by the U.S.D.A.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as expenses when consumed in the government-wide financial statements and as expenditures when purchased in the fund financial statements.

Receivables and Payables – Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund balances between governmental funds are eliminated on the Statement of Net Position.

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets – Capital assets, which include land and improvements, buildings and improvements, vehicles, furniture and equipment, are reported in the governmental activities columns in the government-wide financial statements.

Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	5-40 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years
Vehicles	5-15 years

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.

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.

Fund Balance Classifications – Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. 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.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fund Balance Classifications (Cont'd)

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, 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.

The unrestricted fund balance category is comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the District's Governing Board, which is the highest level of decision-making authority within the District. Only the Governing Board can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the District's intent to be used for specific purposes, but that are neither restricted nor committed. The Governing Board has authorized the Finance Office to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

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

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

Compensated Absences – Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered, including all applicable salary-related payments associated with the payment of compensated absences, such as the employer's share of social security and Medicare taxes and contributions to the Arizona State Retirement System. Employees may accumulate up to 15 days of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused on November 1st are forfeited. Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees with three years of service or less. However, for employees who have more than three years of service, sick leave benefits do vest and therefore are accrued. The current and long-term liabilities including related benefits, for accumulated vacation and sick leave are reported on the government-wide financial statements. Resources from the General and Special Revenue Funds are used to pay for compensated absences.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property Taxes – Property tax levies are obtained by applying tax rate 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% from the previous year, while there is no limit to the increase in property values for secondary valuation. Override and debt service tax rates are applied to secondary assessed valuation and all other tax rates are applied to the primary assessed valuation.

The County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

The 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.

However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

Estimates - The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of certain contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Subsequent Events – The District has reviewed all subsequent events through January 29, 2018, which was the date the financial statements were available to be issued.

Prior Year Amounts – Certain prior year amounts have been reclassified to conform with current year presentations.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – The District adopts an annual operating budget for expenditures for all governmental fund types on essentially the same modified accrual basis of accounting used to record actual expenditures. 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.

Budgetary control over expenditures is exercised at the fund level. However, the General Fund 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 Maintenance and Operation Fund budget was decreased by \$117,441 during the year ended June 30, 2017.

A budget of revenues is not adopted or prepared by the District. However, an estimate of current year revenues to be collected is prepared. These estimates were used in the preparation of the supplementary and required supplementary information to the basic financial statements.

Excess of Expenditures Over Appropriations – Expenditures exceeded the budget in the following funds:

	<u>Overexpenditure</u>
Major Fund:	
Debt Service	\$ 22,601,990
Nonmajor Funds:	
Gifts and Donations	12,489

Resources were available to meet the over-expenditures listed above.

Deficit Fund Balance – At June 30, 2017, the Building Renewal Grant fund of the nonmajor funds reported a deficit fund balance of \$11,002.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – NET POSITION RESTRICTED BY ENABLING LEGISLATION

Classroom Site Funds - In accordance with A.R.S. §15-977, the classroom site fund is established consisting of monies transferred to the fund pursuant to section 37-521, subsection B and section 42-5029, subsection E, paragraph 10. Each school district shall allocate forty per cent of the monies for teacher compensation increases based on performance and employment related expenses, twenty per cent of the monies for teacher base salary increases and employment related expenses and forty per cent of the monies for maintenance and operation purposes as prescribed by the statute. Teacher compensation increases based on performance or teacher base salary increases distributed pursuant to the statute shall supplement, and not supplant, teacher compensation monies from any other sources. As of June 30, 2017, \$787,289 is classified as restricted net position for use at school sites, primarily for compensation and related expenses.

Instructional Improvement Fund - In accordance with A.R.S. §15-979, the instructional improvement fund is established consisting of monies deposited pursuant to sections 5-601.02(H)(3)(a)(i) and 5-601.02(H)(3)(b)(i), and interest earned on those monies. The department of education shall administer the fund. The fund is not subject to appropriation, and expenditures from the fund are not subject to outside approval notwithstanding any statutory provision to the contrary. Each school district and charter school may utilize up to fifty percent of the amount of monies determined pursuant to subsection C for teacher compensation increases and class size reduction as provided in section 15-977. The remaining fifty percent may be used for dropout prevention programs and instructional improvement programs including programs to develop minimum reading skills for students by the end of third grade. As of June 30, 2017, \$281,702 is classified as restricted net position for use at school sites, primarily for compensation and related expenses.

