

**AVONDALE EDUCATION ASSOCIATION, INC.  
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
FINANCIAL STATEMENTS  
JUNE 30, 2017**

AVONDALE EDUCATION ASSOCIATION, INC.  
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Avondale Education Association, Inc.

We have audited the accompanying financial statements of the governmental activities and the major funds of the Avondale Education Association, Inc. dba The Museum School of Avondale Estates (the Organization), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major funds of the Organization, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages 4-7 and schedule of contributions - Teachers' Retirement System of Georgia, schedule of proportionate share of the net pension liability- Teachers' Retirement System of Georgia, and budgetary comparison information on pages 31-35 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.

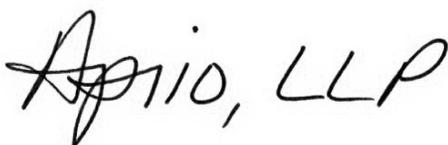
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2017 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Atlanta, Georgia  
October 24, 2017

AVONDALE EDUCATION ASSOCIATION, INC  
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017

Our discussion and analysis of The Museum School of Avondale Estates ("the School") financial program provides an overview of the School's financial activities for the year ended June 30, 2017.

Because the information contained in this discussion is intended to highlight significant transactions, it should be read in conjunction with the School's financial statements, which begin on page 8.

For financial statement purposes the School is considered a component unit of the School District of DeKalb County, which is a primary government entity for financial reporting. The School included separate statements for the Governmental Fund (General Fund) Balance Sheet and the Statement of Revenue, Expenditures and Changes in Fund Balance. The Statement of Net Position and the Statement of Activities report provides information on the activities of the School. The Fund Financial Statements reflect financing activities of the School by providing information on inflows and outflows of spendable resources.

#### **NON-FINANCIAL HIGHLIGHTS**

During this school year, the School received the Governor's Award for Arts & Humanities, the Distinguished Breakout Middle School Award from the Georgia Association of Secondary School Principals and completed the first 5-year charter renewal through DeKalb County. This year the School was the 3<sup>rd</sup> ranked Start-up charter in Georgia and in the top 8% of all schools statewide. The School ended the 2016-17 school year with 540 students in the 7<sup>th</sup> year of operation, an increase of 26 students for an increase of 5% compared to the prior year.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

##### ***Government-Wide Financial Statements***

The government-wide financial statements are designed to provide readers with a broad overview of the School's financial position. Included in these statements are all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are recorded when earned or incurred.

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

*The Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

AVONDALE EDUCATION ASSOCIATION, INC  
 DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 JUNE 30, 2017

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

*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.

*Governmental Funds* – All of the School's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's governmental activities and the basic services it provides.

*Notes to the Financial Statements*

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 14-29 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the School's financial position.

Deferred outflow of resources is a consumption of net assets by the School that is applicable to a future reporting period. This amount was \$2,610,387 and \$975,195 as of June 30, 2017 and 2016, respectively. Deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. This amount was \$25,915 and \$300,105 as of June 30, 2017 and 2016, respectively. The School's net position was \$1,349,153 at June 30, 2017.

<u>NET POSITION</u>	<u>June 30, 2017</u>
Current and other assets	\$ 508,562
Capital assets	<u>4,207,352</u>
Total assets	<u>4,715,914</u>
Deferred outflows - related to pension	<u>2,610,387</u>
Other liabilities	<u>5,951,233</u>
Deferred inflows – related to pension	<u>25,915</u>
Investment in capital assets (less related debt)	4,010,647
Unrestricted assets	(2,667,542)
Restricted assets	<u>6,048</u>
<b>Total Net Position</b>	<b><u>\$ 1,349,153</u></b>

AVONDALE EDUCATION ASSOCIATION, INC  
 DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 JUNE 30, 2017

Revenues from governmental activities totaled \$5,882,360 for the year ended June 30, 2017 compared to \$4,852,224 for the year ended June 30, 2016, an increase of 21.2%. The primary source of revenue is from Dekalb County Board of Education, QBE Funding. This revenue amounted to \$4,874,931 compared to \$4,350,622 for the year ended June 30, 2016, an increase of approximately 12%.

