



Morristown Elementary School District No. 75
Financial Statements
Year Ended June 30, 2016

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75

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REPORT ON AUDIT OF FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Morristown Elementary School District No. 75

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morristown Elementary School District No. 75 (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Morristown Elementary School District No. 75, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, for the year ended June 30, 2016, which represents a change in accounting principle. 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, budgetary comparison information, and net pension liability information, as listed in the table of contents, 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 as a whole. The Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2017, on our consideration of Morristown Elementary School District No. 75's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Morristown Elementary School District No. 75's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
March 20, 2017

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

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MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

As management of the Morristown Elementary School District No. 75 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

FINANCIAL HIGHLIGHTS

- The District's total net position of governmental activities increased \$742,267, which represents a 58 percent increase from the prior fiscal year as a result of an increase in property tax revenue due to an increase in the primary property tax levy and an increase in unrestricted state aid.
- General revenues accounted for \$2.3 million in revenue, or 88 percent of all current fiscal year revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$316,732 or 12 percent of total current fiscal year revenues.
- The District had approximately \$1.9 million in expenses related to governmental activities, a three percent increase from the prior fiscal year.
- Among major funds, the General Fund had \$2.1 million in current fiscal year revenues, which primarily consisted of state aid and property taxes, and \$1.4 million in expenditures. The General Fund's fund balance increase from a deficit of \$133,254 at the prior fiscal year end to \$495,247 at the end of the current fiscal year was primarily due to an increase in property tax revenue as a result of an increase in the primary property tax levy and an increase in state aid.

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.

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 accrual basis of accounting is used for the government-wide financial statements.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements use the modified accrual basis of accounting and 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 decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF FINANCIAL STATEMENTS

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 and Unrestricted Capital Outlay Funds, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. Due to their custodial nature, the fiduciary funds do not have a measurement focus.

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 immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process and pension plan. The District adopts an annual expenditure budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances – budget and actual has been provided for the General Fund as required supplementary information. Schedules for the pension plan have been provided as required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$2.0 million at the current fiscal year end.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land improvements, buildings and improvements, and vehicles, furniture and equipment), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. The District had no related debt. In addition, a portion of the District's net position represents resources that are subject to external restrictions on how they may be used.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	As of June 30, 2016	As of June 30, 2015
Current assets	\$ 961,851	\$ 289,640
Capital assets, net	2,392,481	2,472,443
Total assets	<u>3,354,332</u>	<u>2,762,083</u>
Deferred outflows	<u>144,130</u>	<u>134,885</u>
Current and other liabilities	62,910	162,547
Long-term liabilities	1,234,073	1,129,784
Total liabilities	<u>1,296,983</u>	<u>1,292,331</u>
Deferred inflows	<u>171,545</u>	<u>316,970</u>
Net position:		
Net investment in capital assets	2,392,481	2,472,443
Restricted	318,701	209,903
Unrestricted	(681,248)	(1,394,679)
Total net position	<u>\$ 2,029,934</u>	<u>\$ 1,287,667</u>

At the end of the current fiscal year, the District reported positive balances in two categories of net position. Unrestricted net position, which is normally used to meet the District's mission, reported a deficit of \$681,248. The deficit is due to the District's proportionate share of the state pension plan's unfunded liability. 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 results of activities, the acquisition and payment of debt and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Position.

- Depreciation expense of capital assets resulted in an increase in accumulated depreciation of \$96,067.
- The increase of \$97,682 in pension liabilities.
- The increase in cash due to an increase in property tax revenues and state aid that will be utilized in future years.

**MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

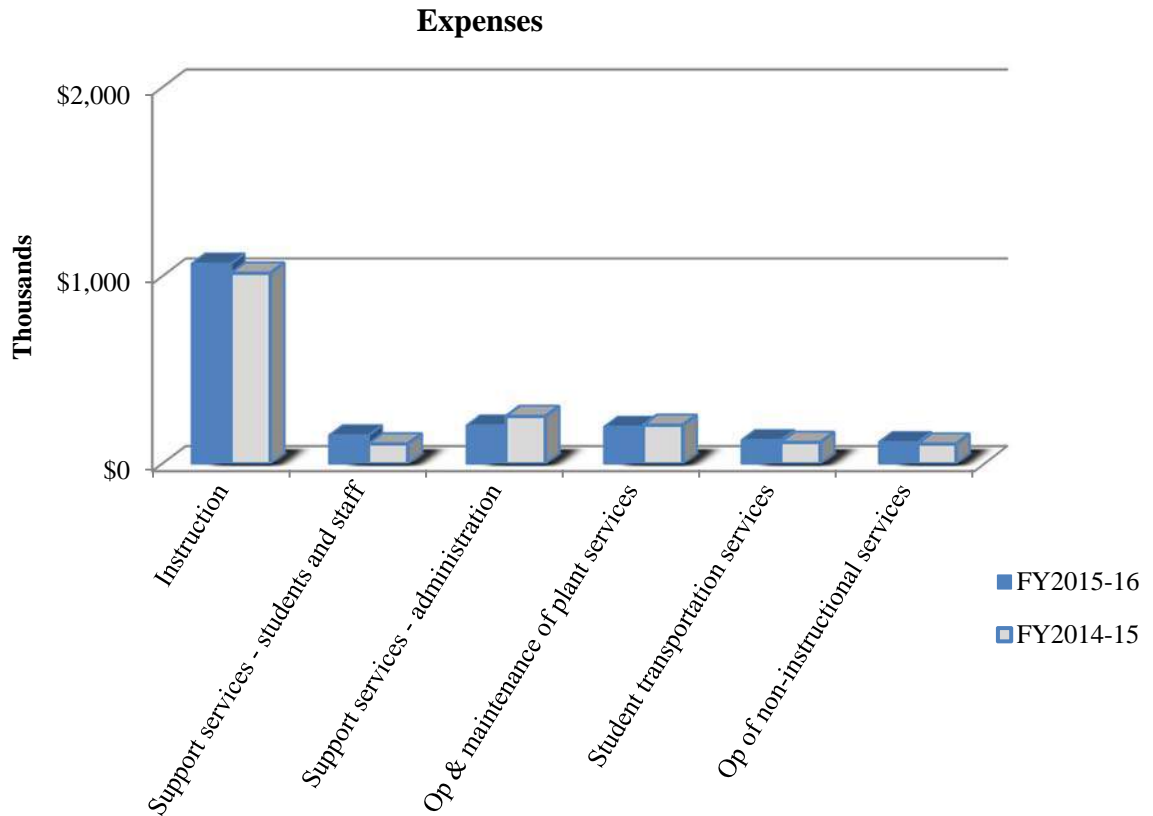
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Changes in net position. The District's total revenues for the current fiscal year were \$2.6 million. The total cost of all programs and services was \$1.9 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

	Fiscal Year Ended <u>June 30, 2016</u>	Fiscal Year Ended <u>June 30, 2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 9,399	\$ 8,025
Operating grants and contributions	307,296	262,755
Capital grants and contributions	37	12,412
General revenues:		
Property taxes	1,069,185	645,445
Investment income	2,241	1,105
Unrestricted county aid	81,391	41,089
Unrestricted state aid	1,128,663	536,730
Unrestricted federal aid	8,391	1,971
Total revenues	<u>2,606,603</u>	<u>1,509,532</u>
Expenses:		
Instruction	1,066,277	1,016,099
Support services – students and staff	152,302	106,083
Support services – administration	205,462	254,083
Operation and maintenance of plant services	197,857	206,719
Student transportation services	126,394	113,963
Operation of non-instructional services	116,044	105,517
Total expenses	<u>1,864,336</u>	<u>1,802,464</u>
Changes in net position	<u>742,267</u>	<u>(292,932)</u>
Net position, beginning	<u>1,287,667</u>	<u>1,580,599</u>
Net position, ending	<u><u>\$ 2,029,934</u></u>	<u><u>\$ 1,287,667</u></u>

**MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS



The following significant current year transactions had an impact on the change in net position.