NOTE 4 – 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 pools; obligations issued and guaranteed by the United States or any of its agencies or instrumentalities; specified state and local government bonds; and interest-bearing savings accounts or certificates of deposit.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 – DEPOSITS AND INVESTMENTS (CONT'D)

Statute authorizes the District to deposit monies of the Auxiliary Operations and Student Activities Funds in bank accounts. Monies in these funds may also be invested. 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, employee insurance programs, and federal savings bonds. Some of these bank accounts may be interest bearing.

Statute does not include any requirements for and the District does not have any formal policies for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. Statute requires collateral for deposits at 102% of all deposits not covered by federal depository insurance.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. At June 30, 2017, the carrying amount of the District's deposits was \$188,610 and the bank balances were \$184,680. At June 30, 2017, the entire bank balances were covered by Federal Depository Insurance.

Investments - At June 30, 2017, the District's investments, categorized within the fair value hierarchy established by generally accepted accounting principles, consisted of investment in the County Treasurer's Investment pool with a fair value of \$8,797,370 and average maturities of 457 days. The County Treasurer's investment pool is unrated.

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments. No comparable oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares.

Interest Rate Risk – 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 – The District has no investment policy that would further limit its investment choices. As of June 30, 2017, the District's investment in the County Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

Custodial Credit Risk – Investments – The District's investment in the County Treasurer's investment pool represent a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 – RECEIVABLES

Property taxes receivable, net of allowance for uncollectibles, consists of uncollected property taxes as determined from the records of the County Treasurer’s Office. At June 30, 2017, the uncollected property taxes were as follows:

<u>Year</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Government-wide Total</u>
2016-17	\$ 203,378	98,630	7,374	309,382
2015-16	11,375	5,136		16,511
2014-15	9,678	4,318		13,996
2013-14	1,515	1,232		2,747
2011-12	54,046	658	1,386	56,090
Prior	<u>325,163</u>	<u>2,631</u>	<u>1,028</u>	<u>328,822</u>
Total	<u>\$ 605,155</u>	<u>112,605</u>	<u>9,788</u>	<u>727,548</u>

Governmental funds report unavailable revenue in connection with receivables for property tax revenues and other revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of available revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 507,389	
Delinquent property taxes receivable (debt service fund)	66,151	
Delinquent property taxes receivable (nonmajor funds - capital outlay fund)	7,008	
Grant drawdowns prior to meeting all eligibility requirements - (nonmajor funds - special revenue fund)		<u>24,413</u>
	<u>\$ 580,548</u>	<u>24,413</u>

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 4,580,083			4,580,083
Total capital assets not being depreciated	<u>4,580,083</u>			<u>4,580,083</u>
Capital assets being depreciated				
Land improvements	3,892,979	89,336		3,982,315
Buildings and other improvements	72,765,164	28,102		72,793,266
Furniture, equipment, and vehicles	3,311,604	221,219	(433,233)	3,099,590
Total capital assets being depreciated	<u>79,969,747</u>	<u>338,657</u>	<u>(433,233)</u>	<u>79,875,171</u>
Less accumulated depreciation for:				
Land improvements	(1,683,490)	(191,525)		(1,875,015)
Buildings and other improvements	(32,938,300)	(2,162,653)		(35,100,953)
Furniture, equipment, and vehicles	(2,299,711)	(205,433)	428,148	(2,076,996)
Total accumulated depreciation	<u>(36,921,501)</u>	<u>(2,559,611)</u>	<u>428,148</u>	<u>(39,052,964)</u>
Total capital assets being depreciated, net	<u>43,048,246</u>	<u>(2,220,954)</u>	<u>(5,085)</u>	<u>40,822,207</u>
Governmental activities capital assets, net	<u>\$ 47,628,329</u>	<u>(2,220,954)</u>	<u>(5,085)</u>	<u>45,402,290</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 2,180,489
Support services	352,531
Operation of noninstructional services	<u>26,591</u>
Total depreciation expense	<u>\$ 2,559,611</u>

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – OBLIGATIONS UNDER LONG-TERM DEBT

Bonds Payable – The District issues general obligation bonds to provide funds for acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities and are liquidated by the Debt Service Fund. Bonds payable at June 30, 2017 consisted of the outstanding general obligation bonds presented below. The bonds are callable with interest payable semiannually.