<u>Revenue Source</u>	<u>June 30, 2017</u>	<u>% of Total June 30, 2017</u>
Dekalb County Board of Education (QBE)	\$ 4,874,931	82.87 %
Federal Funds	156,007	2.65 %
Local Grants	100,266	1.70 %
Charges for Services	64,756	1.10 %
Fundraising and Donations	<u>686,400</u>	<u>11.68 %</u>
Total	<u>\$ 5,882,360</u>	<u>100.00 %</u>

Other revenue sources are primarily food sales, local grants, bequests and donations.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

Expenses for major functions of the School are shown in the following table:

<u>Expense</u>	<u>June 30, 2017</u>	<u>% of Total June 30, 2017</u>
Instruction	\$ 3,526,682	65.09 %
Pupil Services	67,124	1.26 %
School Administration	349,595	6.54 %
Improvement of Instructional Services	210,380	3.94 %
Education Media Services	70,110	1.31 %
Staff Development	66,143	1.24 %
Business Administration	95,373	1.78 %
Maintenance and Operation of Plant	747,984	13.99 %
Pupil Transportation	104,285	1.95 %
Food Services Operation	101,481	1.90 %
Interest	<u>6,643</u>	<u>1.00 %</u>
Total	<u>\$ 5,345,800</u>	<u>100.00 %</u>

AVONDALE EDUCATION ASSOCIATION, INC  
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017

**BUDGETARY HIGHLIGHTS**

QBE funding for the year ended June 30, 2017 and 2016 was \$4,874,931 and \$4,350,622, respectively. This represented approximately a 12% increase over the prior year. QBE revenues were \$272,379 more than budgeted due to greater per pupil funding rates. Fund raising and donation revenue was not budgeted, since these are funds from The Museum School Foundation and other sources specifically for capital outlay, which were also not budgeted. School operating expenditures were in line with budgeted amounts with the exception of capital outlay of \$1,121,592.

**CAPITAL ASSETS**

The School's investment in capital assets at June 30, 2017 was \$4,207,352 (net of depreciation). The investment includes furniture and fixtures, equipment, leasehold improvements and signage. The following is a summary of capital assets balances at June 30, 2017:

Leasehold Improvements	\$ 5,322,534
Furniture and fixtures	232,025
Equipment	215,484
Signage	18,481
Less: Accumulated Depreciation	<u>(1,581,172)</u>
Total Capital Assets	<u>\$ 4,207,352</u>

**PROSPECTS FOR THE FUTURE**

The School continues to receive funds from the state of Georgia and DeKalb County in the form of QBE Funding. The funds are based on student enrollment. The School is projecting 565 students for the 2017-2018 School Year.

The School is currently undergoing a capital campaign to meet the final expansion of students and classrooms as well as a new media center.

**REQUESTS FOR INFORMATION**

The Management Discussion and Analysis provides a general overview of the finances of the School. Requests for additional information should be addressed to The Museum School of Avondale Estates' Administrative offices, at 923 Forest Blvd., Decatur, GA 30030.

AVONDALE EDUCATION ASSOCIATION, INC.  
 DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
 STATEMENT OF NET POSITION  
 JUNE 30, 2017

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash	\$ 402,594
Accounts receivable:	
Federal government	70,640
Other	3,480
Prepaid items	31,848
Capital assets, net	<u>4,207,352</u>
Total Assets	<u>4,715,914</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Related to defined benefit pension plans	<u>2,610,387</u>
<u>LIABILITIES</u>	
Accounts payable	131,488
Salaries and benefits payable	376,286
Unavailable revenue	6,048
Net pension liability	5,240,716
Line of credit	<u>196,700</u>
Total Liabilities	<u>5,951,238</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Related to defined benefit pension plans	<u>25,915</u>
<u>NET POSITION</u>	
Investment in capital assets, less related debt	4,010,647
Unrestricted	(2,667,542)
Restricted for:	
Student activities	<u>6,048</u>
Total net position	<u>\$ 1,349,153</u>

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

AVONDALE EDUCATION ASSOCIATION, INC.  
 DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2017

<u>GOVERNMENTAL ACTIVITIES</u>	<u>PROGRAM REVENUES</u>				Net revenues (expenses) and changes in net position
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>position</u>
Instruction	\$ 3,526,682	\$ -	\$ -	\$ -	\$ (3,526,682)
Support service					
Pupil services	67,124				(67,124)
Improvement of instructional services	210,380	-	-	-	(210,380)
Education media services	70,110	-	-	-	(70,110)
Staff development	66,143	-	-	-	(66,143)
School administration	349,595	-	-	-	(349,595)
Business administration	95,373	-	-	-	(95,373)
Maintenance and operation of plant	747,984	-	-	-	(747,984)
Student transportation	104,285	-	-	-	(104,285)
Food services operation	101,481	44,645	28,897	-	(27,939)
Capital outlay	-	-	-	893,335	893,335
Interest on line of credit	6,643	-	-	-	(6,643)
Total Governmental Activities	\$ 5,345,800	\$ 44,645	\$ 28,897	\$ 893,335	(4,378,923)
 <u>General Revenues</u>					
DeKalb County Board of Education					4,874,931
Miscellaneous					40,552
Total General Revenue					4,915,483
Change in net position					536,560
Net position, beginning of year					812,593
Net position, end of year					\$ 1,349,153