- Unrestricted state aid increased \$591,933 primarily due to an adjustment received related to a prior fiscal year.
- Property tax revenue increased \$423,740 due to an increase in the District's primary property tax levy.

**MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table presents the cost of the District's major functional activities. 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.

	Year Ended June 30, 2016		Year Ended June 30, 2015	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Instruction	\$ 1,066,277	\$ (903,949)	\$1,016,099	\$ (874,141)
Support services – students and staff	152,302	(117,079)	106,083	(92,001)
Support services – administration	205,462	(194,848)	254,083	(242,790)
Operation and maintenance of plant services	197,857	(187,835)	206,719	(181,456)
Student transportation services	126,394	(113,673)	113,963	(111,373)
Operation of non-instructional services	116,044	(30,220)	105,517	(17,511)
Total	<u>\$ 1,864,336</u>	<u>\$ (1,547,604)</u>	<u>\$1,802,464</u>	<u>\$ (1,519,272)</u>

- The cost of all governmental activities this year was \$1.9 million.
- Federal and state governments and charges for services subsidized certain programs with grants and contributions and other local revenues of \$316,732.
- Net cost of governmental activities of \$1.5 million was financed by general revenues, which are made up of primarily property taxes of \$1.1 million and state aid of \$1.1 million.

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, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The 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 \$813,363, an increase of \$766,784 due primarily to increases in state aid and property tax revenues.

**MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund comprises 61 percent of the total fund balance. Approximately \$491,611, or 99 percent of the General Fund's fund balance is unassigned.

The General Fund is the principal operating fund of the District. The increase in fund balance from a deficit of \$133,254 to \$495,247 as of fiscal year end was a result of an increase in property taxes due to an increase in the primary property tax levy and an increase in state aid. General Fund expenditures increased \$25,407 or two percent.

The Unrestricted Capital Outlay Fund's fund balance increased \$76,057 to \$152,776 at year end as a result of an increase in property tax revenue due to an increase in the primary property tax levy.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the General Fund annual expenditure budget. The difference between the original budget and the final amended budget was a \$13,198 decrease. This decrease was due to a decrease in average daily membership.

The District is not required by the State of Arizona to prepare a revenue budget, therefore significant variances in revenues exist. 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. The significant expenditure variances are summarized as follows:

- The favorable variance of \$40,624 in support services-students and staff was the result of budgeting for salaries and services in the General Fund that were actually paid for using federal grant funds.
- The unfavorable variance of \$20,300 in operation and maintenance of plant services was a result of the payment of overtime to employees that was not included in the budget.
- The favorable variance of \$22,039 in operation of non-instructional services was primarily a result of paying food service salaries from the Food Service Fund rather than the General Fund where the salaries were budgeted.

**MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. At year end, the District had invested \$3.8 million in capital assets, including school buildings, buses and other vehicles and equipment. Total depreciation expense for the current fiscal year was \$96,067.

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

	As of June 30, 2016	As of June 30, 2015
Capital assets – depreciable, net	<u>\$ 2,392,481</u>	<u>\$ 2,472,443</u>
Total	<u>\$ 2,392,481</u>	<u>\$ 2,472,443</u>

Additional information on the District's capital assets can be found in Note 6.

Debt Administration. The District is subject to two debt limits; the Constitutional debt limit (total debt limit) on all general obligation bonds (up to 15 percent of the total net full cash assessed valuation) and the statutory debt limit on Class B bonds (the greater of 10 percent of the net full cash assessed valuation or \$1,500 per student). The current total debt limitation for the District is \$2.6 million and the Class B debt limit is \$1.7 million. At fiscal year end, the District had no outstanding general obligation debt.

Additional information on the District's long-term debt can be found in Note 8.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Many factors were considered by the District's administration during the process of developing the fiscal year 2016-17 budget. Among them:

- Fiscal year 2016-17 budget balance carry forward (estimated \$84,376).
- District student population (estimated 124).

Also considered in the development of the budget is the local economy and inflation of the surrounding area.

Budgeted expenditures in the General Fund increased 19 percent to \$1.8 million in fiscal year 2016-17. The increase is the result of the passing of Proposition 123. State aid and property taxes are expected to be the primary funding sources.

**MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Morristown Elementary School District No. 75, 25950 Rockaway Hills Drive, Morristown, Arizona 85342.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 822,307
Property taxes receivable	94,301
Due from governmental entities	33,094
Inventory	12,149
Total current assets	<u>961,851</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>2,392,481</u>
Total noncurrent assets	<u>2,392,481</u>
Total assets	<u>3,354,332</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pension plan items	<u>144,130</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	30,190
Due to governmental entities	4,740
Accrued payroll and employee benefits	15,958
Compensated absences payable	4,000
Unearned revenues	12,022
Total current liabilities	<u>66,910</u>
Noncurrent liabilities:	
Non-current portion of long-term obligations	<u>1,230,073</u>
Total noncurrent liabilities	<u>1,230,073</u>
Total liabilities	<u>1,296,983</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Pension plan items	<u>171,545</u>
<u>NET POSITION</u>	
Net investment in capital assets	2,392,481
Restricted for:	
Voter approved initiatives	35,520
Federal and state projects	11,887
Food service	6,391
Extracurricular activities	82,841
Community school	7,800
Other local initiatives	1,095
Capital outlay	173,167
Unrestricted	(681,248)
Total net position	<u>\$ 2,029,934</u>

The notes to the basic financial statements are an integral part of this statement.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 1,066,277	\$ 3,127	\$ 159,164	\$ 37	\$ (903,949)
Support services - students and staff	152,302		35,223		(117,079)
Support services - administration	205,462		10,614		(194,848)
Operation and maintenance of plant services	197,857		10,022		(187,835)
Student transportation services	126,394		12,721		(113,673)
Operation of non-instructional services	116,044	6,272	79,552		(30,220)
Total governmental activities	<u>\$ 1,864,336</u>	<u>\$ 9,399</u>	<u>\$ 307,296</u>	<u>\$ 37</u>	<u>(1,547,604)</u>

General revenues:

Taxes:

