Nadaburg Unified School District No. 81
Single Audit Reporting Package
Year Ended June 30, 2017

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Nadaburg Unified School District No. 81

Financial Statements Year Ended June 30, 2017

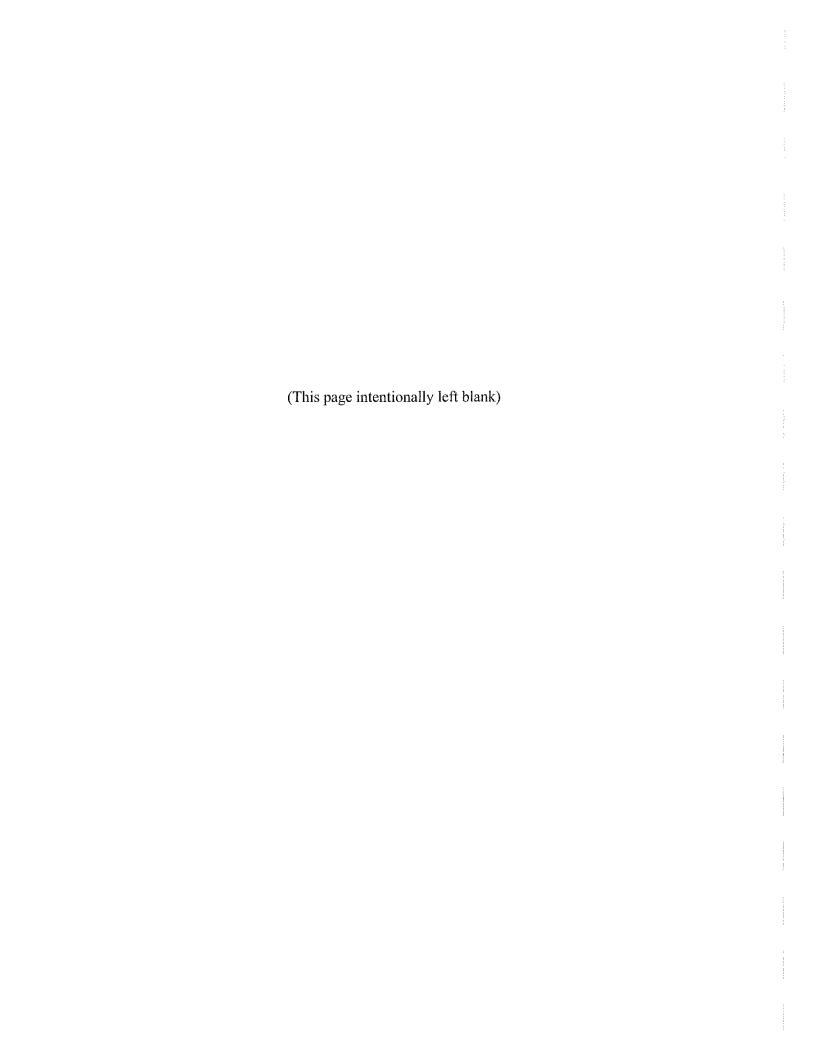
Issued by: Business and Financial Services Department

NADABURG UNIFIED SCHOOL DISTRICT NO. 81

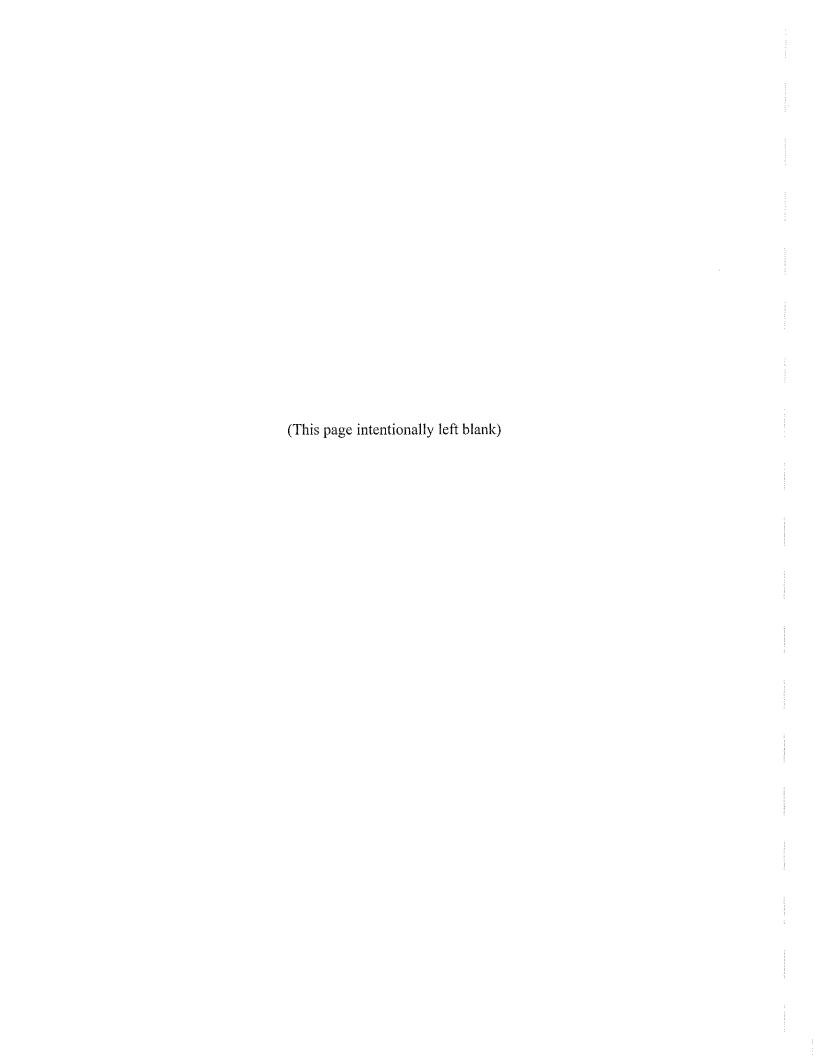
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REPORT ON AUDIT OF FINANCIAL STATEMENTS





INDEPENDENT AUDITOR'S REPORT

Governing Board Nadaburg Unified School District No. 81

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 Nadaburg Unified School District No. 81 (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Nadaburg Unified School District No. 81, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 27, 2018, on our consideration of Nadaburg Unified School District No. 81'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 Nadaburg Unified School District No. 81's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

Heinfeld, melch & Co., P.C.

Phoenix, Arizona March 27, 2018 MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Required Supplementary Information)

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As management of the Nadaburg Unified School District No. 81 (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, 2017. 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 decreased \$1.5 million which represents a 13 percent decrease from the prior fiscal year as a result of a decrease in revenues primarily due to a decline in student enrollment.
- General revenues accounted for \$7.6 million in revenue, or 75 percent of all current fiscal year revenues. Program specific revenue in the form of charges for services and grants and contributions accounted for \$2.5 million or 25 percent of total current fiscal year revenues.
- The District had approximately \$11.6 million in expenses related to governmental activities, a decrease of less than one percent from the prior fiscal year.
- Among major funds, the General Fund had \$7.4 million current fiscal year revenues, which primarily consisted of state aid and property taxes, and \$8.3 million in expenditures. The General Fund's fund balance decrease from \$837,851 at the prior fiscal year end to a deficit of \$12,739 at the end of the current fiscal year was due to a decrease in state aid revenues primarily due to a decrease in budget capacity as result of a decline in student enrollment and an increase in instructional expenditures primarily due to an increase in instructional staff.

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.

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.

OVERVIEW OF FINANCIAL STATEMENTS

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, operation of non-instructional services, and interest on long-term debt.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the 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.

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, Debt Service and Unrestricted Capital Outlay Funds, all 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 statements and schedules.

OVERVIEW OF FINANCIAL STATEMENTS

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 \$10.6 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 and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), 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. Although the District's investment in its capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, a portion of the District's net position represents resources that are subject to external restrictions on how they may be used.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	As of	As of
	June 30, 2017	June 30, 2016
Current and other assets	\$ 2,856,260	\$ 2,960,149
Capital assets, net	17,675,994	18,229,926
Total assets	20,532,254	21,190,075
Deferred outflows	1,849,133	1,558,928
Current and other liabilities	1,353,500	356,937
Long-term liabilities	9,123,278	9,556,346
Total liabilities	10,476,778	9,913,283
Deferred inflows	1,269,124	669,192
Net position:		
Net investment in capital assets	16,402,959	16,676,500
Restricted	1,012,625	1,232,475
Unrestricted	(6,780,099)	(5,742,447)
Total net position	\$ 10,635,485	\$ 12,166,528

At the end of the current fiscal year, the District reported positive balances in two categories of net position. Unrestricted net position reported a deficit of \$6.8 million. The deficit is due to the Districts 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 result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Position.