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

AVONDALE EDUCATION ASSOCIATION, INC.  
 DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2017

ASSETS

	<u>General</u>	School Food <u>Services</u>	<u>Facility Grant</u>	<u>Total Funds</u>
Cash	\$ 390,151	\$ 12,443	\$ -	\$ 402,594
Accounts receivable				
Federal government	70,640	-	-	70,640
Other	3,480	-	-	3,480
Prepaid items	<u>31,848</u>	<u>-</u>	<u>-</u>	<u>31,848</u>
 Total assets	 <u>\$ 496,119</u>	 <u>\$ 12,443</u>	 <u>\$ -</u>	 <u>\$ 508,562</u>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 131,483	\$ -	\$ -	\$ 131,483
Salaries and benefit payable	376,286	-	-	376,286
Unavailable revenue	6,048	-	-	6,048
Line of credit	<u>196,700</u>	<u>-</u>	<u>-</u>	<u>196,700</u>
Total current liabilities	<u>710,517</u>	<u>-</u>	<u>-</u>	<u>710,517</u>

Fund Balances

Nonspendable	31,848	-	-	31,848
Restricted	70,640	-	-	70,640
Unassigned	<u>(316,886)</u>	<u>12,443</u>	<u>-</u>	<u>(304,443)</u>
Total fund balances (deficits)	<u>(214,398)</u>	<u>12,443</u>	<u>-</u>	<u>(201,955)</u>

Total liabilities and fund balances	<u>\$ 496,119</u>	<u>\$ 12,443</u>	<u>\$ -</u>	<u>\$ 508,562</u>
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The notes to the basic financial statements are an integral part of this statement.

AVONDALE EDUCATION ASSOCIATION, INC.  
 DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2017

Total Fund Balances - Governmental Funds (deficit) \$ (201,955)

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 as assets in governmental funds. These assets consist of:

Leasehold improvements	5,322,535
Furniture and fixtures	232,024
Machinery and equipment	215,484
Signage	18,481
Accumulated depreciation	<u>(1,581,172)</u>

Total capital assets 4,207,352

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds.

Net pension liability (5,240,716)

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

2,584,472

Net Position of Governmental Activities \$ 1,349,153

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

AVONDALE EDUCATION ASSOCIATION, INC.  
 DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>General</u>	School Food <u>Services</u>	<u>Facility Grant</u>	<u>Total Funds</u>
<u>Revenues</u>				
DeKalb County Board of Education	\$ 4,874,931	\$ -	\$ -	\$ 4,874,931
Federal funds	-	28,897	127,110	156,007
Local grants	100,266	-	-	100,266
Charges for service	20,111	44,645	-	64,756
Fund raising and donations	<u>686,400</u>	<u>-</u>	<u>-</u>	<u>686,400</u>
Total Revenue	<u>5,681,708</u>	<u>73,542</u>	<u>127,110</u>	<u>5,882,360</u>
<u>Expenditures</u>				
Instruction	3,451,346	-	-	3,451,346
Support service				
Pupil services	65,081	-	-	65,081
Improvement of instructional services	210,380	-	-	210,380
Education media services	70,110	-	-	70,110
Staff development	66,143	-	-	66,143
School administration	335,615	-	-	335,615
Business administration	95,228	-	-	95,228
Maintenance and operation of plant	311,575	-	-	311,575
Student transportation	104,285	-	-	104,285
Food services operation	-	88,941	-	88,941
Capital outlay	1,121,592	-	127,110	1,248,702
Interest	<u>6,643</u>	<u>-</u>	<u>-</u>	<u>6,643</u>
Total Expenditures	<u>\$ 5,837,998</u>	<u>\$ 88,941</u>	<u>\$ 127,110</u>	<u>\$ 6,054,049</u>
Deficiency of revenues under expenditures	(156,290)	(15,399)	-	(171,689)
Fund Balances (deficit) - Beginning	<u>(58,108)</u>	<u>27,842</u>	<u>-</u>	<u>(30,266)</u>
Fund Balances (deficit) - Ending	<u>\$ (214,398)</u>	<u>\$ 12,443</u>	<u>\$ -</u>	<u>\$ (201,955)</u>