Property taxes, levied for general purposes 941,182

Property taxes, levied for capital outlay 128,003

Investment income 2,241

Unrestricted county aid 81,391

Unrestricted state aid 1,128,663

Unrestricted federal aid 8,391

Total general revenues 2,289,871

Changes in net position 742,267

Net position, beginning of year 1,287,667

Net position, end of year \$ 2,029,934

The notes to the basic financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Unrestricted Capital Outlay	Non-Major Governmental Funds
<u>ASSETS</u>			
Cash and investments	\$ 522,310	\$ 152,354	\$ 147,643
Property taxes receivable	82,857	11,444	
Due from governmental entities			33,094
Inventory			12,149
Total assets	<u>\$ 605,167</u>	<u>\$ 163,798</u>	<u>\$ 192,886</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 19,421	\$ 359	\$ 10,410
Due to governmental entities	4,740		
Accrued payroll and employee benefits	11,760		4,198
Unearned revenues			12,022
Total liabilities	<u>35,921</u>	<u>359</u>	<u>26,630</u>
Deferred inflows of resources:			
Unavailable revenues - property taxes	73,999	10,663	
Unavailable revenues - intergovernmental			916
Total deferred inflows of resources	<u>73,999</u>	<u>10,663</u>	<u>916</u>
Fund balances:			
Nonspendable			12,149
Restricted	1,155	152,776	153,191
Assigned	2,481		
Unassigned	491,611		
Total fund balances	<u>495,247</u>	<u>152,776</u>	<u>165,340</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 605,167</u>	<u>\$ 163,798</u>	<u>\$ 192,886</u>

The notes to the basic financial statements are an integral part of this statement.

Total Governmental Funds	
\$	822,307
	94,301
	33,094
	12,149
\$	<u>961,851</u>

\$	30,190
	4,740
	15,958
	<u>12,022</u>
	<u>62,910</u>

	84,662
	<u>916</u>
	<u>85,578</u>

	12,149
	307,122
	2,481
	<u>491,611</u>
	<u>813,363</u>

\$	<u>961,851</u>
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MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total governmental fund balances	\$	813,363
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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 funds.

Governmental capital assets	\$ 3,784,597	
Less accumulated depreciation	<u>(1,392,116)</u>	2,392,481

Some receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.

Property taxes	84,662	
Intergovernmental	<u>916</u>	85,578

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	144,130	
Deferred inflows of resources related to pensions	<u>(171,545)</u>	(27,415)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences payable	(34,180)	
Net pension liability	<u>(1,199,893)</u>	<u>(1,234,073)</u>

Net position of governmental activities	\$	<u>2,029,934</u>
------------------------------------------------	-----------	-------------------------

The notes to the basic financial statements are an integral part of this statement.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General	Unrestricted Capital Outlay	Non-Major Governmental Funds
Revenues:			
Other local	\$ 87,242	\$ 650	\$ 35,243
Property taxes	924,567	121,990	
State aid and grants	1,054,623	12,278	61,762
Federal aid, grants and reimbursements	8,391		296,793
Total revenues	<u>2,074,823</u>	<u>134,918</u>	<u>393,798</u>
Expenditures:			
Current -			
Instruction	831,717		190,145
Support services - students and staff	96,060		39,793
Support services - administration	197,041		12,532
Operation and maintenance of plant services	166,473		11,542
Student transportation services	105,869		12,022
Operation of non-instructional services	51,911		74,901
Capital outlay		58,861	37
Total expenditures	<u>1,449,071</u>	<u>58,861</u>	<u>340,972</u>
Excess (deficiency) of revenues over expenditures	<u>625,752</u>	<u>76,057</u>	<u>52,826</u>
Other financing sources (uses):			
Transfers in	2,749		
Transfers out			(2,749)
Total other financing sources (uses):	<u>2,749</u>		<u>(2,749)</u>
Changes in fund balances	<u>628,501</u>	<u>76,057</u>	<u>50,077</u>
Fund balances (deficits), beginning of year	(133,254)	76,719	103,114
Increase (decrease) in reserve for inventory			12,149
Fund balances (deficits), end of year	<u>\$ 495,247</u>	<u>\$ 152,776</u>	<u>\$ 165,340</u>

The notes to the basic financial statements are an integral part of this statement.

Total Governmental Funds
\$ 123,135
1,046,557
1,128,663
305,184
<u>2,603,539</u>

1,021,862
135,853
209,573
178,015
117,891
126,812
58,898
<u>1,848,904</u>
<u>754,635</u>

2,749
<u>(2,749)</u>

<u>754,635</u>

46,579
12,149
<u>\$ 813,363</u>

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Changes in fund balances - total governmental funds **\$ 754,635**

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

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 16,105	
Less current year depreciation	<u>(96,067)</u>	(79,962)

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

Property taxes	22,628	
Intergovernmental	<u>(19,564)</u>	3,064

Governmental funds report pension contributions as expenditures. However, they are reported as deferred outflows of resources in the Statement of Net Position. The change in the net pension liability, adjusted for deferred pension items, is reported as pension expense in the Statement of Activities.

Current year pension contributions	82,416	
Pension expense	<u>(25,428)</u>	56,988

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.

Inventory	12,149	
Compensated absences	<u>(4,607)</u>	<u>7,542</u>

Changes in net position in governmental activities **\$ 742,267**

The notes to the basic financial statements are an integral part of this statement.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2016

	<u>Agency</u>
<u>ASSETS</u>	
Cash and investments	\$ 14,312
Total assets	<u>\$ 14,312</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 9,951
Deposits held for others	4,361
Total liabilities	<u>\$ 14,312</u>

The notes to the basic financial statements are an integral part of this statement.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Morristown Elementary School District No. 75 (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2016, the District implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements and establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement also enhances accountability and transparency through revised note disclosures.

The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Governing Board is organized under Section 15-321 of the Arizona Revised Statutes (A.R.S.). Management of the District is independent of other state or local governments. The County Treasurer collects taxes for the District, but exercises no control over its expenditures/expenses.

The membership of the Governing Board consists of three members elected by the public. Under existing statutes, the Governing Board's duties and powers include, but are not limited to, the acquisition, maintenance and disposition of school property; the development and adoption of a school program; and the establishment, organization and operation of schools.

The Board also has broad financial responsibilities, including the approval of the annual budget, and the establishment of a system of accounting and budgetary controls.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. 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. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing board is financially accountable. The District's major operations include education, student transportation, construction and maintenance of District facilities, and food services.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the District. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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 the operational or capital requirements of a particular function or segment. Taxes, unrestricted federal, state and county aid, and other items not included among program revenues are reported instead as general revenues.

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 governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements – 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.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. As permitted by generally accepted accounting principles the District applies the “early recognition” option for debt service payments. Property tax resources are provided in the Debt Service Fund during the current year for the payment of debt service principal and interest due early in the following year (less than one month). Therefore, the expenditures and related liabilities have been recognized in the current period.

Property taxes, federal, state and county aid, tuition and investment income associated with the current fiscal period are all considered to be susceptible to accrual and 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 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.