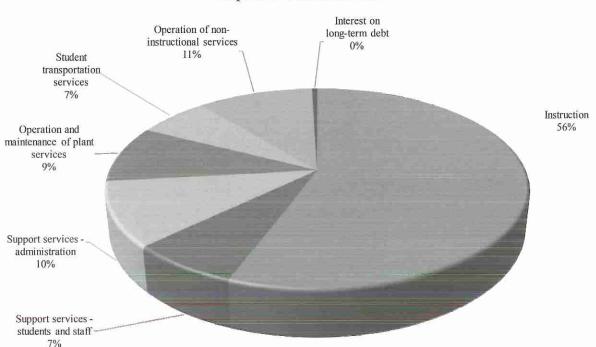
- The principal retirement of \$160,000 of bonds.
- Depreciation expense of capital assets resulted in an increase in accumulated depreciation of \$667,713.
- The increase of \$922,000 in the District's credit line payable.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Changes in net position. The District's total revenues for the current fiscal year were \$10.1 million. The total cost of all programs and services was \$11.6 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

	Fiscal Year Ended une 30, 2017	iscal Year Ended ne 30, 2016
Revenues:		
Program revenues:		
Charges for services	\$ 450,811	\$ 427,685
Operating grants and contributions	1,920,187	2,006,167
Capital grants and contributions	116,023	112,077
General revenues:		
Property taxes	1,998,115	1,971,618
Investment income	4,078	6,642
Unrestricted county aid	485,795	542,376
Unrestricted state aid	5,106,951	5,492,583
Unrestricted federal aid	 26,598	 28,269
Total revenues	 10,108,558	10,587,417
Expenses:		
Instruction	6,486,847	6,722,737
Support services - students and staff	847,637	877,367
Support services - administration	1,203,882	1,290,356
Operation and maintenance of plant services	1,057,116	1,123,934
Student transportation services	757,739	865,677
Operation of non-instructional services	1,232,806	779,019
Interest on long-term debt	53,574	28,670
Total expenses	11,639,601	11,687,760
Changes in net position	(1,531,043)	(1,100,343)
Net position, beginning	 12,166,528	13,266,871
Net position, ending	\$ 10,635,485	\$ 12,166,528

GOVERNMENT-WIDE FINANCIAL ANALYSIS



Expenses - Fiscal Year 2017

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

- Unrestricted state aid decreased \$385,632 due to a decrease in enrollment.
- A decrease of \$235,890 in instructional expenses as a result of the reclassification of preschool program expenses to non-instructional services and the reduction of K-8 classroom expenses due to a decrease in student enrollment.
- An increase of \$453,787 in operation of non-instructional services expenses as a result of the reclassification of preschool program expenses from instruction to non-instructional services and the expansion of the preschool programs.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

	Year Ended June 30, 2017					Year Ended J	lune :	30, 2016
	Total		Net (Expense)/		Total		Ne	et (Expense)/
	Expenses		Expenses Revenue		Expenses			Revenue
Instruction	\$	6,486,847	\$	(5,686,709)	\$	6,722,737	\$	(5,507,070)
Support services - students and		847,637		(613,658)		877,367		(595,309)
Support services - administration		1,203,882		(1,045,447)		1,290,356		(1,152,798)
Operation and maintenance of		1,057,116		(966,292)		1,123,934		(1,094,886)
Student transportation services		757,739		(586,755)		865,677		(650,629)
Operation of non-instructional		1,232,806		(200,145)		779,019		(112,469)
Interest on long-term debt		53,574		(53,574)		28,670		(28,670)
Total	\$	11,639,601	\$	(9,152,580)	\$	11,687,760	\$	(9,141,831)

- The cost of all governmental activities this year was \$11.6 million.
- Federal and State governments and charges for services subsidized certain programs with grants and contributions and other local revenues of \$2.5 million.
- Net cost of governmental activities of \$9.2 million was financed by general revenues, which are made up of primarily property taxes of \$2.0 million and state and county aid of \$5.6 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 \$976,467, a decrease of \$995,371 due primarily to an overall decrease in revenues due to a decline in student enrollment.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund is the principal operating fund of the District. The decrease in fund balance of \$850,590 to a deficit of \$12,739 as of fiscal year end was a result of an increase in instructional expenditures primarily due to an increase in instructional staff and a decrease in state aid revenue primarily due to a decrease in student enrollment. General Fund revenues decreased by \$429,416 from the prior year. The General Fund's expenditures increased by \$648,975 from the prior year.

The Debt Service Fund's fund balance increased from \$22,045 at the end of the prior fiscal year end to \$24,555 at the end of the current fiscal year.

The fund balance of the Unrestricted Capital Outlay Fund decreased from \$516,377 to \$305,884 due to a decrease in property tax revenue due to a decrease in the primary tax rate for unrestricted capital.

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 \$9,525 decrease, or less than one percent.

Significant variances for the final amended budget and actual revenues resulted from the District not being required by the State of Arizona to prepare a revenue budget. A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- A favorable variance of \$139,244 in instruction expenditures as a result of budget reduction efforts to create budgetary carryover for the next fiscal year and reclassification of preschool program expenditures to non-instructional services.
- A favorable variance of \$135,461 in operation and maintenance of plant services expenditures was due to actual costs for utilities and repairs and maintenance being less than anticipated.
- An unfavorable variance of \$172,341 in operation of non-instructional services expenditures as a result of reclassification of preschool program expenditures from instruction to non-instructional services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. At year end, the District had invested \$26.1 million in capital assets, including school buildings, athletic facilities, buses and other vehicles, and other equipment. This amount represents a net increase prior to depreciation of \$89,817 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$667,713.

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

		As of		As of		
	Ju	ne 30, 2017	Ju	ne 30, 2016		
Capital assets - non-depreciable	\$	1,590,550	\$	1,601,127		
Capital assets - depreciable, net		16,085,444		16,628,799		
Total	\$	17,675,994	\$	18,229,926		

The estimated cost to complete current construction projects is \$12,030.

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

Debt Administration. At year end, the District had \$1.3 million in long-term debt outstanding, \$289,456 within one year. Long-term debt decreased by \$280,391.

The District's general obligation bonds are subject to two limits; the Constitutional debt limit (total debt limit) on all general obligation bonds (up to 30 percent of the total net full cash assessed valuation) and the statutory debt limit on Class B bonds (the greater of 20 percent of the net full cash assessed valuation or \$1,500 per student). The current total debt limitation for the District is \$22.6 million and the Class B debt limit is \$15.1 million, which are more than the District's total outstanding general obligation and Class B debt, respectively.

Additional information on the District's long-term debt can be found in Notes 10 through 12.

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 2017-18 budget. Among them:

- Fiscal year 2016-17 budget balance carry forward (estimated \$55,000).
- District student population (estimated 827).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

Budgeted expenditures in the General Fund decreased five percent to \$7.6 million in fiscal year 2017-18 as a result of decreased enrollment. State aid and property taxes are expected to be the primary funding sources. No new programs were added to the 2017-18 budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Business and Financial Services Department, Nadaburg Unified School District No. 81, 32919 Center Street, Wittmann, Arizona 85361.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities
<u>ASSETS</u>	
Current assets:	Φ 220 π01
Cash and investments	\$ 229,581
Property taxes receivable	387,466
Deposits	14,355
Due from governmental entities	2,224,858
Total current assets	2,856,260
Noncurrent assets:	
Capital assets not being depreciated	1,590,550
Capital assets not being depreciated Capital assets, net of accumulated depreciation	16,085,444
Total noncurrent assets	17,675,994
Total assets	20,532,254
i otal assets	20,332,234
DEFERRED OUTFLOWS OF RESOURCES	
Pension plan items	1,849,133
E SAESE ETERC	
<u>LIABILITIES</u> Current liabilities:	
Accounts payable	02 967
Construction contracts payable	93,867 8,333
Credit line payable	1,014,000
Due to county treasurer	131,578
Accrued payroll and employee benefits	89,630
Compensated absences payable	887
Accrued interest payable	15,313
Unearned revenues	779
Obligations under capital leases	124,456
Bonds payable	165,000
Total current liabilities	1,643,843
Total dallone had miles	
Noncurrent liabilities:	
Non-current portion of long-term obligations	8,832,935
Total noncurrent liabilities	8,832,935
Total liabilities	10,476,778
DEFERRED INFLOWS OF RESOURCES	
Pension plan items	1,269,124
NITION DAGGERONI	
NET POSITION	17, 402,050
Net investment in capital assets	16,402,959
Restricted for:	202.264
Voter approved initiatives	382,264
Federal and state projects Food service	47,067
Extracurricular activities	14,635 159,922
Other local initiatives	
Debt service	31,062 35,246
Capital outlay Unrestricted	342,429
	\$\frac{(6,780,099)}{10,635,485}
Total net position	\$ 10,635,485