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

AVONDALE EDUCATION ASSOCIATION, INC.  
 DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
 RECONCILIATION OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

Total change in fund balances - Governmental Funds (Deficit) \$ (171,689)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current periods, these amounts are:

Capital outlay	1,248,702	
Depreciation expense	<u>(540,453)</u>	
Excess of capital outlay over depreciation expense		<u>708,249</u>

Change in Net Position of Governmental Activities \$ 536,560

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

AVONDALE EDUCATION ASSOCIATION, INC.  
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note A**

**Description of Organization and Reporting Entity**

Avondale Education Association, Inc. (the Organization) is a non-profit corporation formed pursuant to Georgia law and operates a charter school in Decatur, Georgia by virtue of an agreement with the Dekalb County Board of Education (the Dekalb Board) and the Georgia State Board of Education. The initial agreement expired June 30, 2017 and was renewed for a term of 5 years beginning July 1, 2017, and authorizes the Organization to provide public education to students in grades K-8 in the Dekalb County school district.

**Note B**

**Summary of Significant Accounting Policies**

The accompanying financial statements of the Organization have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the Organization's accounting policies are described below.

**Basis of Presentation:**

The Organization is reported as a government entity and operates as a component unit of the Dekalb County Board of Education. Its basic financial statements are collectively comprised of the government-wide financial statements, fund financial statements, and notes to the basic financial statements. The government-wide statements focus on the Organization as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the information's usefulness.

For years prior to June 30, 2017, the Organization's financial statements were prepared on an accrual basis in conformity with GAAP. Effective with the June 30, 2017 financial statements, the Organization is reported as a component unit of Dekalb County Board of Education as prescribed by the GASB. The effect of this change in basis of accounting had the effect of reducing the net assets as of June 30, 2016 from the previously reported amount of \$5,297,381 to the adjusted amount of \$1,349,153 for a difference of (\$3,948,228). The adjustments recorded related to the recognition of the Teachers Retirement System obligation, the removal of the Organization's related Foundation and removal of the donated rent revenue which is not allowed under GASB.

AVONDALE EDUCATION ASSOCIATION, INC.  
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note B**

**Summary of Significant Accounting Policies (Continued)**

Government-Wide Statements:

The Statement of Net Position and the Statement of Activities display information about the financial activities of the overall Organization, except fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions.

The Statement of Net Position presents the Organization's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in 3 categories as follows:

- a. Net investment in capital assets consists of the Organization's total investment in capital assets, net of accumulated depreciation, and reduced by outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- b. Restricted net position consists of resources for which the Organization is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties or imposed by law through constitutional provisions or enabling legislation.
- c. Unrestricted net position consists of resources not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Organization's governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the Organization related to the administration and support of Organization programs, such as office and maintenance personnel and accounting) are not allocated to programs.

Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

AVONDALE EDUCATION ASSOCIATION, INC.  
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note B**

**Summary of Significant Accounting Policies (Continued)**

Fund Financial Statements:

The fund financial statements provide information about the Organization's funds including fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The emphasis of fund financial statements is on major governmental funds.

The organization reports the following major funds:

- General Fund is the Organization's primary operating fund. It accounts for all financial resources of the Organization, except for those resources required to be accounted for in another fund.
- School Food Service Fund accounts for the operation of the Organization's Food Service.
- Facility Fund is a special revenue fund that is used to account for a federal grant which flows through the Georgia State Board of Education designated for capital projects of the Organization.

Basis of Accounting:

The basis of accounting determines when transactions are reported on the financial statements. The Government-wide governmental 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 at the time liabilities are incurred regardless of when the related cash flows take place. Non-exchange transactions, in which the Organization gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Organization uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

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**Note B**

**Summary of Significant Accounting Policies (Continued)**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Organization considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year end. The Organization considers all intergovernmental revenues to be available if they are collected within 120 days after year end. Interest is considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. Capital asset acquisitions are reported as expenditures in governmental funds.

The Organization funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program costs are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Organization's policy to first apply grant resources to such programs, followed by cost-reimbursement grants, then general revenues.

New Accounting Pronouncements:

In fiscal year 2017, the School adopted Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68*, and *Amendments to Certain Provisions of GASB Statements No. 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The adoption of this statement does not have a significant impact on the Organization's financial statements.