Delinquent property taxes and other receivables that will not be collected within the available period have been reported as unavailable revenues on the governmental fund financial statements.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The District reports the following major governmental fund:

General Fund – 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. The General Fund includes the District’s Maintenance and Operation Fund as well as the certain activities budgeted in separate funds in accordance with A.R.S. These funds are maintained as separate funds for budgetary purposes but do not meet the criteria for separate reporting in the financial statements.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unrestricted Capital Outlay Fund – The Unrestricted Capital Outlay Fund accounts for transactions relating to the acquisition of capital items.

Additionally, the District reports the following fund type:

Fiduciary Fund – The Fiduciary Fund is an Agency Fund which accounts for resources held by the District on behalf of others and includes the Employee Withholding Fund. The Employee Withholding Fund accounts for voluntary deductions temporarily held by the District until distributed.

The agency fund is custodial in nature, does not have a measurement focus and is reported on the accrual basis of accounting. The agency fund is reported by fund type.

D. Cash and Investments

A.R.S. 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. Interest earned from investments purchased with pooled monies is allocated to each of the District's funds based on their average balances. All investments are stated at fair value.

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 notes; and interest bearing savings accounts or certificates of deposit.

Statute authorizes the District to deposit monies of the Auxiliary Operations and Student Activities Funds in bank accounts. 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 and employee insurance programs. Some of these bank accounts may be interest bearing.

Statute does not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. Statute requires collateral for deposits of Bond Building and Debt Service Funds monies in interest bearing savings accounts and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

E. Investment Income

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

F. 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.

G. Property Tax Calendar

The County Treasurer is responsible for collecting property taxes for all governmental entities within the county. The county levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

H. Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. Inventories are recorded as expenses when consumed on the government-wide financial statements and as expenditures when purchased on the fund financial statements.

The United States Department of Agriculture (USDA) commodity portion of the food services inventory consists of food donated by the USDA. It is valued at estimated market prices paid by the USDA.

I. 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 on the government-wide financial statements and as expenditures when purchased on the fund financial statements.

J. Capital Assets

Capital assets, which include land improvements; buildings and improvements; vehicles, furniture, and equipment are reported in the government-wide financial statements.

Capital assets are defined by the District as assets with an initial, individual cost in excess of \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

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

Land improvements	10 – 50 years
Buildings and improvements	5 – 50 years
Vehicles, furniture and equipment	5 – 25 years

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

L. Compensated Absences

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

M. 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.

N. 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 are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

O. Interfund Activity

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

P. Net Position Flow Assumption

In the government-wide financial statements the District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

Q. Estimates

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

NOTE 2 – 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.

Nonspendable. The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

Restricted. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – FUND BALANCE CLASSIFICATIONS

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Governing Board. Those committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. No fund balances have been committed by the District's board, and thus, no committed fund balances are reported in the financial statements.

Assigned. Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board or a management official delegated that authority by the formal Governing Board action. The Board delegated the responsibility to the Business Office.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The table below provides detail of the major components of the District's fund balance classifications at year end.

	General Fund	Unrestricted Capital Outlay	Non-Major Governmental Funds
Fund Balances:			
Nonspendable:			
Inventory	\$	\$	\$ 12,149
Restricted:			
Capital projects	1,155	152,776	8,573
Voter approved initiatives			35,520
Federal and state projects			10,971
Food service			6,391
Extracurricular activities fees tax credit			82,841
Community school			7,800
Other purposes			1,095
Assigned:			
Other purposes	2,481		
Unassigned	491,611		
Total fund balances	<u>\$ 495,247</u>	<u>\$ 152,776</u>	<u>\$ 165,340</u>

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Expenditures Over Budget – At year end, the District had expenditures in a fund that exceeded the budget, however this does not constitute a violation of any legal provisions.

Compliance – The District received notice from the Department of Treasury – Internal Revenue Service that indicated a federal tax lien was placed against the District in the amount of \$4,740 as a result of improper filing of the quarterly federal tax returns.

NOTE 4 – CASH AND INVESTMENTS

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 year end, the carrying amount of the District's deposits was \$906 and the bank balance was \$6,118.

Fair Value Measurements. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

The County Treasurer's pool is an external investment pool with no regulatory oversight. The pool is not required to register (and is not registered) with the Securities and Exchange Commission. The fair value of each participant's position in the County Treasurer investment pool approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

At year end, the District's investments consisted of the following:

	<u>Average Maturities</u>	<u>Fair Value</u>
County Treasurer's investment pool	342 days	\$ 835,713
Total		<u>\$ 835,713</u>

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 year end, the District's investment in the County Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – CASH AND INVESTMENTS

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

NOTE 5 – RECEIVABLES

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of due from governmental entities. Due from governmental entities, net of allowance for uncollectibles, as of year end for the District's individual major funds and non-major governmental funds in the aggregate, were as follows:

	Non-Major Governmental Funds
Due from other governmental entities:	
Due from federal government	\$ 27,031
Due from state government	6,063
Net due from governmental entities	<u>\$ 33,094</u>

NOTE 6 – CAPITAL ASSETS

A summary of capital asset activity for the current fiscal year follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, being depreciated:				
Land improvements	\$ 139,816	\$	\$	\$ 139,816
Buildings and improvements	2,995,994	15,535		3,011,529
Vehicles, furniture and equipment	632,682	570		633,252
Total capital assets being depreciated	<u>3,768,492</u>	<u>16,105</u>		<u>3,784,597</u>
Less accumulated depreciation for:				
Land improvements	(80,453)	(5,632)		(86,085)
Buildings and improvements	(887,037)	(61,861)		(948,898)
Vehicles, furniture and equipment	(328,559)	(28,574)		(357,133)
Total accumulated depreciation	<u>(1,296,049)</u>	<u>(96,067)</u>		<u>(1,392,116)</u>
Total capital assets, being depreciated, net	<u>2,472,443</u>	<u>(79,962)</u>		<u>2,392,481</u>
Governmental activities capital assets, net	<u>\$ 2,472,443</u>	<u>\$ (79,962)</u>	<u>\$</u>	<u>\$ 2,392,481</u>

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 – CAPITAL ASSETS

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 59,670
Support services – students and staff	3,138
Support services – administration	921
Operation and maintenance of plant services	14,261
Student transportation services	16,347
Operation of non-instructional services	1,730
Total depreciation expense – governmental activities	<u>\$ 96,067</u>

NOTE 7 – SHORT TERM DEBT – REVOLVING LINE OF CREDIT

The District has a \$400,000 revolving line of credit to provide cash flow during the year to mitigate the impact of timing differences of expenditures and the receipt of state aid and property tax revenues. General Fund revenues will be used to repay the line of credit as cash becomes available. Short-term debt activity for the current fiscal year was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Revolving line of credit	<u>\$ 83,000</u>	<u>\$ 314,000</u>	<u>\$ 397,000</u>	<u>\$ –0–</u>

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the current fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Net pension liability	\$1,102,211	\$ 97,682	\$	\$1,199,893	\$
Compensated absences payable	29,573	11,362	6,755	34,180	4,000
Governmental activity long-term liabilities	<u>\$1,131,784</u>	<u>\$ 109,044</u>	<u>\$ 6,755</u>	<u>\$1,234,073</u>	<u>\$ 4,000</u>

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 – INTERFUND TRANSFERS

Transfers between funds in the amount of \$2,749 were used to (1) move federal grant funds restricted for indirect costs to the General Fund, and (2) to close out an inactive non-major fund to the General Fund.