	<u>Outstanding Principal June 30, 2017</u>
School improvement of 2006; original amount \$26,300,000, including premium of \$496,508, interest rates from 4.00 to 5.00%; maturing July 1, 2015 through 2022	17,030,000
School improvement of 2006; original amount \$10,700,000, interest rates from 5.00 to 6.25%; maturing July 1, 2015 through 2024	760,000
Refunding bonds of 2016; original amount \$20,510,000 interest rates from 2.00 to 5.00%; maturing July 1, 2017 through 2024	<u>20,510,000</u>
	<u><u>\$ 38,300,000</u></u>

Payments of principal and interest on the bonds for the years ending June 30 are due as follows.

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Premium</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 18,305,000	293,852	968,121	19,566,973
2019	3,675,000	260,752	768,700	4,704,452
2020	3,290,000	260,752	629,400	4,180,152
2021	3,420,000	260,752	495,200	4,175,952
2022	3,560,000	260,752	337,800	4,158,552
2023-2026	<u>6,050,000</u>	<u>782,255</u>	<u>251,750</u>	<u>7,084,005</u>
	<u><u>\$ 38,300,000</u></u>	<u><u>2,119,115</u></u>	<u><u>3,450,971</u></u>	<u><u>43,870,086</u></u>

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – OBLIGATIONS UNDER LONG-TERM DEBT (CONT'D)

Compensated Absences - Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2017, the District paid for compensated absences as follows: 73 percent from the General Fund and 27 percent from other funds.

Changes in long-term liabilities for the year ended June 30, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 27,936,705	22,596,015	(10,113,605)	40,419,115	18,598,852
Compensated absences	528,728	390,437	(397,142)	522,023	83,895
Total Governmental Long-Term Liabilities	<u>\$ 28,465,433</u>	<u>22,986,452</u>	<u>(10,510,747)</u>	<u>40,941,138</u>	<u>18,682,747</u>

Refunding Bonds – In November 2016, the District issued \$20,510,000 of refunding bonds series 2016, with an average interest rate of approximately 4.226 percent, to advance refund \$21,300,000 of general obligation bonds with an average interest rate of 5.070 percent. The net proceeds of \$22,596,015 (after payment of \$356,203 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded general obligation bonds. As a result, the refunded general obligation bonds are considered to be defeased, and accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's basic financial statements.

The District advance refunded the general obligation bonds, to reduce its total debt services payments through 2024 by \$2,143,448, which resulted in an economic gain (i.e., difference between the present values of the debt service payments on the old and new debt) of \$2,013,479.

NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES

Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 – COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

Litigation - In the normal course of business, the District is exposed to various contingent liabilities such as claims and lawsuits for which no provision has been made in the basic financial statements. The District's management is of the opinion that insurance coverage is adequate to cover any possible losses.

NOTE 9 – 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 provides for these risks through the purchase of commercial insurance. Settled claims resulting from these risks have not exceeded the purchased commercial insurance in any of the past three fiscal years.

The District joined the Arizona School Risk Retention Trust, Inc. (Trust). The Trust is a public entity risk pool currently operating as a common risk management and insurance program for school districts and community colleges in the State. The District pays an annual premium to the Trust for its general insurance coverage. The agreement provides that Trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified amounts. The District's contributions to the Trust totaled \$239,521 for the year ended June 30, 2017.

The District's employees have health insurance coverage with the Arizona School Board Association Insurance Trust (ASBAIT). ASBAIT is a public entity risk-sharing and insurance purchasing pool. The District pays a monthly premium to ASBAIT for employees' health insurance coverage. If the pool becomes either insolvent or is otherwise unable to discharge its legal liabilities and other obligations, the District may be assessed an additional amount not to exceed the original required annual contribution to the pool. The District's contributions to SMIT totaled \$1,896,234 for the year ended June 30, 2017.