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

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

		-		Pro	ogram Revenues		Net (Expense) Revenue and Changes in Net Position
Functions/Programs		Expenses	Charges for Services	,	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:							
Instruction	\$	6,486,847	21,473	\$	662,642	\$ 116,023	\$ (5,686,709)
Support services - students and staff		847,637	2,626		231,353		(613,658)
Support services - administration		1,203,882			158,435		(1,045,447)
Operation and maintenance of plant services		1,057,116	90,824				(966,292)
Student transportation services		757,739	158,743	;	12,241		(586,755)
Operation of non-instructional services		1,232,806	177,145		855,516		(200,145)
Interest on long-term debt		53,574	,		•		(53,574)
Total governmental activities	\$	11,639,601	450,811	\$	1,920,187	\$ 116,023	(9,152,580)
		General re Taxes:	venues:				
Property taxes, levied for general purposes							1,772,856
Property taxes, levied for debt service							
			y taxes, levied f				33,748
			nt income		=		4,078
Unrestricted county aid							485,795
		Unrestric	ted state aid				5,106,951
		Unrestric	ted federal aid				26,598
		Total	l general reven	ues			7,621,537
		Changes in	net position				(1,531,043)
		Net positio	on, beginning of	ye	ar		12,166,528
		Net positio	n, end of year				\$ 10,635,485

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FUND FINANCIAL STATEMENTS

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2017

A CONTROL	(General	Deb	t Service		estricted tal Outlay
ASSETS Cash and investments	\$		\$	202,024	\$	
Property taxes receivable		368,820		13,535		
Deposits		1,676,012				
Due from governmental entities Due from other funds		1,070,012				327,935
Total assets	\$	2,044,832	\$	215,559	\$	327,935
					1	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES	3					
AND FUND BALANCES						
Liabilities:	\$	43,673	\$		\$	20,194
Accounts payable Construction contracts payable	Φ	43,073	φ		Ψ	1,857
Credit line payable		1,014,000				,
Due to other funds		462,235				
Due to county treasurer		131,578				
Accrued payroll and employee benefits		67,033				
Unearned revenues				165,000		
Bonds payable Bond interest payable				15,313		
Total liabilities	-	1,718,519	-	180,313	0	22,051
20 21 At 45 A						
Deferred inflows of resources: Unavailable revenues - property taxes		339,052		10,691		
Unavailable revenues - intergovernmental		337,032		10,051		
Total deferred inflows of resources		339,052		10,691		
E III decree (J. Cita).						
Fund balances (deficits): Restricted		1,178		24,555		305,884
Unassigned		(13,917)		21,000		S. R. E. J. C. C.
Total fund balances		(12,739)		24,555		305,884
Total liabilities, deferred inflows of resources						
and fund balances	\$	2,044,832	\$	215,559	\$	327,935
			-		-	

Non-Major Governmental Funds	Total Governmental Funds
\$ 27,557 5,111 14,355 548,846	\$ 229,581 387,466 14,355 2,224,858
\$ 730,169	\$ 3,318,495
	Ф 02.967
\$ 30,000 6,476	\$ 93,867 8,333 1,014,000 462,235
22,597 779	131,578 89,630 779 165,000
59,852	15,313 1,980,735
4,746 6,804 11,550	354,489 6,804 361,293
665,571 (6,804) 658,767	99 [†] ,188 (20,721) 976,467
\$ 730,169	\$ 3,318,495

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NADABURG UNIFIED SCHOOL DISTRICT NO. 81 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION JUNE 30, 2017

Total governmental fund balances	\$ 976,467
Amounts reported for <i>governmental activities</i> 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 \$ 26,119,493	
Less accumulated depreciation (8,443,499)	17,675,994
Less accumulated depreciation (0,113,107)	,,
Some property tax receivables are not available to pay for current period	
expenditures and, therefore, are reported as unavailable	
revenues in the funds.	
Totolides in the rando.	
Property taxes 354,489	
Intergovernmental 6,804	361,293
nicet governmental	,
Deferred outflows and inflows of resources related to	
pensions are applicable to future periods and, therefore,	
are not reported in the funds.	
are not reported in the runds.	
Deferred outflows of resources related to pensions 1,849,133	
Deferred inflows of resources related to pensions (1,269,124)	580,009
Described inflows of resources felated to polisions (1,205,124)	000,000
Long-term liabilities are not due and payable in the current	
period and, therefore, are not reported in the funds.	
period and, therefore, are not reported in the runds.	
Compensated absences payable (104,175)	
Obligations under capital leases (573,035)	
Net pension liability (7,746,068)	
Bonds payable (535,000)	(8,958,278)
Donus payable (555,666)	(3,5 0 5,2.1 5)
Net position of governmental activities	\$ 10,635,485

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2017

	General	Debt Service	Unrestricted Capital Outlay
Revenues:			
Other local	\$ 764,757	\$ 726	\$ 2,127
Property taxes	1,836,464	197,410	
State aid and grants	4,746,262		
Federal aid, grants and reimbursements	26,598		
Total revenues	7,374,081	198,136	2,127
Expenditures:			
Current -			
Instruction	5,004,239		
Support services - students and staff	563,409		
Support services - administration	959,101		
Operation and maintenance of plant services	912,682		
Student transportation services	636,755		
Operation of non-instructional services	193,147		
Capital outlay	22,693		139,430
Debt service -		to mornial nacionazani	
Principal retirement		165,000	68,583
Interest and fiscal charges		30,626	4,607
Total expenditures	8,292,026	195,626	212,620
Excess (deficiency) of revenues over expenditures	(917,945)	2,510	(210,493)
Other financing sources (uses):			
Transfers in	72,540		
Transfers out	(58,000)		
Insurance recoveries	52,815	(
Total other financing sources (uses)	67,355		
Changes in fund balances	(850,590)	2,510	(210,493)
Fund balances, beginning of year	837,851	22,045	516,377
Fund balances, end of year	\$ (12,739)	\$ 24,555	\$ 305,884

Gov	n-Major ernmental Funds	Go	Total Governmental Funds	
\$	406,234	\$	1,173,844	
Ψ	29,002	Ψ	2,062,876	
	653,021		5,399,283	
	1,503,223		1,529,821	
	2,591,480		10,165,824	
	807,559		5,811,798	
	239,279		802,688	
	101,002		1,060,103	
	46,363		959,045	
	18,067		654,822	
	1,004,251		1,197,398	
	227,068		389,191	
	51,808		285,391	
	18,341	<u> </u>	53,574	
	2,513,738		11,214,010	
	77,742	-	(1,048,186)	
	58,000		130,540	
	(72,540)		(130,540)	
	(,-,-,-,		52,815	
	(14,540)		52,815	
	63,202		(995,371)	
	595,565		1,971,838	
\$	658,767	\$	976,467	

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

Changes in fund balances - total governmental funds			\$	(995,371)
Amounts reported for governmental activities in the Statement of Activities are different because:				
G overnmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activitics, the costs of those assets are allocated over their estimated useful lives as depreciation expense.				
Expenditures for capitalized assets Less current year depreciation	\$	116,657 (667,713)		(551,056)
Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.				
Property taxes Intergovernmental		(64,761) (45,320)		(110,081)
Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.				
Capital lease principal retirement Bond principal retirement		120,391 165,000		285,391
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 Pension expense	**********	554,293 (685,853)		(131,560)
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.				
Loss on disposal of assets Compensated absences	A0000000000	(2,876) (25,490)		(28,366)
Changes in net position in governmental activities			<u>\$</u>	(1,531,043)

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 STATEMENT OF ASSETS AND LIABILITIES FIDUCIARY FUNDS JUNE 30, 2017

	A	gency
ASSETS Cash and investments Total assets	\$	14,740 14,740
<u>LIABILITIES</u>		
Due to student groups	\$	14,740
Total liabilities	\$	14,740

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Nadaburg Unified School District No. 81 (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.

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

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

The 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.

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.

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 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 funds:

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Debt Service Fund</u> – The Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

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

Additionally, the District reports the following fund type:

<u>Fiduciary Fund</u> – The Fiduciary Fund is an Agency Fund which accounts for resources held by the District on behalf of others. This fund type includes the Student Activities Fund, which accounts for monies raised by students to finance student clubs and organizations held by the District as an agent.

The agency fund is custodial in nature and 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, except for cash of the Debt Service and Bond Building Funds that may be invested separately. Interest earned from investments purchased with pooled monies is allocated to each of the District's funds based on their average balances. As required by statute, interest earnings of the Bond Building Fund are recorded initially in that fund, but then transferred to the Debt Service Fund. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 governmental 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.

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. 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.

I. Capital Assets

Capital assets, which include land and improvements; buildings and improvements; vehicles, furniture, and equipment; and construction in progress, 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. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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	10-45 years
Buildings and improvements	5-50 years
Vehicles, furniture and equipment	5-20 years

J. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

K. 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.

L. Pensions

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

M. 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. 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.

O. 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.

P. Estimates

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

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.

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. The District does not have a formal policy or procedures for the utilization of committed fund balance, accordingly, no committed fund balances amounts are reported.

NOTE 2 – FUND BALANCE CLASSIFICATIONS

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, however, no assignments of fund balance are presented.