NOTE 10 – 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.

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District was unable to obtain general property and liability insurance at a cost it considered to be economically justifiable. Therefore, the District joined the Arizona School Risk Retention Trust, Inc. (ASRRT). ASRRT 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 ASRRT for its general insurance coverage. The agreement provides that ASRRT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified amounts.

The District's employees have health and accident insurance coverage with the Arizona School Board Association Insurance Trust (ASBAIT). ASBAIT 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 a monthly premium to ASBAIT for employees' health and accident insurance coverage. The agreement provides that ASBAIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified amounts.

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.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 – 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. 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 the ASRS website at www.azasrs.gov.

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

	Retirement Initial Membership Date:	
	Before July 1, 2011	On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80	30 years age 55
	10 years age 62	25 years age 60
	5 years age 50*	10 years age 62
	Any years age 65	5 years age 50*
		Any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 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 earnings. 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 survivor benefit is determined by the retirement benefit option chosen. 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.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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 current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. The District's contributions to the pension plan for the year ended June 30, 2016 were \$82,416.

In addition, the District was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 for retirement and 0.13 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked in positions that would typically be filled by an employee who contributes to ASRS.

The District's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

		Health Benefit Supplement Fund	Long-Term Disability Fund
Year ending June 30:			
	2016	\$ 3,798	\$ 912
	2015	4,273	869
	2014	4,201	1,681

Pension Liability. At June 30, 2016, the District reported a liability of \$1.2 million for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the District's proportion was 0.008 percent, which was an increase of .001 from its proportion measured as of June 30, 2014.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Expense and Deferred Outflows/Inflows of Resources. For the year ended June 30, 2016, the District recognized pension expense of \$25,428 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 32,742	\$ 62,876
Net difference between projected and actual earnings on pension plan investments		38,454
Changes in proportion and differences between contributions and proportionate share of contributions	28,972	70,215
Contributions subsequent to the measurement date	<u>82,416</u>	
Total	<u>\$ 144,130</u>	<u>\$ 171,545</u>

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2017	\$ (66,307)
2018	(46,129)
2019	(25,153)
2020	27,758

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

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8.0%
Projected salary increases	3.0-6.75%
Inflation	3.0%
Permanent base increases	Included
Mortality rates	1994 GAM Scale BB

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	58%	6.79%
Fixed income	25	3.70
Real estate	10	4.25
Multi-asset	5	3.41
Commodities	2	3.93
Total	<u>100%</u>	

Discount Rate. The discount rate used to measure the ASRS total pension liability was 8.0 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Proportionate share of the net pension liability	\$1,572,269	\$ 1,199,893	\$ 944,692

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at www.azasrs.gov.

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REQUIRED SUPPLEMENTARY INFORMATION

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Non-GAAP Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other local	\$	\$	\$ 83,383	\$ 83,383
Property taxes			924,567	924,567
State aid and grants			1,054,623	1,054,623
Total revenues			<u>2,062,573</u>	<u>2,062,573</u>
Expenditures:				
Current -				
Instruction	898,388	823,088	830,480	(7,392)
Support services - students and staff	95,695	136,684	96,060	40,624
Support services - administration	188,952	198,777	194,470	4,307
Operation and maintenance of plant services	198,200	145,988	166,288	(20,300)
Student transportation services	122,000	113,000	105,869	7,131
Operation of non-instructional services	1,450	73,950	51,911	22,039
Total expenditures	<u>1,504,685</u>	<u>1,491,487</u>	<u>1,445,078</u>	<u>46,409</u>
Excess (deficiency) of revenues over expenditures	<u>(1,504,685)</u>	<u>(1,491,487)</u>	<u>617,495</u>	<u>2,108,982</u>
Other financing sources (uses):				
Transfers in			70	70
Total other financing sources (uses):			<u>70</u>	<u>70</u>
Changes in fund balances	<u>(1,504,685)</u>	<u>(1,491,487)</u>	<u>617,565</u>	<u>2,109,052</u>
Fund balances (deficits), beginning of year			(180,174)	(180,174)
Fund balances (deficits), end of year	<u>\$ (1,504,685)</u>	<u>\$ (1,491,487)</u>	<u>\$ 437,391</u>	<u>\$ 1,928,878</u>

See accompanying notes to this schedule.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
ARIZONA STATE RETIREMENT SYSTEM
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.01%	0.01%
District's proportionate share of the net pension liability (asset)	\$ 1,199,893	\$ 1,102,211
District's covered payroll	\$ 724,215	\$ 694,355
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	165.68%	158.74%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

SCHEDULE OF CONTRIBUTIONS
ARIZONA STATE RETIREMENT SYSTEM
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 82,416	\$ 78,867
Contributions in relation to the actuarially determined contribution	<u>82,416</u>	<u>78,867</u>
Contribution deficiency (excess)	<u><u>\$</u></u>	<u><u>\$</u></u>
District's covered payroll	\$ 759,594	\$ 724,215
Contributions as a percentage of covered payroll	10.85%	10.89%

NOTE: The pension schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

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

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

The following schedule reconciles expenditures and fund balances at the end of year.

	<u>Total Expenditures</u>	<u>Fund Balances End of Year</u>
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	\$ 1,449,071	\$ 495,247
Activity budgeted as special revenue funds	(3,993)	(56,701)
Activity budgeted as capital projects funds	<u> </u>	<u>(1,155)</u>
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	<u>\$ 1,445,078</u>	<u>\$ 437,391</u>

NOTE 2 – PENSION PLAN SCHEDULES

Change in Accounting Principle. For the year ended June 30, 2016, the District implemented the provisions of GASB Statement No. 82, Pension Issues. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

Actuarial Assumptions for Valuations Performed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated, which is the most recent actuarial valuation. The actuarial assumptions used are disclosed in the notes to the financial statements.