Income Taxes:

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended, and accordingly pays no income taxes. In accordance with FASB ASC 740, the Organization believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements. The Organization is no longer subject to income tax examinations for fiscal years up to and including 2013.

Cash:

Cash consists of cash on hand and demand deposits in authorized financial institutions.

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**Note B**

**Summary of Significant Accounting Policies (Continued)**

Composition of Deposits:

Official Code of Georgia Annotated Section 45-8-14 authorizes the Organization to deposit its funds in one or more solvent banks, insured Federal savings and loan associations or insured chartered building and loan associations.

Receivables

Receivables consist of amounts due from grant reimbursements due on Federal, State or other grants for expenditures made but not reimbursed and other receivables disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded on the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

Prepays

Payments made to vendors for services that will benefit periods subsequent to June 30, 2017, are recorded as prepaid items.

Capital assets

On the government-wide financial statements, capital assets are recorded at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Donated capital assets are recorded at estimated fair value on the date donated. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. The Organization does not capitalize book collections.

Capital acquisition and construction are recorded as expenditures in the governmental fund financial statements at the time of purchase (including ancillary charges) and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is computed using the straight-line method for all assets, except land, and is used to allocate the actual or estimated historical cost of capital assets over useful lives.

Capitalization thresholds and estimated useful lives of capital assets reported in the Government-wide statements are as follows:

Leasehold Improvements	\$1,000	15 years or lessor of estimated life of the lease
Furniture and fixtures	\$1,000	3 - 7 years
Machinery and equipment	\$1,000	3 - 7 years
Signage	\$1,000	5 years

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**Note B**

**Summary of Significant Accounting Policies (Continued)**

Deferred Outflows/Inflows of Resources:

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

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

Compensated Absences:

Compensated absences payable consists of vacation leave employees earned based on services already rendered. Members of the Teacher Retirement System of Georgia (TRS) may apply unused sick leave toward early retirement. The liability for early retirement will be borne by TRS rather than by the individual schools. Otherwise, sick leave does not vest with the employee, and no liability is reported in the Organization's financial statements.

Pensions:

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

Fund Balances:

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The Organization's fund balances are classified as follows:

- a. Non-spendable consists of resources that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.

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**Note B**

**Summary of Significant Accounting Policies (Continued)**

- b. Restricted consists of resources that can be used only for specific purposes pursuant to constraints either (1) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
  
- c. Committed consists of resources that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees (the Board). The Board is the Organization's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
  
- d. Assigned consists of resources constrained by the Organization's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (1) the Board or (2) the budget or finance committee, or the Superintendent, or designee, to assign amounts to be used for specific purposes.
  
- e. Unassigned consists of resources within the general fund not meeting the definition of any aforementioned category. The general fund can have either a positive or negative fund balance. Other funds can only have a negative unassigned fund balance if expenditures exceed the amounts available in the nonspendable, restricted, and committed classifications. These other funds should only report a negative unassigned fund balance only after all assigned amounts have been eliminated.

**Use of 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 C**

**Subsequent Events**

The Organization has evaluated subsequent events for potential recognition and disclosure through October 24, 2017, the date the financial statements were available to be issued.

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**Note D**

**Budgetary Data**

The budget is a complete financial plan for the Organization's fiscal year, and is based upon careful estimates of expenditures together with probable funding sources. The budget is legally adopted each year for the general fund and school food service fund.

There is no statutory prohibition regarding over expenditure of the budget at any level. The budget for all governmental funds, except the various school activity (principal) accounts, is prepared and adopted by fund, function and object. The legal level of budgetary control was established by the Board at the aggregate function level. The budget for the general fund and the school food service fund was prepared in accordance with accounting principles generally accepted in the United States of America.

The budgetary process begins with the Organization's administration presenting an initial budget to the finance committee for review and approval which is then presented to the Board for review and approval. The administration makes revisions as necessary based on the Board's guidelines and the budget is approved. After approval of the budget by the Board, the budget is advertised by publication to the Organization's website. All unexpended budget authority lapses at fiscal year end.

See the General and School Food Service Funds Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual in the Supplementary Information Section for a detail of any over/under expenditures during the fiscal year under review.

**Note E**

**Deposits**

Collateralization of Deposits:

Official Code of Georgia Annotated (O.C.G.A.) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than 10 days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral.

The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110% of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (O.C.G.A. Section 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110% of the daily pool balance.