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	Š	Debt Service Fund	(estricted Capital Lay Fund	Non-Major overnmental Funds
Fund Balances:							
Restricted:							
Debt service	\$		\$	24,555	\$		\$
Capital projects						305,884	31,799
Voter approved initiatives							382,264
Federal projects							47,067
Food service							14,635
Extracurricular activities							159,922
Student transportation services		1,178					
Other purposes							29,884
Unassigned		(13,917)					 (6,804)
Total fund balances	\$	(12,739)	\$	24,555	\$	305,884	\$ 658,767

The July 1, 2016 fund balances of the General Fund and Non-Major Governmental Funds do not agree to the prior year financial statements by \$2,451 for the reclassification of the Insurance Proceeds Fund.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

<u>Individual Deficit Fund Balance</u> – At year end, the following individual major and non-major governmental funds reported deficits in fund balance.

26 · F 1	Deficit		
Major Fund: General	\$	12,739	
Non-Major Governmental Fund:			
Other Federal Projects		6,804	

The deficits arose because of operations during the year. Additional revenues received in fiscal year 2017-18 are expected to eliminate the deficits.

<u>Excess Expenditures Over Budget</u> – At year end, the District had expenditures in several funds that exceeded the budgets, however this does not constitute a violation of any legal provisions.

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 \$42,297 and the bank balance was \$69,091.

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.

NOTE 4 - CASH AND INVESTMENTS

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

	Average Maturities	Fair Value			
County Treasurer's investment pool	457 days	\$	309,073		
Total		\$	309,073		

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.

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 not 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:

	General Fund	on-Major ernmental Funds
Due from other governmental entities:		
Due from federal government	\$	\$ 548,846
Due from state government	1,582,572	
Due from other districts	93,440	
Net due from governmental entities	\$ 1,676,012	\$ 548,846

NOTE 6 - CAPITAL ASSETS

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

¥	Beginning			Ending
Governmental Activities	Balance	Increase	Decrease	Balance
Capital assets, not being depreciated:				
Land	\$ 1,582,217	\$	\$	\$ 1,582,217
Construction in progress	18,910	77,292	87,869	8,333
Total capital assets, not being depreciated	1,601,127	77,292	87,869	1,590,550
Capital assets, being depreciated:				
Land improvements	2,082,339	87,869		2,170,208
Buildings and improvements	19,038,310			19,038,310
Vehicles, furniture and equipment	3,307,900	39,365	26,840	3,320,425
Total capital assets being depreciated	24,428,549	127,234	26,840	24,528,943
Less accumulated depreciation for:	*		***************************************	
Land improvements	(812,480)	(91,385)		(903,865)
Buildings and improvements	(4,436,892)	(434,729)		(4,871,621)
Vehicles, furniture and equipment	(2,550,378)	(141,599)	(23,964)	(2,668,013)
Total accumulated depreciation	(7,799,750)	(667,713)	(23,964)	(8,443,499)
Total capital assets, being depreciated, net	16,628,799	(540,479)	2,876	16,085,444
Governmental activities capital assets, net	\$ 18,229,926	\$ (463,187)	\$ 90,745	\$ 17,675,994
			·	~

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 431,465
Support services – students and staff	5,214
Support services – administration	67,716
Operation and maintenance of plant services	80,109
Student transportation services	70,837
Operation of non-instructional services	12,372
Total depreciation expense – governmental activities	\$ 667,713

<u>Construction Commitments</u> – At year end, the District had contractual commitments related to parking lot renovations at one school site. At year end the District had spent \$8,333 on the project and had an estimated remaining contractual commitment of \$12,030. The project is being funded with Unrestricted Capital Outlay monies and capital gifts and donations.

NOTE 7 - DUE TO COUNTY TREASURER

The District did not have sufficient cash balances in the Treasurer's pooled cash account to cover negative cash balances. Therefore, a liability due to the County Treasurer of \$131,578 is reported in the General Fund.

NOTE 8 - LEASE OF DISTRICT PROPERTY

The District leases school buses to another District under the provisions of a long-term lease agreement classified as an operating lease. Lease payments are calculated using a daily rate of \$390. Revenue and expenditures related to the lease are recognized in the School Plant Fund. The lease has a remaining lease term of one year through June 30, 2018.

NOTE 9 – SHORT TERM DEBT

Revolving Line of Credit - The District has a 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 are used to repay the line of credit. Short-term debt activity for the current fiscal year was as follows:

	Ве	ginning			Ending
		Balance	Issued	Redeemed	Balance
Revolving line of credit	\$	92,000	\$ 2,892,000	\$1,970,000	\$ 1,014,000

NOTE 10 - OBLIGATIONS UNDER CAPITAL LEASES

The District has acquired buses, technology hardware and energy upgrades under the provisions of long-term lease agreements classified as capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Revenues from the Unrestricted Capital Outlay Fund, a major governmental fund, and the Energy Water Savings Fund, a non-major governmental fund, are used to pay the capital lease obligations. Amortization of assets recorded under capital leases is included with depreciation expense.

NOTE 10 - OBLIGATIONS UNDER CAPITAL LEASES

The assets acquired through capital leases that meet the District's capitalization threshold are as follows:

	Governmental Activities			
Asset:				
Building improvements	\$	586,706		
Vehicles, furniture and equipment		365,946		
Less: Accumulated depreciation		(135,809)		
Total	\$	816,843		

The future minimum lease obligations and the net present value of these minimum lease payments at year end were as follows:

Year Ending June 30:		Governmental Activities		
2018	\$	143,337		
2019		70,148		
2020		70,148		
2021		70,148		
2022		70,148		
2023-26		227,980		
Total minimum lease payments		651,909		
Less: amount representing interest	-	78,874		
Present value of minimum lease payments	=	573,035		
Due within one year	\$	124,456		

NOTE 11 - GENERAL OBLIGATION BONDS PAYABLE

Bonds payable at year end consisted of the following outstanding general obligation bond. The bond is callable with interest payable semiannually. Property taxes from the Debt Service Fund are used to pay bonded debt.

Purpose	Original Amount Issued	Interest Rates	Remaining Maturities	Outstanding Principal June 30, 2017		Due Within One Year
Governmental activities:	; ===== =;=	-				
School Improvement Bonds,						
Project 2005, Series A	\$ 2,000,000	4.375%	7/1/17-20	\$	700,000	\$ 165,000
Total				\$	700,000	\$ 165,000

Annual debt service requirements to maturity on general obligation bonds at year end are summarized as follows:

		Governmental Activities					
Year ending June 30:		Principal		Interest			
5	2018	\$	165,000	\$	27,016		
	2019		170,000		19,687		
	2020		180,000		12,031		
	2021		185,000		4,047		
Total		\$	700,000	\$	62,781		

NOTE 12 - CHANGES IN LONG-TERM LIABILITIES

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

	eginning Balance	. 8	Additions	Re	eductions	 Ending Balance	ue Within One Year
Governmental activities:							
Bonds payable	\$ 860,000	\$		\$	160,000	\$ 700,000	\$ 165,000
Obligations under capital leases	693,426				120,391	573,035	124,456
Net pension liability	7,924,235				178,167	7,746,068	
Compensated absences payable	78,685		83,735		58,245	104,175	887
Governmental activity long-term liabilities	\$ 9,556,346	\$	83,735	\$	516,803	\$ 9,123,278	\$ 290,343

NOTE 13 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At year end, interfund balances were as follows:

Due to/from other funds:

At year end, the General Fund had a negative cash balance in the Treasurer's pooled cash account of \$131,578. Negative cash on deposit with the County Treasurer was reduced by interfund borrowing with the Unrestricted Capital Outlay Fund, a major governmental fund, and numerous non-major governmental funds. All interfund balances are expected to be paid within one year.

Interfund transfers:

	Transfers in							
			No	on-Major				
Transfers out		General Fund	Governmental Funds		Total			
General Fund	\$		\$	58,000	\$	58,000		
Non-Major Governmental Funds		72,540		e		72,540		
Total	\$	72,540	\$	58,000	\$	130,540		

Transfers between funds were used to (1) move federal grant funds restricted for indirect costs, and (2) to move monies from the General Fund to the Energy and Water Savings Fund, a non-major governmental fund, for repayment of the capital investment of the qualified provider or utility, energy or water services company based on the established repayment schedule in accordance with A.R.S. §15.910.02(H).

NOTE 14 – CONTINGENT LIABILITIES

<u>Compliance</u> – 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 15 - 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.

The District continues to carry commercial insurance for all other risks of loss, including employee dental, life and disability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 16 - 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.

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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	Sum of years and age equals 80	30 years age 55
age required to	10 years age 62	25 years age 60
receive benefit	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%
	MITTER 7 1 11 1 11 17	

^{*}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.

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 11.48 percent (11.34 percent for retirement and 0.14 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 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll. The District's contributions to the pension plan for the year ended June 30, 2017 were \$554,293.

NOTE 16 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

In addition, the District was required by statute to contribute at the actuarially determined rate of 9.47 percent (9.17 for retirement, 0.21 percent for health insurance premium benefit, and 0.09 percent for long-term disability) of annual covered payroll of retired members who worked 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:

	lth Benefit pplement Fund	Di	ng-Term sability Fund
Year ending June 30:			
2017	\$ 28,794	\$	7,199
2016	21,554		5,173
2015	27,591		5,612

Pension Liability. At June 30, 2017, the District reported a liability of \$7,746,068 for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The District's proportion of the net pension liability was based on 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, 2016, the District's proportion was .05 percent, which is the same as its proportion measured as of June 30, 2015.