The District joined the Arizona School Alliance for Workers' Compensation, Inc. (Alliance) together with other school districts in the state for risks of loss related to workers' compensation claims. The Alliance is a public entity risk pool currently operating as a common risk management and insurance program for school districts in the State. The District pays quarterly premiums to the Alliance for its employee workers' compensation coverage. The agreement provides that the Alliance will be self-sustaining through members' premiums and will reinsure through commercial companies for claims in excess of specified amounts for each insured event. The District's contributions to the Alliance totaled \$144,246 for the year ended June 30, 2017.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

ASRS	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.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)

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 0.09 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 \$1,601,121. 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:

Year ended June 30,	Health Benefits Supplement Fund	Long-Term Disability Fund
	Fund	Fund
2017	\$ 83,175	\$ 20,610
2016	70,216	16,626
2015	77,583	15,745

During fiscal year 2017, the District paid for pension and OPEB contributions as follows: 73 percent from the General Fund and 27 percent from other funds.

Pension Liability – At June 30, 2017, the District reported a liability of \$24,058,167 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 total pension liability as of June 30, 2016, reflects a change in actuarial assumptions for a decrease in loads for future potential permanent benefit increases.

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 .1491%, which was an increase of .0051% from its proportion measured as of June 30, 2015.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2017, the District recognized pension expense for ASRS of \$1,514,241. 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	\$ 146,200	1,655,026
Changes in assumptions or other inputs		1,272,869
Net difference between projected and actual earnings on pension plan investments	2,607,105	
Changes in proportion and differences between District contributions and proportionate share of contributions	568,626	658,722
Contributions subsequent to the measurement date	1,601,121	
	\$ 4,923,052	3,586,617

The \$1,601,121 reported as deferred outflows of resources related to ASRS pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30:

2017	\$ 1,425,287
2018	684,401
2019	(1,113,976)
2020	(731,025)
	\$ 264,687

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
Investment rate of return	8.00%
Projected salary increases	3.0%-6.75%
Inflation rate	3.0%
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.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)

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>	

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:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Proportionate share of the net pension liability	30,675,990	24,058,167	18,752,120

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

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONT'D)

Pension Contributions Payable – The District’s accrued payroll and employee benefits included \$33,485 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2017.

NOTE 11 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Individual fund interfund receivables and payable balances at June 30, 2017, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$	281,959
Other Governmental Funds	281,959	_____
	<u>\$ 281,959</u>	<u>281,959</u>

The above receivables and payable between funds represent borrowings to cover negative cash balances. All interfund balances are expected to be paid with one year.

	<u>General Fund</u>	<u>Other Governmental</u>	<u>Total</u>
Transfers-in	\$ 310,107	350,005	660,112
Transfers-out	_____	(660,112)	(660,112)
	<u>\$ 310,107</u>	<u>(310,107)</u>	<u>_____</u>

Transfers between funds are used to record Federal and State grant funds utilized for indirect costs in the Indirect Cost Fund and reclassification of fund balances in accordance with the Uniform System of Financial Records for Arizona School Districts.

OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 - FUND BALANCE CLASSIFICATIONS OF GOVERNMENTAL FUNDS

The fund balance classifications of the governmental funds as of June 30, 2017, were as follows:

	General <u>Fund</u>	Debt Service <u>Fund</u>	Other Governmental <u>Funds</u>	<u>Total</u>
Fund balances:				
Nonspendable:				
Prepaid items	\$			
Inventory			40,646	40,646
Total nonspendable			<u>40,646</u>	<u>40,646</u>
Restricted for:				
Debt Service		98,872		98,872
Capital Projects			978,374	978,374
Voter approved initiatives			1,068,991	1,068,991
Food service			1,639,048	1,639,048
Extracurricular activities tax credits			382,423	382,423
Other purposes			328,365	328,365
Assigned to:				
School Plant			497,724	497,724
Total restricted		<u>98,872</u>	<u>4,894,925</u>	<u>4,993,797</u>
Unassigned	<u>1,581,554</u>			<u>1,581,554</u>
Total fund balances	<u>\$ 1,581,554</u>	<u>98,872</u>	<u>4,935,571</u>	<u>6,615,997</u>

NOTE 13 – SUBSEQUENT EVENTS

Bond Authorization - In November 2017, voters authorized \$50 million in bond funding to remodel, renovate and improve school facilities, buildings and grounds; this includes supply and upgrading safety and security, roofing, flooring, furniture, equipment and school buses, as well as increased technology for student learning.