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**Note E**

**Deposits (Continued)**

Acceptable security for deposits consists of any one or any combination of the following:

1. Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia.
2. Insurance on accounts provided by the Federal Deposit Insurance Corporation.
3. Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia.
4. Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia, and
5. Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for that purpose,
6. Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
7. Bonds, bills, notes, certificates of indebtedness, or other obligations of subsidiary corporations of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. At June 30, 2017, the Organization had deposits in one financial institution with a book balance of \$402,288 and a bank balance of \$444,451. Bank balances are insured by Federal depository insurance up to \$250,000 at each bank. At June 30, 2017, \$194,451 was not collateralized or insured. However, subsequently in September 2017, the Organization corrected this matter by having the bank collateralize the deposits in excess of \$250,000.

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**Note F**

**Capital Assets**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Construction in process	\$ <u>579,665</u>	\$ <u>-</u>	\$ <u>(579,665)</u>	\$ <u>-</u>
Capital assets being depreciated				
Leasehold improvements	3,647,915	1,674,619	-	5,322,534
Furniture and fixtures	164,461	67,564	-	232,025
Machinery and equipment	131,337	84,147	-	215,484
Signage	16,444	2,037	-	18,481
Total accumulated depreciation	<u>(1,040,719)</u>	<u>(540,453)</u>	<u>-</u>	<u>(1,581,172)</u>
Total capital assets being depreciated, net	<u>2,919,438</u>	<u>1,287,914</u>	<u>-</u>	<u>4,207,352</u>
Governmental activity capital assets, net	<u>\$ 3,499,103</u>	<u>\$ 1,287,914</u>	<u>\$ (579,665)</u>	<u>\$ 4,207,352</u>

Depreciation expense was charged to functions as follow:

Instruction	\$ 75,336
Support services:	
Maintenance and operation of plant	436,409
Pupil services	2,043
Business administration	145
School administration	13,980
Operation of non-instructional services:	
School nutrition	<u>12,540</u>
	<u>\$ 540,453</u>

**Note G**

**Risk Management**

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees; and acts of God.

The Organization has obtained commercial insurance for risk of loss associated with torts, assets and errors or omissions, job related illness or injuries to employees and acts of God.

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**Note H**

**Significant Contingent Liabilities**

Amounts received or receivable principally for expenditure of Federal funds are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. The Organization believes that such disallowances, if any, will be immaterial.

**Note I**

**Operating Leases**

The Organization has entered into various leases as lessee which are considered for accounting purposes to be operating leases. Lease expenditures for governmental funds amounted to \$11,829 for equipment. The lease agreements are summarized below.

The Organization leases copier equipment under the terms of an agreement dated January 31, 2013, for a term of 63 months with monthly minimum payments due in the amount of \$449.

The Organization leases printers under the terms of an agreement dated July 27, 2015, for a term of 60 months with monthly minimum payments of \$649.

Future minimum lease payments for these leases are as follows:

<u>Year Ending</u>	<u>Governmental Funds</u>
2018	\$ 7,788
2019	7,788
2020	<u>649</u>
Total	<u>\$ 16,225</u>

**Note J**

**Line of Credit:**

The Organization executed a promissory note of up to \$425,000 on July 15, 2016 to fund Phase 5 of the school's construction project which was personally guaranteed by individual Board members. The loan is due in full on December 31, 2017. At June 30, 2017, \$196,700 was outstanding with a variable interest rate currently at 5.25%.

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**Note K**

**Fund Balance Classification Details:**

When multiple categories of fund balance are available for expenditure, the Organization will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

**Note L**

**Retirement Plans:**

The Organization participates in various retirement plans administered by the State of Georgia, as further explained below.

**TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)**

1. **Plan Description:** All teachers of the Organization as defined in O.C.G.A. §47-3-60 and certain other support personnel as defined by §47-3-63 are provided a pension through the Teachers Retirement System of Georgia (TRS). TRS, a cost-sharing multiple-employer defined benefit pension plan, is administered by the TRS Board of Trustees (TRS Board). Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. The Teachers' Retirement System of Georgia issues a publicly available separate financial audit report that can be obtained at [www.trsga.com/publications](http://www.trsga.com/publications).
  
2. **Benefits Provided:** TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as 2% of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. Ten years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.