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Expense and Deferred Outflows/Inflows of Resources. The District has deferred outflows and inflows of resources related to the net pension liability of retirement benefits. Certain changes in the net pension liability are recognized as pension expense over a period of time rather than the year of occurrence. For the year ended June 30, 2017, the District recognized pension expense of \$685,853 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	D	eferred	Γ	Deferred
	Ou	tflows of	In	flows of
	Re	esources	R	esources
Differences between expected and actual experience	\$	47,072	\$	532,873
Changes of assumptions or other inputs				409,829
Net difference between projected and actual earnings on				
pension plan investments		839,416		
Changes in proportion and differences between				
contributions and proportionate share of contributions		408,352		326,422
Contributions subsequent to the measurement date		554,293		
Total	\$ 1	,849,133	\$	1,269,124

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, 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:

T 7	-Annual			$\alpha \alpha$
Year	14.12	ama	11111/	1111
I Cal	1.11	HIII	111111	

2018	\$ (164,147)
2019	(357,859)
2020	312,352
2021	235,370

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8.0%
Projected salary increases	3.0-6.75%
Inflation	3.0%
Permanent base increases	Included
Mortality rates	1994 GAM Scale BB

NOTE 16 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The actuarial assumptions used in the June 30, 2015 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 8.75 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	6.73%
Fixed income	25	3.70
Real estate	10	4.25
Multi-asset	5	3.41
Commodities	2	3.84
Total	100%	

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

NOTE 16 - 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%		Current	1%
	Decrease	Di	scount Rate	Increase
	(7.0%)		(8.0%)	(9.0%)
Proportionate share of the net				
pension liability	\$ 9,876,825	\$	7,746,068	\$6,037,667

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

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL

YEAR ENDED JUNE 30, 2017

	Budgeted	Amounts	Non-GAAP	Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
Revenues:					
Other local	\$	\$	\$ 483,358	\$ 483,358	
Property taxes			1,836,464	1,836,464	
State aid and grants	micros :		4,746,262	4,746,262	
Total revenues	ALIMAN	141100000000000000000000000000000000000	7,066,084	7,066,084	
Expenditures:					
Current -					
Instruction	4,989,500	5,112,917	4,973,673	139,244	
Support services - students and staff	496,800	559,312	548,670	10,642	
Support services - administration	1,012,300	883,834	897,706	(13,872)	
Operation and maintenance of plant services	937,200	915,785	780,324	135,461	
Student transportation services	553,800	508,135	416,494	91,641	
Operation of non-instructional services	16,000	16,092	188,433	(172,341)	
Total expenditures	8,005,600	7,996,075	7,805,300	190,775	
Excess (deficiency) of revenues over expenditures	(8,005,600)	(7,996,075)	(739,216)	7,256,859	
Other financing sources (uses):					
Transfers out		(600)	(58,000)	(58,000)	
Total other financing sources (uses)			(58,000)	(58,000)	
Changes in fund balances	(8,005,600)	(7,996,075)	(797,216)	7,198,859	
Fund balances, beginning of year			745,319	745,319	
Fund balances (deficits), end of year	\$ (8,005,600)	\$ (7,996,075)	\$ (51,897)	\$ 7,944,178	

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY ARIZONA STATE RETIREMENT SYSTEM LAST THREE FISCAL YEARS

	<u>2017</u>			<u>2016</u>		<u>2015</u>
Measurement date	Ju	June 30, 2016		June 30, 2015		ne 30, 2014
District's proportion of the net pension liability (asset)		0.05%		0.05%		0.05%
District's proportionate share of the net pension liability (asset)	\$	7,746,068	\$	7,924,235	\$	6,677,835
District's covered payroll	\$	4,310,811	\$	4,676,483	\$	4,050,112
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll		179.69%		169.45%		164.88%
Plan fiduciary net position as a percentage of the total pension liability		67.06%		68.35%		69.49%

SCHEDULE OF CONTRIBUTIONS ARIZONA STATE RETIREMENT SYSTEM LAST THREE FISCAL YEARS

		2017 2016		2015		
Actuarially determined contribution	\$	554,293	\$	467,723	\$	509,269
Contributions in relation to the actuarially determined contribution	N/	554,293	// <u>-</u>	467,723	8	509,269
Contribution deficiency (excess)	\$		\$		\$	
District's covered payroll	\$	5,141,865	\$	4,310,811	\$	4,676,483
Contributions as a percentage of covered payroll		10.78%		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.

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

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.

	Total Expenditures			d Balances Id of Year
Statement of Revenues, Expenditures and Changes in				
Fund Balances – Governmental Funds Activity budgeted as special revenue funds	Þ	8,292,026 (431,423)	\$	(12,739) (39,158)
Activity budgeted as capital projects funds	-	(55,303)	-	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	\$	7,805,300	\$	(51,897)

NOTE 2 - PENSION PLAN SCHEDULES

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, 2015, 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.

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL ALL SPECIAL REVENUE FUNDS YEAR ENDED JUNE 30, 2017

	Classroom Site					
	Budget	Actual	Variance - Positive (Negative)			
Revenues:		0 1151	b 1.171			
Other local	\$	\$ 1,151	\$ 1,151			
State aid and grants		326,100	326,100			
Federal aid, grants and reimbursements		227.251	327,251			
Total revenues		327,251	321,231			
Expenditures:						
Current -						
Instruction	662,940	182,338	480,602			
Support services - students and staff	8,167	14,576	(6,409)			
Support services - administration						
Operation and maintenance of plant services						
Student transportation services						
Operation of non-instructional services						
Capital outlay	(=(+0=	106011	474 102			
Total expenditures	671,107	196,914	474,193			
Excess (deficiency) of revenues over expenditures	(671,107)	130,337	801,444			
Other financing sources (uses):						
Transfers in						
Transfers out						
Total other financing sources (uses)						
			(690,80 J. 904)			
Changes in fund balances	(671,107)	130,337	801,444			
Fund balances (deficits), beginning of year		141,521	141,521			
	¢ (671.107)	\$ 271,858	\$ 942,965			
Fund balances (deficits), end of year	\$ (671,107)	\$ 271,858	9 742,903			

Instructional Improvement			County, City, and Town Grants										
Budget	Actual		Variance - Positive (Negative) Budget Actu		Positive		Positive		Budget Actual		Actual	Po	riance - ositive egative)
\$	\$	603 34,589	\$	603 34,589	\$		\$	41,298	\$	41,298			
		35,192		35,192	Α		8	41,298) 	41,298			
145,200		19,405		125,795		2,190		53		2,137			
145,200		19,405	-	125,795		30,000 7,810 40,000		10,266 4,330 14,649		19,734 3,480 25,351			
(145,200)	***************************************	15,787	# 	160,987	7	(40,000)		26,649		66,649			
			Q		\$,						
(145,200)	.	15,787 94,619		94,619	5 <u></u>	(40,000)	-	26,649		66,649			
\$ (145,200)	\$	110,406	\$	255,606	\$	(40,000)	\$	26,649	\$	66,649			

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL ALL SPECIAL REVENUE FUNDS YEAR ENDED JUNE 30, 2017

	Title I Grants					
	Budget	Actual	Variance - Positive (Negative)			
Revenues:	2	2				
Other local	\$	\$	\$			
State aid and grants		221 152	201.452			
Federal aid, grants and reimbursements		321,453	321,453			
Total revenues		321,453	321,453			
Expenditures:						
Current -						
Instruction	99,896	90,108	9,788			
Support services - students and staff	188,800	181,630	7,170			
Support services - administration	33,530	32,258	1,272			
Operation and maintenance of plant services						
Student transportation services						
Operation of non-instructional services						
Capital outlay						
Total expenditures	322,226	303,996	18,230			
Excess (deficiency) of revenues over expenditures	(322,226)	17,457	339,683			
Other financing sources (uses):						
Transfers in						
Transfers out		(17,457)	(17,457)			
Total other financing sources (uses)		(17,457)	(17,457)			
Changes in fund balances	(322,226)		322,226			
Fund balances (deficits), beginning of year						
Fund balances (deficits), end of year	\$ (322,226)	\$	\$ 322,226			

Professional	Development and Techi	nology Grants			
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
	23,954 23,954	23,954 23,954		192,002 192,002	192,002 192,002
23,954	22,652	1,302	158,555 5,000 74,875	122,540 2,342 57,171	36,015 2,658 17,704
			1,570	1,200	370
23,954	22,652	1,302	240,000	183,253	56,747
(23,954)	1,302	25,256	(240,000)	8,749	248,749
(23,954)	(1,302) (1,302)	(1,302) (1,302) 23,954	(240,000)	(8,749) (8,749)	(8,749) (8,749) 240,000
\$ (23,954)	\$	\$ 23,954	\$ (240,000)	\$	\$ 240,000