Factors that Affect Trends. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2014, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

	Classroom Site		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Other local	\$	\$ 52	\$ 52
State aid and grants		56,476	56,476
Federal aid, grants and reimbursements			
Total revenues		<u>56,528</u>	<u>56,528</u>
Expenditures:			
Current -			
Instruction	90,935	43,770	47,165
Support services - students and staff		4,888	(4,888)
Support services - administration			
Operation and maintenance of plant services			
Student transportation services			
Operation of non-instructional services			
Capital outlay			
Total expenditures	<u>90,935</u>	<u>48,658</u>	<u>42,277</u>
Excess (deficiency) of revenues over expenditures	<u>(90,935)</u>	<u>7,870</u>	<u>98,805</u>
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses):			
Changes in fund balances	<u>(90,935)</u>	<u>7,870</u>	<u>98,805</u>
Fund balances (deficits), beginning of year		4,586	4,586
Increase (decrease) in reserve for inventory			
Fund balances (deficits), end of year	<u>\$ (90,935)</u>	<u>\$ 12,456</u>	<u>\$ 103,391</u>

Instructional Improvement			County, City, and Town Grants		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$ 111 5,286	\$ 111 5,286	\$	\$	\$
	5,397	5,397			
18,500		18,500	10,000		10,000
18,500		18,500	10,000		10,000
(18,500)	5,397	23,897	(10,000)		10,000
(18,500)	5,397	23,897	(10,000)		10,000
	17,667	17,667			
\$ (18,500)	\$ 23,064	\$ 41,564	\$ (10,000)	\$	\$ 10,000

(Continued)

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

	Title I Grants		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Other local	\$	\$	\$
State aid and grants			
Federal aid, grants and reimbursements		21,282	21,282
Total revenues		<u>21,282</u>	<u>21,282</u>
Expenditures:			
Current -			
Instruction	31,160	18,227	12,933
Support services - students and staff	10,000	2,530	7,470
Support services - administration			
Operation and maintenance of plant services			
Student transportation services			
Operation of non-instructional services			
Capital outlay			
Total expenditures	<u>41,160</u>	<u>20,757</u>	<u>20,403</u>
Excess (deficiency) of revenues over expenditures	<u>(41,160)</u>	<u>525</u>	<u>41,685</u>
Other financing sources (uses):			
Transfers in			
Transfers out		(525)	(525)
Total other financing sources (uses):		<u>(525)</u>	<u>(525)</u>
Changes in fund balances	<u>(41,160)</u>		<u>41,160</u>
Fund balances (deficits), beginning of year			
Increase (decrease) in reserve for inventory			
Fund balances (deficits), end of year	<u>\$ (41,160)</u>	<u>\$</u>	<u>\$ 41,160</u>

Professional Development and Technology Grants			Title IV Grants		
<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
\$	\$	\$	\$	\$	\$
	3,331	3,331		111,249	111,249
	3,331	3,331		111,249	111,249
5,094	3,287	1,807	100,000	95,059	4,941
			4,000	2,700	1,300
			15,000	12,022	2,978
			1,000	37	963
5,094	3,287	1,807	120,000	109,818	10,182
(5,094)	44	5,138	(120,000)	1,431	121,431
	(44)	(44)		(1,431)	(1,431)
	(44)	(44)		(1,431)	(1,431)
(5,094)		5,094	(120,000)		120,000
\$ (5,094)	\$	\$ 5,094	\$ (120,000)	\$	\$ 120,000

(Continued)

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

	Special Education Grants		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Other local	\$	\$	\$
State aid and grants			
Federal aid, grants and reimbursements		26,899	26,899
Total revenues		<u>26,899</u>	<u>26,899</u>
Expenditures:			
Current -			
Instruction	32,471	19,692	12,779
Support services - students and staff	10,000	6,528	3,472
Support services - administration			
Operation and maintenance of plant services			
Student transportation services			
Operation of non-instructional services			
Capital outlay			
Total expenditures	<u>42,471</u>	<u>26,220</u>	<u>16,251</u>
Excess (deficiency) of revenues over expenditures	<u>(42,471)</u>	<u>679</u>	<u>43,150</u>
Other financing sources (uses):			
Transfers in			
Transfers out		(679)	(679)
Total other financing sources (uses):		<u>(679)</u>	<u>(679)</u>
Changes in fund balances	<u>(42,471)</u>		<u>42,471</u>
Fund balances (deficits), beginning of year			
Increase (decrease) in reserve for inventory			
Fund balances (deficits), end of year	<u>\$ (42,471)</u>	<u>\$</u>	<u>\$ 42,471</u>

Medicaid Reimbursement			Taylor Grazing Fees		
Budget	Non-GAAP Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
	8,391	8,391			
	8,391	8,391			
7,500	64	7,436			
7,500	64	7,436			
(7,500)	8,327	15,827			
				(70)	(70)
				(70)	(70)
(7,500)	8,327	15,827		(70)	(70)
	3,983	3,983		70	70
\$ (7,500)	\$ 12,310	\$ 19,810	\$	\$	\$

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MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

	E-Rate		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Other local	\$	\$	\$
State aid and grants			
Federal aid, grants and reimbursements		34,773	34,773
Total revenues		<u>34,773</u>	<u>34,773</u>
Expenditures:			
Current -			
Instruction			
Support services - students and staff	21,000	22,701	(1,701)
Support services - administration	9,000	9,832	(832)
Operation and maintenance of plant services	10,000	11,542	(1,542)
Student transportation services			
Operation of non-instructional services			
Capital outlay			
Total expenditures	<u>40,000</u>	<u>44,075</u>	<u>(4,075)</u>
Excess (deficiency) of revenues over expenditures	<u>(40,000)</u>	<u>(9,302)</u>	<u>30,698</u>
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses):			
Changes in fund balances	<u>(40,000)</u>	<u>(9,302)</u>	<u>30,698</u>
Fund balances (deficits), beginning of year		9,510	9,510
Increase (decrease) in reserve for inventory			
Fund balances (deficits), end of year	<u>\$ (40,000)</u>	<u>\$ 208</u>	<u>\$ 40,208</u>

Other Federal Projects			School Plant		
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$ 16	\$ 16
	19,707	19,707			
	19,707	19,707		16	16
25,000	10,050	14,950			
6,000	2,314	3,686			
31,000	12,364	18,636			
(31,000)	7,343	38,343		16	16
(31,000)	7,343	38,343		16	16
	3,420	3,420		2,465	2,465
\$ (31,000)	\$ 10,763	\$ 41,763	\$	\$ 2,481	\$ 2,481

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MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

	Food Service		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Other local	\$	\$ 6,642	\$ 6,642
State aid and grants			
Federal aid, grants and reimbursements		79,552	79,552
Total revenues		<u>86,194</u>	<u>86,194</u>
Expenditures:			
Current -			
Instruction			
Support services - students and staff			
Support services - administration			
Operation and maintenance of plant services			
Student transportation services			
Operation of non-instructional services	87,000	74,901	12,099
Capital outlay			
Total expenditures	<u>87,000</u>	<u>74,901</u>	<u>12,099</u>
Excess (deficiency) of revenues over expenditures	<u>(87,000)</u>	<u>11,293</u>	<u>98,293</u>
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses):			
Changes in fund balances	<u>(87,000)</u>	<u>11,293</u>	<u>98,293</u>
Fund balances (deficits), beginning of year		(4,902)	(4,902)
Increase (decrease) in reserve for inventory		12,149	12,149
Fund balances (deficits), end of year	<u>\$ (87,000)</u>	<u>\$ 18,540</u>	<u>\$ 105,540</u>

Civic Center			Community School		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$ 4	\$ 4	\$	\$ 367	\$ 367
	4	4		367	367
	4	4		367	367
	4	4		367	367
	548	548		7,433	7,433
\$	\$ 552	\$ 552	\$	\$ 7,800	\$ 7,800

(Continued)