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**Note L**

**Retirement Plans (Continued)**

3. Contributions: Per Title 47 of the O.C.G.A., contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Pursuant to O.C.G.A. §47-3-63, the employer contributions for certain full-time public school support personnel are funded on behalf of the employer by the State of Georgia. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute 6% of their annual pay during fiscal year 2017. The Organization's contractually required contribution rate for the year ended June 30, 2017, was 14.27%. For the current fiscal year, employer contributions to the pension plan were \$441,647.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Organization reported a liability of \$5,240,716 for its proportionate share of the net pension liability for TRS. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2017, was determined using standard roll-forward techniques. The Organization's proportion of the net pension liability was based on contributions to TRS during the fiscal year ended June 30, 2016.

At June 30, 2017, the Organization's TRS proportion was 0.025402%, which was an increase of 0.004239% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Organization recognized pension expense of \$948,743 for TRS.

At June 30, 2017, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of <u>Resources</u>	Deferred Inflow of <u>Resources</u>
Differences between expected and actual experience	\$ 78,073	\$ 25,915
Changes of assumptions	135,832	-
Net difference between projected and actual earnings on pension plan investments	662,972	-
Changes in proportion and differences between Organization contributions and proportionate share of contributions	1,291,863	-
Organization contribution subsequent to the measurement date	<u>441,647</u>	<u>-</u>
Total	<u>\$ 2,610,387</u>	<u>\$ 25,915</u>

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**Note L**

**Retirement Plans (Continued)**

Organization contributions subsequent to the measurement date of June 30, 2016, for TRS are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u>	<u>TRS</u>
2018	\$ 489,569
2019	489,569
2020	703,325
2021	423,043
2022	<u>37,319</u>
Total	<u>\$ 2,142,825</u>

Actuarial Assumptions: The total pension liability as of June 30, 2016, was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

**Teachers Retirement System:**

Inflation	2.75%
Salary increase	3.75 - 9.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females set back 2 years for males and set back 3 years for females. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2009 - June 30, 2014. The long-term expected rate of return on TRS pension plan investments was determined using a log-normal distribution analysis 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.

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**Note L**

**Retirement Plans (Continued)**

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

	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Fixed income	30.00 %	(0.50)%
Domestic large stocks	39.80	9.00
Domestic mid stocks	3.70	12.00
Domestic small stocks	1.50	13.50
International developed market stocks	19.40	8.00
International emerging market stocks	<u>5.60</u>	12.00
Total	<u>100.00 %</u>	

\* Rates shown are net of the 2.75% assumed rate of inflation

Discount Rate: The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the TRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Organization's proportionate share of the net pension liability to changes in the discount rate: The following presents the Organization's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Organization's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

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**Note L**

**Retirement Plans (Continued)**

**Teachers Retirement System:**

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Organization's proportionate share of the net pension liability	<u>\$ 8,157,239</u>	<u>\$ 5,240,716</u>	<u>\$ 2,839,440</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS financial report which is publicly available at [www.trsga.com/publications](http://www.trsga.com/publications).

REQUIRED SUPPLEMENTARY INFORMATION

AVONDALE EDUCATION ASSOCIATION, INC.  
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 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 TEACHERS' RETIREMENT SYSTEM OF GEORGIA  
 FOR THE YEAR ENDED JUNE 30, 2017

<u>Year Ended</u>	<u>School's proportion of the net pension liability</u>	<u>School's proportionate share of the net pension liability</u>	<u>School's covered employee payroll</u>	<u>School's proportionate share of the net pension liability as a percentage of the covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2017	0.025402 %	\$ 5,240,716	\$ 3,094,931	59.06 %	76.06 %
2016	0.021163	3,221,857	2,786,045	86.47	81.44
2015	0.016792	2,121,488	2,255,615	106.32	84.03

The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

AVONDALE EDUCATION ASSOCIATION, INC.  
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 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS  
 TEACHERS' RETIREMENT SYSTEM OF GEORGIA  
 FOR THE YEAR ENDED JUNE 30, 2017

<u>Year Ended</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>School's covered- employee payroll</u>	<u>Contribution as a percentage of covered-employee payroll</u>
2017	\$ 441,647	\$ 441,647	\$ -	\$ 3,094,931	14.27 %
2016	397,569	397,569	-	2,786,045	14.27
2015	296,613	296,613	-	2,255,615	13.15
2014	184,918	184,918	-	1,505,844	12.28
2013	165,597	165,597	-	1,451,332	11.41
2012	98,291	98,291	-	956,138	10.28
2011	49,953	49,953	-	485,927	10.28
2010	-	-	-	-	-
2009	-	-	-	-	-
2008	-	-	-	-	-
2007	-	-	-	-	-