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL ALL SPECIAL REVENUE FUNDS YEAR ENDED JUNE 30, 2017

	Limited English & Immigrant Students					
	Budget	Actual	Variance - Positive (Negative)			
Revenues:	•	0	r.			
Other local	\$	\$	\$			
State aid and grants		15,146	15,146			
Federal aid, grants and reimbursements		15,146	15,146			
Total revenues	-	15,140	13,140			
Expenditures:						
Current -						
Instruction	20,410	14,391	6,019			
Support services - students and staff	670	470	200			
Support services - administration						
Operation and maintenance of plant services						
Student transportation services						
Operation of non-instructional services						
Capital outlay						
Total expenditures	21,080	14,861	6,219			
Excess (deficiency) of revenues over expenditures	(21,080)	285	21,365			
Other financing sources (uses):						
Transfers in						
Transfers out		(285)	(285)			
Total other financing sources (uses)		(285)	(285)			
	05 X 25 24 24		21.000			
Changes in fund balances	(21,080)		21,080			
Fund balances (deficits), beginning of year						
Fund balances (deficits), end of year	\$ (21,080)	\$	\$ 21,080			

Special Education Grants			Medicaid Reimbursement			
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)	
\$	\$	\$	\$	\$	\$	
	197,152 197,152	197,152 197,152		26,598 26,598	26,598 26,598	
167,710 10,867 4,360	156,118 9,734 3,918	11,592 1,133 442	625 8,755 33,875 1,945	491 7,053 27,301 1,569	134 1,702 6,574 376	
12,900	11,565	1,335				
6,395 202,232	5,734 187,069	661 15,163	45,200	36,414	8,786	
(202,232)	10,083	212,315	(45,200)	(9,816)	35,384	
	(10,083) (10,083)	(10,083) (10,083)	:			
(202,232)		202,232	(45,200)	(9,816)	35,384	
				16,213	16,213	
\$ (202,232)	\$	\$ 202,232	\$ (45,200)	\$ 6,397	\$ 51,597	

	E-Rate				
	Budget	Actual	Variance - Positive (Negative)		
Revenues:	4	2	Ä		
Other local	\$	\$	\$		
State aid and grants		101.020	101.000		
Federal aid, grants and reimbursements	-	181,928	181,928		
Total revenues		181,928	181,928		
Expenditures:					
Current -					
Instruction					
Support services - students and staff					
Support services - administration					
Operation and maintenance of plant services	25,000	45,158	(20,158)		
S tudent transportation services					
Operation of non-instructional services					
Capital outlay	25,000	101,059	(76,059)		
Total expenditures	50,000	146,217	(96,217)		
Excess (deficiency) of revenues over expenditures	(50,000)	35,711	85,711		
Other financing sources (uses):					
Transfers in					
Transfers out					
Total other financing sources (uses)	1				
2 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0					
Changes in fund balances	(50,000)	35,711	85,711		
Fund balances (deficits), beginning of year		11,356	11,356		
Fund balances (deficits), end of year	\$ (50,000)	\$ 47,067	\$ 97,067		

Plate	vironmental Special I	En	Other Federal Projects			
Variance - Positive (Negative)	Actual	Budget	Variance - Positive (Negative)	Actual	Budget	
\$	\$	\$	\$	\$	\$	
: ====			163,432 163,432	163,432 163,432		
780		780	252 25 30	18,188 1,750 2,065	18,440 1,775 2,095	
		780 (780)	109,118 3 109,428 272,860	112,567 1,002 135,572 27,860	221,685 1,005 245,000 (245,000)	
780		(780)	(34,664) (34,664) 238,196	(34,664) (34,664) (6,804)	(245,000)	
\$ 780	\$	\$ (780)	\$ 238,196	\$ (6,804)	\$ (245,000)	

	Other State Projects				
	Budget	Actual	Variance - Positive (Negative)		
Revenues:	¢.	o.	c		
Other local	\$	\$ 287,559	\$ 287,559		
State aid and grants		287,339	201,339		
Federal aid, grants and reimbursements Total revenues		287,559	287,559		
Total revenues		201,009	201,339		
Expenditures:					
Current -					
Instruction	21,000	20,661	339		
Support services - students and staff					
Support services - administration					
Operation and maintenance of plant services					
Student transportation services	200.000	0.60 440	25.555		
Operation of non-instructional services	299,000	263,443	35,557		
Capital outlay	7,824	3,455	4,369		
Total expenditures	327,824	287,559	40,203		
Excess (deficiency) of revenues over expenditures	(327,824)		327,824		
Other financing sources (uses):					
Transfers in					
Transfers out	<u> </u>				
Total other financing sources (uses)	:	// 			
Changes in fund balances	(327,824)		327,824		
Fund balances (deficits), beginning of year					
Fund balances (deficits), end of year	\$ (327,824)	\$	\$ 327,824		

School Plant			Food Service			
Budget	Non-GAAP Actual	Variance - Positive (Negative) Budget		BudgetActual		
\$	\$ 212,557	\$ 212,557	\$	\$ 53,472	\$ 53,472	
	212,557	212,557		408,156 461,628	408,156 461,628	
480	616	(136)				
395 70,990 93,135	502 79,581 186,685	(107) (8,591) (93,550)	475.000	511.660	(26,660)	
		·	475,000	511,669	(36,669)	
165,000	267,384	(102,384)	475,000	511,669	(36,669)	
(165,000)	(54,827)	110,173	(475,000)	(50,041)	424,959	
(165,000)	(54,827)	110,173	(475,000)	(50,041)	424,959	
	56,005	56,005		64,676	64,676	
\$ (165,000)	\$ 1,178	\$ 166,178	\$ (475,000)	\$ 14,635	\$ 489,635	

	Civic Center					
	Budget	Actual	Variance - Positive (Negative)			
Revenues:	¢.	\$ 4,349	\$ 4,349			
Other local State aid and grants	\$	\$ 4,349	\$ 4,349			
Federal aid, grants and reimbursements						
Total revenues		4,349	4,349			
Expenditures:						
Current -						
Instruction	2,325	2,261	64			
Support services - students and staff	3,600	3,500	100			
Support services - administration	335	326	9			
Operation and maintenance of plant services	1,240	1,205	35			
Student transportation services						
Operation of non-instructional services						
Capital outlay	7,500	7,292	208			
Total expenditures	7,500		200			
Excess (deficiency) of revenues over expenditures	(7,500)	(2,943)	4,557			
Other financing sources (uses):						
Transfers in						
Transfers out	£					
Total other financing sources (uses)			-			
Changes in fund balances	(7,500)	(2,943)	4,557			
Fund balances (deficits), beginning of year		4,089	4,089			
Fund balances (deficits), end of year	\$ (7,500)	\$ 1,146	\$ 8,646			

	Community School					
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)	
\$	\$ 123,743	\$ 123,743	\$	\$ 19,171	\$ 19,171	
	123,743	123,743		19,171	19,171	
20,005 260	17,052 220	2,953 40	18,405	10,708	7,697	
1,400	1,191	209	255	148	107	
123,155 180 145,000	105,106 175 123,744	18,049 5 21,256	1,405 4,935 25,000	817 2,872 14,545	588 2,063 10,455	
(145,000)	(1)	144,999	(25,000)	4,626	29,626	
(145,000)	(1)	144,999	(25,000)	4,626	29,626	
	1	1		9,587	9,587	
\$ (145,000)	\$	\$ 145,000	\$ (25,000)	\$ 14,213	\$ 39,213	

	Extracurricular Activities Fees Tax Credit					
	Budget		Actual	Variance - Positive (Negative)		
Revenues:		•	175 510	ø	175 510	
Other local	\$	\$	175,510	\$	175,510	
State aid and grants						
Federal aid, grants and reimbursements Total revenues			175,510	-	175,510	
I otal revenues	-	(<u>*</u>	175,510	-	175,510	
Expenditures:						
Current -						
Instruction	292,091		158,504		133,587	
Support services - students and staff	3,170		1,163		2,007	
Support services - administration	7,600		4,073		3,527	
Operation and maintenance of plant services						
Student transportation services	12,139		6,502		5,637	
Operation of non-instructional services					12.222	
Capital outlay	25,000		12,007	-	12,993	
Total expenditures	340,000	0	182,249		157,751	
Excess (deficiency) of revenues over expenditures	(340,000)	D	(6,739)		333,261	
Other financing sources (uses): Transfers in Transfers out Total other financing sources (uses)						
Changes in fund balances	(340,000)		(6,739)	-	333,261	
Fund balances (deficits), beginning of year			166,661		166,661	
Fund balances (deficits), end of year	\$ (340,000)	\$	159,922	\$	499,922	

Gifts and Donations			Textbooks							
Budget	Non-GAAP Actual		P	Variance - Positive (Negative)		Budget Actual		Po	riance - sitive gative)	
\$	\$	35,974	\$	35,974	\$		\$	252	\$	252
		35,974		35,974			3 	252	0	252
10,125 10,640 5,775 6,560 2,180		9,928 5,296 2,875 3,763 1,086		197 5,344 2,900 2,797 1,094		2,100		1,384		716
2,705 8,015 46,000 (46,000)		1,842 4,484 29,274 6,700	7 	863 3,531 16,726 52,700		2,100 (2,100)		1,384		716 968
					:		8			
(46,000)	V	6,700 10,670	-	52,700 10,670	G	(2,100)	8	(1,132) 1,989	a <u></u>	968 1,989
\$ (46,000)	\$	17,370	\$	63,370	\$	(2,100)	\$	857	\$	2,957