Maintenance and Operations Override - In November 2017, voters authorized a seven-year Maintenance and Operations Budget Override. The override is to commence in fiscal year 2018-19, of up to \$1.5 million per year that is to be spent on updating curriculum, instructional materials and technology.

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OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
(BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Tuition	\$ 7,000	7,000		(7,000)
Interest on investments			3,587	3,587
Property taxes	9,171,541	9,171,541	9,232,087	60,546
Intergovernmental grants and aid				
County	610,967	610,967	676,383	65,416
State	6,827,148	6,827,148	6,643,454	(183,694)
Other local			52,048	52,048
Total revenues	<u>16,616,656</u>	<u>16,616,656</u>	<u>16,607,559</u>	<u>(9,097)</u>
Expenditures				
Current				
Instruction	10,209,589	9,459,417	9,391,103	68,314
Support services	7,773,319	8,367,750	7,771,728	596,022
Operation of noninstructional services	75,000	113,300	99,662	13,638
Total expenditures	<u>18,057,908</u>	<u>17,940,467</u>	<u>17,262,493</u>	<u>677,974</u>
Excess (deficiency) of revenues over expenditures	(1,441,252)	(1,323,811)	(654,934)	668,877
Fund balances, beginning of year	1,668,127	1,668,127	1,668,127	
Decrease in reserve for prepaid items			(328,299)	(328,299)
Fund balances, end of year	<u>\$ 226,875</u>	<u>344,316</u>	<u>684,894</u>	<u>340,578</u>

See accompanying notes to required supplementary information.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the District is prepared on a basis consistent with accounting principles generally accepted in the United States of America, except for the following items.

- Certain activities reported in the General Fund are budgeted in separate funds in accordance with Arizona Revised Statutes.

Consequently, the following adjustments are necessary to present the General Fund actual revenues, expenditures, other financing sources (uses), and fund balance at June 30, 2017 on a budgetary basis in order to provide a meaningful comparison.

	General Fund			
	Revenues	Expenditures	Transfers in	Ending Fund Balance
Statement of Revenues, Expenditures and Changes in Fund Balance	\$ 16,901,426	17,773,559	310,107	1,581,554
Activities in separate funds	(293,867)	(511,066)	(310,107)	(896,660)
Budgetary comparison schedules	\$ 16,607,559	17,262,493		684,894

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2017**

ARIZONA STATE RETIREMENT SYSTEM

	Reporting Fiscal Year (Measurement Date)			2014 through 2006
	2017 (2016)	2016 (2015)	2015 (2014)	
Proportion of the net pension liability	0.1491%	0.1440%	0.1543%	Information not available
Proportionate share of the net pension liability	\$ 24,058,167	22,434,244	22,832,147	
Covered payroll	\$ 13,956,042	13,275,321	13,740,306	
Proportionate share of the net pension liability as a percentage of its covered payroll	172.39%	168.99%	166.17%	
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%	

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2017**

ARIZONA STATE RETIREMENT SYSTEM

	Reporting Fiscal Year				2013 through 2008
	2017	2016	2015	2014	
Statutorily required contribution	\$ 1,601,121	1,523,686	1,524,226	1,554,352	Information not available
Contribution in relation to the statutorily required contribution	1,601,121	1,523,686	1,524,226	1,554,352	
Contribution deficiency (excess)	\$ -	-	-	-	
Covered payroll	14,770,126	13,956,042	13,275,321	13,740,306	
Contributions as a percentage of covered payroll	10.84%	10.92%	11.48%	11.31%	