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

	Auxiliary Operations		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Other local	\$	\$	\$
State aid and grants			
Federal aid, grants and reimbursements			
Total revenues			
Expenditures:			
Current -			
Instruction			
Support services - students and staff			
Support services - administration			
Operation and maintenance of plant services			
Student transportation services			
Operation of non-instructional services			
Capital outlay			
Total expenditures			
Excess (deficiency) of revenues over expenditures			
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses):			
Changes in fund balances			
Fund balances (deficits), beginning of year		6	6
Increase (decrease) in reserve for inventory			
Fund balances (deficits), end of year	\$	\$ 6	\$ 6

Extracurricular Activities Fees Tax Credit			Gifts and Donations		
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$	\$ 28,010	\$ 28,010	\$	\$ 2,682	\$ 2,682
	28,010	28,010		2,682	2,682
9,000	60	8,940	30,000	1,237	28,763
20,000	832	19,168			
29,000	892	28,108	30,000	1,237	28,763
(29,000)	27,118	56,118	(30,000)	1,445	31,445
(29,000)	27,118	56,118	(30,000)	1,445	31,445
	55,723	55,723		32,515	32,515
\$ (29,000)	\$ 82,841	\$ 111,841	\$ (30,000)	\$ 33,960	\$ 63,960

(Continued)

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

	Fingerprint		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Other local	\$	\$ 1	\$ 1
State aid and grants			
Federal aid, grants and reimbursements			
Total revenues		<u>1</u>	<u>1</u>
Expenditures:			
Current -			
Instruction	300		300
Support services - students and staff			
Support services - administration			
Operation and maintenance of plant services			
Student transportation services			
Operation of non-instructional services			
Capital outlay			
Total expenditures	<u>300</u>		<u>300</u>
Excess (deficiency) of revenues over expenditures	<u>(300)</u>	<u>1</u>	<u>301</u>
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses):			
Changes in fund balances	<u>(300)</u>	<u>1</u>	<u>301</u>
Fund balances (deficits), beginning of year		224	224
Increase (decrease) in reserve for inventory			
Fund balances (deficits), end of year	<u>\$ (300)</u>	<u>\$ 225</u>	<u>\$ 525</u>

Textbooks			Indirect Costs		
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$	\$ 2	\$ 2	\$	\$ 44	\$ 44
	2	2		44	44
			22,050	2,507	19,543
			10,000	185	9,815
			32,050	2,692	29,358
	2	2	(32,050)	(2,648)	29,402
				2,679	2,679
				2,679	2,679
	2	2	(32,050)	31	32,081
	316	316		7,913	7,913
\$	\$ 318	\$ 318	\$ (32,050)	\$ 7,944	\$ 39,994

(Continued)

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

	Totals		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Other local	\$	\$ 37,931	\$ 37,931
State aid and grants		61,762	61,762
Federal aid, grants and reimbursements		305,184	305,184
Total revenues		<u>404,877</u>	<u>404,877</u>
Expenditures:			
Current -			
Instruction	352,460	191,382	161,078
Support services - students and staff	67,000	39,793	27,207
Support services - administration	42,550	15,103	27,447
Operation and maintenance of plant services	20,000	11,727	8,273
Student transportation services	15,000	12,022	2,978
Operation of non-instructional services	87,000	74,901	12,099
Capital outlay	1,000	37	963
Total expenditures	<u>585,010</u>	<u>344,965</u>	<u>240,045</u>
Excess (deficiency) of revenues over expenditures	<u>(585,010)</u>	<u>59,912</u>	<u>644,922</u>
Other financing sources (uses):			
Transfers in		2,679	2,679
Transfers out		(2,749)	(2,749)
Total other financing sources (uses):		<u>(70)</u>	<u>(70)</u>
Changes in fund balances	<u>(585,010)</u>	<u>59,842</u>	<u>644,852</u>
Fund balances (deficits), beginning of year		141,477	141,477
Increase (decrease) in reserve for inventory		12,149	12,149
Fund balances (deficits), end of year	<u>\$ (585,010)</u>	<u>\$ 213,468</u>	<u>\$ 798,478</u>

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MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2016

	Insurance Proceeds		
	<u>Budget</u>	<u>Non-GAAP Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues:			
Other local	\$	\$ 1,117	\$ 1,117
Property taxes			
State aid and grants			
Total revenues	<u></u>	<u>1,117</u>	<u>1,117</u>
Expenditures:			
Capital outlay	1,250		1,250
Total expenditures	<u>1,250</u>	<u></u>	<u>1,250</u>
Changes in fund balances	<u>(1,250)</u>	<u>1,117</u>	<u>2,367</u>
Fund balances, beginning of year		38	38
Fund balances (deficits), end of year	<u>\$ (1,250)</u>	<u>\$ 1,155</u>	<u>\$ 2,405</u>

Unrestricted Capital Outlay			Gifts and Donations - Capital		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$ 650	\$ 650	\$	\$ 54	\$ 54
	121,990	121,990			
	12,278	12,278			
	134,918	134,918		54	54
130,933	58,861	72,072	45,000		45,000
130,933	58,861	72,072	45,000		45,000
(130,933)	76,057	206,990	(45,000)	54	45,054
	76,719	76,719		8,519	8,519
\$ (130,933)	\$ 152,776	\$ 283,709	\$ (45,000)	\$ 8,573	\$ 53,573

(Continued)

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2016

	Building Renewal Grant		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Other local	\$	\$	\$
Property taxes			
State aid and grants			
Total revenues			
Expenditures:			
Capital outlay	10,000		10,000
Total expenditures	10,000		10,000
Changes in fund balances	(10,000)		10,000
Fund balances, beginning of year			
Fund balances (deficits), end of year	\$ (10,000)	\$	\$ 10,000

Totals		
<u>Budget</u>	<u>Non-GAAP Actual</u>	<u>Variance - Positive (Negative)</u>
\$	\$ 1,821	\$ 1,821
	121,990	121,990
	12,278	12,278
	<u>136,089</u>	<u>136,089</u>
187,183	58,861	128,322
<u>187,183</u>	<u>58,861</u>	<u>128,322</u>
(187,183)	77,228	264,411
	85,276	85,276
<u>\$ (187,183)</u>	<u>\$ 162,504</u>	<u>\$ 349,687</u>

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REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Governing Board
Morristown Elementary School District No. 75

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morristown Elementary School District No. 75, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Morristown Elementary School District No. 75's basic financial statements, and have issued our report thereon dated March 20, 2017. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 72.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morristown Elementary School District No. 75's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morristown Elementary School District No. 75's internal control. Accordingly, we do not express an opinion on the effectiveness of Morristown Elementary School District No. 75's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items FS-2016-001 and FS-2016-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morristown Elementary School District No. 75's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Morristown Elementary School District No. 75's Response to Findings

Morristown Elementary School District No. 75's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Morristown Elementary School District No. 75's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
March 20, 2017

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2016-001

Repeat Finding: Yes – FS-2015-001

Type of Finding: Material Weakness

Description: Internal Controls Over Payroll Records

CRITERIA

District management is responsible for establishing and maintaining internal controls over payroll that are adequate to ensure that all financial activities are properly processed and recorded. This includes establishing controls to ensure that employees are only being paid the amount specified in employee agreements. Further, according to Uniform System of Financial Records (USFR) guidelines, the District must have internal controls in place to ensure hourly employees are paid for actual hours worked. Additionally, in accordance with state and IRS guidelines, quarterly tax forms are required to be filed accurately and timely. Finally, in accordance with District policy, employees should be authorized to be employed and to work overtime prior to doing so.