	Indirect Costs					
	Budget	Non-GAAP Actual	Variance - Positive (Negative)			
Revenues:	4		6			
Other local	\$	\$	\$			
State aid and grants						
Federal aid, grants and reimbursements Total revenues			-			
1 otal revenues		·				
Expenditures:						
Current -						
Instruction	3,119	8,823	(5,704)			
S upport services - students and staff	1,195	2,390	(1,195)			
Support services - administration	15,266	30,525	(15,259)			
Operation and maintenance of plant services	14,150	28,297 2,540	(14,147) (1,270)			
Student transportation services	1,270	2,340	(1,270)			
Operation of non-instructional services Capital outlay						
Total expenditures	35,000	72,575	(37,575)			
1 otal experiences						
Excess (deficiency) of revenues over expenditures	(35,000)	(72,575)	(37,575)			
Table 1 1 1 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1						
Other financing sources (uses):		72,540	72,540			
Transfers in Transfers out		72,540	12,540			
Total other financing sources (uses)		72,540	72,540			
1 otal other maneing sources (uses)	-					
Changes in fund balances	(35,000)	(35)	34,965			
(1.0.4)		35	35			
Fund balances (deficits), beginning of year		33	33			
Fund balances (deficits), end of year	\$ (35,000)	\$	\$ 35,000			

Grants and Gifts to Teachers			Intergovernmental Agreements				
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)		
\$	\$ 5,582	\$ 5,582	\$	\$ 13,660	\$ 13,660		
	5,582	5,582		13,660	13,660		
5,230 1,430	4,556 1,242	674 188					
			35,000	11,231	23,769		
1,440 8,100 (8,100)	1,255 7,053 (1,471)	185 1,047 6,629	35,000 (35,000)	2,429	23,769 37,429		
(8,100)	(1,471)	6,629	(35,000)	2,429	37,429		
\$ (8,100)	\$ 1,232	\$ 9,332	\$ (35,000)	\$	\$ 35,000		

	Totals				
	Budget	Non-GAAP Actual	Variance - Positive (Negative)		
Revenues:					
Other local	\$	\$ 687,322	\$ 687,322		
State aid and grants		648,248	648,248		
Federal aid, grants and reimbursements		1,529,821	1,529,821		
Total revenues		2,865,391	2,865,391		
Expenditures:					
Current -					
Instruction	1,651,626	838,125	813,501		
Support services - students and staff	268,283	254,018	14,265		
Support services - administration	179,761	162,353	17,408		
Operation and maintenance of plant services	119,885	159,573	(39,688)		
Student transportation services	158,029	220,426	(62,397)		
Operation of non-instructional services	1,158,050	1,008,965	149,085		
Capital outlay	82,669	133,501	(50,832)		
Total expenditures	3,618,303	2,776,961	841,342		
Excess (deficiency) of revenues over expenditures	(3,618,303)	88,430	3,706,733		
Other financing sources (uses):					
Transfers in		72,540	72,540		
Transfers out		(72,540)	(72,540)		
Total other financing sources (uses)					
Changes in fund balances	(3,618,303)	88,430	3,706,733		
Fund balances (deficits), beginning of year		577,696	577,696		
Fund balances (deficits), end of year	\$ (3,618,303)	\$ 666,126	\$ 4,284,429		

	Debt Service				
	Budget	Actual	Variance - Positive (Negative)		
Revenues:					
Other local	\$	\$ 726	\$ 726		
Property taxes		197,410	197,410		
Total revenues		198,136	198,136		
Expenditures:					
Debt service -					
Principal retirement	165,000	165,000			
Interest and fiscal charges	180,200	30,626	149,574		
Total expenditures	345,200	195,626	149,574		
Changes in fund balances	(345,200)	2,510	347,710		
Fund balances, beginning of year		22,045	22,045		
Fund balances (deficits), end of year	\$ (345,200)	\$ 24,555	\$ 369,755		

	Insurance Proceeds			
	Budget	Non-GAAP Actual	Variance - Positive (Negative)	
Revenues:		\$ 37	\$ 37	
Other local	\$	\$ 37	\$ 37	
Property taxes				
State aid and grants Total revenues	-	37	37	
Total revenues				
Expenditures:				
Current -	No.	- 4774	(4)	
Support services - administration	40	10.148	(4) (48)	
Operation and maintenance of plant services	19,100	19,148 17,902	(102)	
Student transportation services	17,800 18,060	18,209	(149)	
Capital outlay Debt service -	18,000	10,207	(117)	
Principal retirement				
Interest and fiscal charges		· · · · · · · · · · · · · · · · · · ·		
Total expenditures	55,000	55,303	(303)	
Excess (deficiency) of revenues over expenditures	(55,000)	(55,266)	(266)	
W 1995				
Other financing sources (uses):				
Transfers in Insurance recoveries		52,815	52,815	
Total other financing sources (uses)		52,815	52,815	
Total other mancing sources (uses)			0	
Changes in fund balances	(55,000)	(2,451)	52,549	
Fund balances, beginning of year		2,451	2,451	
Fund balances (deficits), end of year	\$ (55,000)	\$	\$ 55,000	

U	nrestricted Capital Outl	ay	Adjacent Ways			
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)	
\$	\$ 2,127	\$ 2,127	\$	\$ 123 29,002	\$ 123 29,002	
	2,127	2,127		29,125	29,125	
451,188 68,583	139,430 68,583	311,758	77,719	66,155	11,564	
4,607 524,378	4,607 212,620	311,758	77,719	66,155	11,564	
(524,378)	(210,493)	313,885	(77,719)	(37,030)	40,689	
(524,378)	(210,493)	313,885	(77,719)	(37,030)	40,689	
	516,377	516,377		56,339	56,339	
\$ (524,378)	\$ 305,884	\$ 830,262	\$ (77,719)	\$ 19,309	\$ 97,028	

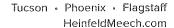
	Gifts and Donations - Capital			
	Budget	Actual	Variance - Positive (Negative)	
Revenues:	ф	Φ 124	Φ 124	
Other local	\$	\$ 134	\$ 134	
Property taxes				
State aid and grants		134	134	
Total revenues		134	134	
Expenditures: Current - Support services - administration Operation and maintenance of plant services Student transportation services Capital outlay Debt service - Principal retirement	21,000	9,281	11,719	
Interest and fiscal charges Total expenditures	21,000	9,281	11,719	
Total expenditures	21,000			
Excess (deficiency) of revenues over expenditures	(21,000)	(9,147)	11,853	
Other financing sources (uses): Transfers in Insurance recoveries Total other financing sources (uses)				
Changes in fund balances	(21,000)	(9,147)	11,853	
Fund balances, beginning of year		20,930	20,930	
Fund balances (deficits), end of year	\$ (21,000)	\$ 11,783	\$ 32,783	

Energy and Water Savings		Building Renewal Grant				
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)	
\$	\$	\$	\$	\$ 17	\$ 17	
				4,773 4,790	4,773 4,790	
10,000	17,825	(7,825)	4,779	4,790	(11)	
46,808 13,340 70,148	51,808 18,341 87,974	(5,000) (5,001) (17,826)	4,779	4,790	(11)	
(70,148)	(87,974)	(17,826)	(4,779)	2,72	4,779	
	58,000	58,000				
	58,000	58,000	· · · · · · · · · · · · · · · · · · ·			
(70,148)	(29,974)	40,174	(4,779)	Administration	4,779	
	30,681	30,681				
\$ (70,148)	\$ 707	\$ 70,855	\$ (4,779)	\$	\$ 4,779	

	Totals				
	Budget	Non-GAAP Actual	Variance - Positive (Negative)		
Revenues:		780 SV VS/S			
Other local	\$	\$ 2,438	\$ 2,438		
Property taxes		29,002	29,002		
State aid and grants		4,773	4,773		
Total revenues	£	36,213	36,213		
Expenditures:					
Current -					
Support services - administration	40	44	(4)		
Operation and maintenance of plant services	19,100	19,148	(48)		
Student transportation services	17,800	17,902	(102)		
Capital outlay	582,746	255,690	327,056		
Debt service -					
Principal retirement	115,391	120,391	(5,000)		
Interest and fiscal charges	17,947	22,948	(5,001)		
Total expenditures	753,024	436,123	316,901		
Excess (deficiency) of revenues over expenditures	(753,024)	(399,910)	353,114		
Other financing sources (uses):					
Transfers in		58,000	58,000		
Insurance recoveries		52,815	52,815		
Total other financing sources (uses)		110,815	110,815		
Changes in fund balances	(753,024)	(289,095)	463,929		
Fund balances, beginning of year		626,778	626,778		
Fund balances (deficits), end of year	\$ (753,024)	\$ 337,683	\$ 1,090,707		

SINGLE AUDIT SECTION

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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 Nadaburg Unified School District No. 81

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 Nadaburg Unified School District No. 81, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Nadaburg Unified School District No. 81's basic financial statements, and have issued our report thereon dated March 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nadaburg Unified School District No. 81'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 Nadaburg Unified School District No. 81's internal control. Accordingly, we do not express an opinion on the effectiveness of Nadaburg Unified School District No. 81's internal control.