The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR END JUNE 30, 2017

**Teachers Retirement System**

Changes of assumptions: In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended June 30, 2016, reported in that schedule:

Valuation date	June 30, 2013
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5 years smoothed market
Inflation rate	3.00%
Salary increases	3.75 - 7.00%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

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 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMANTION  
 FOR THE YEAR END JUNE 30, 2017

	<u>Nonappropriated Budgets</u>			Variance (Over)/Under
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
<u>Revenues</u>				
Dekalb County Board of Education	\$ 4,602,552	\$ 4,602,552	\$ 4,874,931	\$ (272,379)
Charges for service	14,500	14,500	20,111	(5,611)
School lunch	59,850	59,850	73,542	(13,692)
Fund raising and donations	-	-	686,400	(686,400)
Miscellaneous	<u>105,000</u>	<u>105,000</u>	<u>100,266</u>	<u>4,734</u>
Total revenue	<u>4,781,902</u>	<u>4,781,902</u>	<u>5,755,250</u>	<u>(973,348)</u>
<u>Expenditures</u>				
Instruction	3,414,021	3,414,021	3,451,346	(37,325)
Support services	-	-	-	-
Pupil services	66,649	66,649	65,081	1,568
Improvement of instructional services	265,720	265,720	210,380	55,340
Education media services	71,202	71,202	70,110	1,092
School administration	334,967	334,967	335,615	(648)
Business administration	96,535	96,535	95,228	1,307
Maintenance and operation of plant	297,240	297,240	311,575	(14,335)
Student transportation	108,000	108,000	104,285	3,715
Instructional staff training	31,000	31,000	66,143	(35,143)
Food services operation	85,323	85,323	88,941	(3,618)
Capital outlay	-	-	1,121,592	(1,121,592)
Interest	<u>-</u>	<u>-</u>	<u>6,643</u>	<u>(6,643)</u>
Total expenditures	<u>4,770,657</u>	<u>4,770,657</u>	<u>5,926,939</u>	<u>(1,156,282)</u>
Excess (deficiency) of revenues over (under) expenditures	11,245	11,245	(171,689)	182,934
Net change in fund balances	11,245	11,245	(171,689)	182,934
Fund balance (deficit) - beginning	<u>-</u>	<u>-</u>	<u>(30,266)</u>	<u>-</u>
Fund balances (deficit) - ending	<u>\$ 11,245</u>	<u>\$ 11,245</u>	<u>\$ (201,955)</u>	<u>\$ 182,934</u>

AVONDALE EDUCATION ASSOCIATION, INC.  
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR END JUNE 30, 2017

BASIS OF PRESENTATION

The accompanying schedule is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

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

INDEPENDENT AUDITOR'S 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

To the Board of Trustees

Avondale Education Association, Inc. dba The Museum School of Avondale Estates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund, and the aggregate remaining fund information of the Organization, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated October 24, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

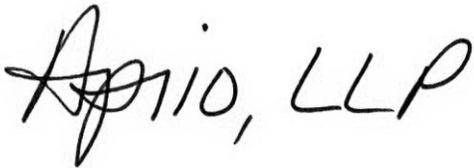
As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 one instance of noncompliance that is described as finding 2017-001 and is required to be reported under *Government Auditing Standards*.

### **Management's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in black ink that reads "Aprio, LLP". The signature is written in a cursive, flowing style.

Atlanta, Georgia

October 24, 2017

AVONDALE EDUCATION ASSOCIATION, INC.  
DBA THE MUSEUM SCHOOL OF AVONDALE ESTATES  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2017

**Finding 2017-001: Compliance with O.C.G.A Section 45-8-12**

Condition: The Organization did not obtain collateral from its financial institution or ensure that its funds were pooled in a collateralized account for the public funds which exceeded FDIC insurance.

Criteria: Official Code of Georgia Annotated (O.C.G.A.) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral as described by the statute.

Cause: Management was not aware that collateral was required as they had not previously reported under *Government Auditing Standards*.

Effect: Public funds are unsecured creating custodial credit risk where a bank failure could cause the organization to lose some or all of its unsecured deposits. At June 30, 2017, the Organization had deposits with the financial institution totaling \$441,451. Bank balances of \$250,000 were insured by Federal depository insurance, leaving unsecured bank balances of \$194,451.

Recommendation: We recommend that the Organization notify the financial institution that its deposits are public funds and should either be collateralized, secured, or insured as required by the statute.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and have corrected the issue.