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
REAL PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal <u>Year</u>	Real Property <u>Tax Levy</u>	<u>Collected Within the</u> <u>Fiscal Year of the Levy</u>		Collections in Subsequent <u>Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	Percent of <u>Tax Levy</u>		<u>Amount</u>	Percent of <u>Tax Levy</u>
2016-17	\$ 14,609,917	\$ 14,300,535	97.88 %	\$	\$ 14,300,535	97.88 %
2015-16	14,954,594	14,635,012	97.86	303,071	14,938,083	99.89
2014-15	14,603,541	14,189,242	97.16	400,303	14,589,545	99.90
2013-14	14,859,944	14,396,058	96.88	461,139	14,857,197	99.98
2012-13	17,256,584	16,261,830	94.24	994,754	17,256,584	100.00
2011-12	17,752,135	17,021,100	95.88	674,945	17,696,045	99.68
2010-11	17,360,309	16,255,100	93.63	1,105,209	17,360,309	100.00
2009-10	20,029,746	18,134,796	90.54	1,635,212	19,770,008	98.70
2008-09	18,164,643	16,371,218	90.13	1,724,341	18,095,559	99.62
2007-08	17,034,314	16,319,779	95.81	714,535	17,034,314	100.00

Source: Real Property Tax Levies and Collections were obtained from the Maricopa County Treasurer's Secured Levy Report.

Notes: Taxes are collected by the Treasurer of the County. Taxes in support of debt service are levied by the Board of Supervisors of the County as required by Arizona Revised Statutes. Delinquent taxes are subject to an interest and penalty charge of 16% per annum, which is prorated at a monthly rate of 1.33%. Interest and penalty collections for delinquent taxes are not included in the collection figures above, but are deposited in the County's General Fund. Interest and penalties with respect to the first half tax collections (delinquent November 1) are waived if the full year's taxes are paid by December 31.

In November 2013, voters in the District authorized the District to continue to exceed its statutorily prescribed maintenance and operations budget limit by an amount not to exceed 15% of the prescribed limit. The authorization, which began in fiscal year 2014/15, extends for seven years, although in the sixth (fiscal year 2019/20) and seventh (fiscal year 2020/21) years, the amount by which the prescribed budget limit may be exceeded is limited to 10% and 5%, respectively. Tax rates for corresponding years include amounts available for this override. If voters do not authorize the District to continue to exceed its prescribed budget by fiscal year 2020/21, the District will have to decrease its budgeted expenditures in fiscal years following 2020/21.

Unsecured personal property taxes are not included in this schedule.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
ESTIMATED NET FULL CASH VALUE HISTORIES
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Estimated Net Full Cash Value</u>
2016-17	\$ 3,672,964,009
2015-16	3,261,197,856
2014-15	3,593,085,890
2013-14	3,242,780,302
2012-13	3,323,301,047
2011-12	3,949,306,563
2010-11	4,975,774,663
2009-10	5,831,600,542
2008-09	5,547,539,015
2007-08	3,776,522,535

Notes: Estimated net full cash value is the total market value of the property less net exempt property within the District.

Estimated net full cash values were obtained from the State and County Abstracts of the Assessment Roll, Arizona Department of Revenue.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
SECONDARY ASSESSED VALUATION BY PROPERTY CLASSIFICATION
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Mines, Utility, and Commercial</u>	<u>Agricultural and Vacant</u>	<u>Residential (Owner Occupied)</u>	<u>Rental Residential</u>	<u>Historic and Foreign Trade</u>	<u>Total</u>
2016-17 \$	247,567,337	8,960,239	61,177,875	53,512,014	4,392,070	375,609,535
2015-16	251,003,905	9,136,513	58,401,564	49,607,157	4,113,353	372,262,492
2014-15	262,456,811	9,292,920	68,090,424	57,339,621	4,709,995	401,889,771
2013-14	263,583,232	13,531,347	53,502,940	41,190,582	3,435,727	375,243,828
2012-13	300,118,797	13,295,230	67,723,050	37,614,907	3,960,667	422,712,651
2011-12	345,355,849	13,875,928	81,440,646	48,175,464	4,252,979	493,100,866
2010-11	440,142,473	24,613,021	120,428,406	62,871,786	3,022,568	651,078,254
2009-10	505,819,156	17,729,630	162,164,269	82,406,337	3,442,996	771,562,388
2008-09	493,160,146	15,530,320	171,221,172	78,668,210	3,259,512	761,839,360
2007-08	390,373,840	13,058,356	137,897,556	65,029,676	2,021,017	608,380,445

Source: *State and County Abstract of the Assessment Roll, Arizona Department of Revenue.*

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
 DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT RATIOS
 JUNE 30, 2017
 (UNAUDITED)**