CONDITION

The District lacked adequate internal controls over its accounting of payroll transactions to ensure that all financial activities were properly processed and recorded.

CAUSE

Management lacked adequate internal controls over various payroll transactions to ensure payroll records were properly reported and supported, and District policies were not always followed. Additionally, some of these errors occurred due to lack of experience in the business manager position.

EFFECT

The District's internal controls over payroll records were not adequate to ensure that all payroll activities were properly processed and recorded. Additionally, the District was not always in compliance with state and federal requirements. Lastly, the District did not follow its own policies.

CONTEXT

During our review of payroll processes and transaction testwork, as well as through inquiry of management, we noted the following:

1. The District underpaid one hourly employee by \$12 during one pay period.
2. The District overpaid one salaried employee by \$85 during the fiscal year.
3. The District paid overtime to multiple employees without prior approval, which was not in accordance with District policy.
4. Employees started work at the District prior to having a contract in place.
5. The District was unable to locate the employment contract for one employee.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2016-001

CONTEXT

6. The District did not properly file the quarterly federal and state tax returns and related forms during the current and prior fiscal years, resulting in penalties and a federal tax lien to be placed against the District for \$4,740.
7. The health and related insurance rates charged by the District for both the employee and employer portion of the cost were not correct for fiscal year 2015-16.
8. There were employees at the District who had payroll deductions taken for insurance, but were not added to the insurance plans. Additionally, the District insurance plan included terminated employees.

RECOMMENDATION

The District must design and implement stronger internal controls over its accounting of payroll to ensure that all financial activities are properly processed and recorded. Additionally, state and federal reporting requirements should be met by the specified deadlines. Lastly, while the District did not overexpend budget controlled funds, the District should strictly enforce its policies to ensure an over expenditure of the budget does not occur.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The District agrees with the findings and has taken action to correct the issues. The new business manager discovered the cited issues and has taken the following corrective actions:

- A payroll consultant was utilized to set up the payroll system for fiscal year 2016-17 to ensure payroll and benefits were set up properly and to ensure proper payroll procedures were implemented.
- The District established and follows payroll procedures that require employees to have a contract, work agreement, or personnel action form in place before an employee is added to the payroll system. Additionally, all personnel changes are approved by the Governing Board.
- The business manager reconciles the health and insurance vendor invoices, employee benefit election forms, and the benefits recorded in Visions to ensure they match.
- The District used manual timesheets during fiscal year 2015-16, and the hours worked were not calculated until the end of the pay period. Additionally, managers would approve timesheets prior to the total hours worked being calculated, which resulted in an abuse of overtime. The District, with the support of MCESA, implemented a time clock system in November 2016. The time clock system enables employees and managers to see the hours being worked which provides managers the ability to monitor overtime.
- The District has new staff and the quarterly federal and state tax returns are filed timely and accurately.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2016-002

Repeat Finding: Yes – FS-2015-001

Type of Finding: Material Weakness

Description: Internal Controls Over Accounting Records and Financial Reporting

CRITERIA

District management is responsible for establishing and maintaining internal controls for the cash basis general ledger and the generally accepted accounting principles (GAAP) basis financial statements issued by the District. The District's system of internal controls must include sufficient controls relating to the cash basis general ledger and should also extend beyond the general ledger and include controls over the GAAP basis financial statements. An appropriate internal control system requires the preparation of complete and accurate financial statements in order to meet financial reporting objectives of the District.

The Uniform System of Financial Records (USFR) contains guidelines to be followed in the area of Accounting Records and Cash and contains a Chart of Accounts that contains requirements for how transactions are to be recorded within the accounting records that the District must adhere to.

CONDITION

The District's management did not have adequate internal control procedures in place over the cash basis general ledger as well as the financial statements issued by the District using the basis of accounting required by GAAP.

CAUSE

Management lacked adequate internal controls over various transactions to ensure accounting records were properly reported and supported. Additionally, some of these errors occurred due to lack of experience in the business manager position and limited staff size.

EFFECT

The District's internal controls over accounting records and financial reporting at the general ledger and financial statement level were not adequate to ensure that a misstatement would be prevented and/or detected. Errors in the general ledger were not detected by the District and corrected in a timely manner. Audit adjustments were necessary to properly report the balances and activity of the District's financial statements. Lastly, instances of noncompliance with the USFR resulted.

MORRISTOWN ELEMENTARY SCHOOL DISTRICT NO. 75
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2016-002

CONTEXT

During our review of the District's accounting records, as well as through inquiry of management, we noted the following:

1. The District made an improper journal entry to record indirect costs. The District decreased beginning fund balance in the Special Education Fund and increased beginning fund balance in the Indirect Costs Fund, rather than use the indirect cost transfer out code, object code 6910, and the transfer in code, object code 5200, respectively.
2. The District made an improper journal entry intended to close out the Taylor Grazing Fund to the General Fund. The District adjusted beginning fund balance in each fund rather than record a transfer between the funds.
3. Not all journal entries included supporting documentation.
4. The federal withholding, state retirement, Maintenance and Operations revolving, and Food Service clearing bank accounts were not reconciled at the end of each month.
5. Federal revenue was coded to local revenue in the E-Rate and Medicaid Funds. Additionally, Medicaid revenue was recorded as local revenue in the Extracurricular Activities Fees Tax Credit Fund, and Taylor Grazing revenue was recorded in the General Fund. Lastly donations and other miscellaneous revenues were coded to extracurricular activity fees tax credit revenue rather than other local revenue in the Community School, Gifts and Donations, and Insurance Proceeds Funds.
6. The District used the USFR fund established for student activities for employee insurance for some transactions even though the proper fund was in existence.
7. Expenditures for laptops in the amount of \$9,368 were coded to supplies-technology related, rather than technology-related hardware and software.

RECOMMENDATION

The District must design and implement effective internal control procedures to ensure the general ledger, financial statements, and related notes are free from material misstatements. Specifically, the District should use checklists to aid in the review of the financial statements and related notes to the financial statements. The District's personnel should obtain additional training to increase their understanding of the GAAP basis financial statements drafted by the audit firm as well as the related adjusting entries posted during the conversion of the cash basis general ledger to the accrual basis financial statements. Additionally, review processes should be implemented to ensure accuracy of the general ledger. Lastly, the procedures outlined in the USFR and USFR Chart of Accounts should be followed.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The District agrees with the findings and has taken action to correct the issues. The new business manager has knowledge of account codes. MCESA is assisting the District and is providing a Certified Public Accountant to train the new business manager in more complex journal entries and coding. Supporting documentation is now attached to journal entries. Journal entries are reviewed and signed by a second person. Additionally, bank accounts are reconciled monthly, and the Food Service account was closed in January 2017.