	Per Capita Bonded Debt Population Estimated <u>@ 38,505</u>	As % of District's Secondary Assessed <u>Valuation</u>	As % of District's Estimated Full Cash <u>Value</u>
Net Direct General Obligation Bonded Debt (\$38,300,000)	\$ 995	10.20 %	1.04 %
Net Direct and Overlapping General Obligation Bonded Debt (\$111,789,476)	2,903	29.76	3.04

Note: Population estimate was obtained from the District.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
DIRECT GENERAL OBLIGATION BONDED DEBT
OUTSTANDING AND TO BE OUTSTANDING
JUNE 30, 2017**

Issue Series	Original Amount	Purpose	Final Maturity Date (July 1)	Balance Outstanding	Bonds Being Refunded	Balance Outstanding and to be Outstanding
2007A	\$ 26,300,000	School improvements	2022	\$ 17,030,000	(14,505,000)	\$ 2,525,000
2008B	10,700,000	School improvements	2024	7,555,000	(6,795,000)	<u>760,000</u>
Total General Obligation Bonded Debt Outstanding						\$ 3,285,000
Plus: Refunding Bonds						<u>20,510,000</u>
Total General Obligation Bonded Debt Outstanding and to be Outstanding						<u><u>\$ 23,795,000</u></u>

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2017
(UNAUDITED)**

District General Obligation and Refunding Bonds:

Net secondary assessed valuation \$ 375,609,535

Debt limit - 15% of net secondary assessed valuation \$ 56,341,430

Amount of debt applicable to debt limit:

General obligation and refunding bonds outstanding and to be outstanding	\$	40,419,115
Less current bond payment accrued in debt service fund		18,305,000
Less bond premium		2,119,115
Less fund balance in debt service fund available for payment of principal		<u>98,872</u>

Total amount of debt applicable to debt limit 19,896,128

LEGAL DEBT MARGIN \$ 36,445,302

Class B Bonds:

Debt limit - 10% of net secondary assessed valuation \$ 37,560,954

Amount of debt applicable to debt limit:

B bond general obligation bonds outstanding and to be outstanding, net of premium due within one year		18,305,000
Less fund balance in debt service fund		<u>98,872</u>

Total amount of debt applicable to debt limit 18,206,128

LEGAL DEBT MARGIN \$ 19,354,826

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
PRINCIPAL TAXPAYERS
JUNE 30, 2017
(UNAUDITED)**

<u>Taxpayer</u>	<u>Type</u>	<u>2016-17 Secondary Assessed Valuation</u>	<u>As % of District's Secondary Assessed Valuation</u>
Phoenix Plaza PT LLC	Office Building	\$ 21,913,841	5.83 %
Christown 1755 LLC	Shopping Center	10,507,490	2.80
LBA Realty Fund II-WBP III LLC	Office Building	9,639,000	2.57
AG-POP CS 3838 Owner LLC	Office Building	7,288,974	1.94
Arizona Public Service Company	Utilities	7,082,899	1.89
Paypal Inc	Online Payments	6,377,845	1.70
Quest Corporation	Telecommunications	5,707,771	1.52
Danari Central Management LLC Etal	Office Building	5,670,000	1.51
Colfin Phx Tower Funding LLC	Office Buildings	5,670,000	1.51
Ebay Inc	Online Auction Store	<u>5,359,603</u>	<u>1.43</u>
		<u><u>\$ 85,217,423</u></u>	<u><u>22.70 %</u></u>

Note: Assessed valuation amounts were obtained by the District from the Maricopa County Assessor. The amounts are approximate and may be slightly higher or lower.

**OSBORN ELEMENTARY SCHOOL DISTRICT NO. 8
AVERAGE DAILY MEMBERSHIP (ADM)
LAST TEN FISCAL YEARS
(UNAUDITED)**

Enrollment (ADM):

<u>Fiscal Year</u>	<u>ADM</u>
2016-17	2,778
2015-16	2,766
2014-15	2,706
2013-14	2,747
2012-13	2,828
2011-12	2,793
2010-11	2,904
2009-10	3,084
2008-09	3,186
2007-08	3,328

Source: The Arizona Department of Education and the District.

Notes: ADM means average daily membership and is computed by taking the average number of students enrolled over the first 100 days of the school year.