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

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item FS-2017-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item FS-2017-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nadaburg Unified School District No. 81'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*.

Nadaburg Unified School District No. 81's Response to Findings

Nadaburg Unified School District No. 81's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Nadaburg Unified School District No. 81'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.

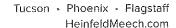
Purpose of this Report

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, meach & Co., P.C.

Phoenix, Arizona March 27, 2018





Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

Governing Board Nadaburg Unified School District No. 81

Report on Compliance for Each Major Federal Program

We have audited Nadaburg Unified School District No. 81's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Nadaburg Unified School District No. 81's major federal programs for the year ended June 30, 2017. Nadaburg Unified School District No. 81's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Nadaburg Unified School District No. 81's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nadaburg Unified School District No. 81's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Nadaburg Unified School District No. 81's compliance.

Basis for Qualified Opinion on Head Start

As described in in the accompanying schedule of findings and questioned costs, Nadaburg Unified School District No. 81 did not comply with requirement regarding CFDA 93.600 Head Start for Reporting as described in finding number 2017-001. Compliance with such requirements is necessary, in our opinion, for Nadaburg Unified School District No. 81 to comply with the requirements applicable to that program.

Qualified Opinion on Head Start

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Nadaburg Unified School District No. 81 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Head Start for the year ended June 30, 2017.

Unmodified Opinion on the Other Major Federal Program

In our opinion, Nadaburg Unified School District No. 81 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2017.

Other Matters

Nadaburg Unified School District No. 81's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Nadaburg Unified School District No. 81's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Nadaburg Unified School District No. 81 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Nadaburg Unified School District No. 81's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Nadaburg Unified School District No. 81's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

Nadaburg Unified School District No. 81's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Nadaburg Unified School District No. 81's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nadaburg Unified School District No. 81 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Nadaburg Unified School District No. 81's basic financial statements. We issued our report thereon dated March 27, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Heinfeld, Mulch & Co., P.C. Heinfeld, Meech & Co., P.C.

Phoenix, Arizona March 27, 2018

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2017

Federal/Pass-Through/Agency	CFDA <u>Number</u>	Federal Award <u>Number</u>	Expenditures and Transfers	Total Expenditures and Transfers
U.S. Department of Education				
Passed through Arizona Department of Education:				
Title I Grants to Local Educational Agencies	84.010	S010A160003		\$ 321,453
Special Education Cluster:				
Special Education - Grants to States	84.027	H027A160007	\$ 179,475	
Special Education - Preschool Grants	84.173	H173A160003	17,677	
Total Special Education Cluster				197,152
Twenty-First Century Community Learning Centers	84.287	S287C160003		192,002
English Language Acquisition Grants	84.365	S365A160003		15,146
Supporting Effective Instruction State Grant	84.367	S367A160049		23,954
Passed through Maricopa County:				
Teacher and School Leader Incentive Grants	84.374	N/A		1,750
Investing in Innovation (i3) Fund	84.411	U411C130116		20,253
Total U.S. Department of Education				771,710
U.S. Department of Agriculture Passed through Arizona Department of Education: Child Nutrition Cluster: Non-Cash Assistance (Commodities):				
National School Lunch Program	10.555	7AZ300AZ3	50,515	
Summer Food Service Program for Children	10.559	7AZ300AZ3	518	
Non-Cash Assistance (Commodities) Subtotal			51,033	
Cash Assistance:				
School Breakfast Program	10,553	7AZ300AZ3	101,747	
National School Lunch Program	10.555	7AZ300AZ3	252,784	
Summer Food Service Program for Children	10.559	7AZ300AZ3	2,592	
Cash Assistance Subtotal			357,123	
Total Child Nutrition Cluster				408,156
U.S. Department of Health and Human Services				
Passed through Maricopa County:				
Head Start	93.600	N/A		148,233
Passed through Public Consulting Group, Inc.: Medicaid Cluster:				
Medical Assistance Program	93.778	N/A		21,651
Total U.S. Department of Health and Human Services				169,884
Total Expenditures of Federal Awards				\$1,349,750

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Nadaburg Unified School District No. 81 under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the applicable Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2017 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

NOTE 4 - INDIRECT COST RATE

The District has not elected to use the 10% de minimis cost rate as covered in §200.414 Indirect (F&A) costs.

Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Significant deficiency(ies) identified: Yes

• Material weakness(es) identified: Yes

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

• Significant deficiency(ies) identified: No

Material weakness(es) identified: Yes

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: Yes

Identification of major programs:

<u>CFDA Numbers</u> 10.553, 10.555, 10.559 93.600 Name of Federal Program or Cluster Child Nutrition Cluster Head Start

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee: No

Findings Related to Financial Statements Reported in Accordance with Government Auditing Standards: Yes

Findings and Questioned Costs Related to Federal Awards: Yes

Summary Schedule of Prior Audit Findings required to be reported: Yes

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

Finding Number: FS-2017-001 Repeat Finding: Yes – FS-2016-001 Type of Finding: Material Weakness

Description: Internal Controls Over Cash and Accounting Records

CRITERIA

District management is responsible for establishing and maintaining internal controls that include ensuring the cash balances reported in the District's accounting records reconcile to the cash balances reported by the County Treasurer and that bank accounts are reconciled monthly. According to Uniform System of Financial Records (USFR) guidelines, the District's records of cash balances must be reconciled to those of the County Treasurer at least monthly and performed timely to ensure funds on deposit with the County Treasurer are accurate and the related revenue and expenditure transactions, as well as cash transactions recorded via adjusting journal entry are properly recorded. Additionally, the District must reconcile its records of cash balances by fund monthly with the County School Superintendent (CSS). Furthermore, the District is responsible for ensuring any differences that result from reconciliations with the County Treasurer's records are researched and resolved in a timely manner. Lastly, the District should review journal entries after being posted to ensure the intended effect was achieved.

CONDITION

The District's cash reconciliation process was not designed effectively to remediate reconciling items on a timely basis. Additionally, there were unreconciled differences noted on the year end cash reconciliation. Finally, the District's process to review and post appropriate journal entries was not designed to identify entries prior to posting.

CAUSE

The District did not have a defined process in place to ensure that reconciling items were identified and resolved in a timely manner. Additionally, although journal entries were approved as evidence by a signature, they were not always reviewed to ensure the intended effect was achieved.

EFFECT

The District's internal controls over the cash reconciliation process were not adequate to ensure that a misstatement would be prevented and/or detected in a timely manner. There were unreconciled differences noted on the cash reconciliation. Additionally, the District's process to review journal entries did not identify the errors prior to posting, which resulted in overstated beginning fund balance and understated revenue. Audit adjustments were necessary to properly state the financial statements.

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

Finding Number: FS-2017-001

CONTEXT

Based on our review of the District's cash reconciliation with the County Treasurer, the following items were noted:

- There were unreconciled differences of \$123 in County Treasurer Fund 001, \$80,531 in County Treasurer Fund 200, and \$4,063 in County Treasurer Fund 850.
- The District did not resolve reconciling items on the reconciliation with the County Treasurer in a timely manner. Specifically, the District did not initiate treasurer transfers to properly state cash between treasurer funds for entries made in fiscal year 2016 and the District did not record the January 2017 interest payment on outstanding bonds
- The District did not have sufficient pooled cash balances with the County Treasurer at year end to allow for interfund borrowing for financial statement presentation purposes to eliminate all cash deficits. Therefore, a Due to County Treasurer liability in the amount of \$131,578 is recorded in the financial statements.
- A journal entry intended to properly record activity in the Intergovernmental Agreements and School Plant Funds was incorrectly posted to beginning fund balance rather than revenue.

RECOMMENDATION

The District must design and implement effective internal control procedures to ensure the cash balances reported in the District's accounting records reconcile to the cash balances reported by the County Treasurer. In addition, the District should investigate and resolve reconciling items timely to ensure the accounting records are accurate. This will allow for easier identification of the related accounts with errors to ensure corrections are posted to avoid misstatement of the District's accounting records for a prolonged period. Further, the District should ensure USFR guidelines and state statutes are followed. Lastly, the District should ensure that journal entries are assessed during review to ensure the propriety of the entry to reduce the risk of errors.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

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

Finding Number: FS-2017-002

Repeat Finding: No

Type of Finding: Significant Deficiency

Description: Internal Controls Over Capital Assets

CRITERIA

Management is responsible for establishing internal controls over capital assets to allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. The Uniform System of Financial Records (USFR) guidelines require the District to establish and implement certain policies and procedures with respect to capital assets.

CONDITION

The District did not have adequate internal controls in place to prevent or detect errors in the capital asset schedules prepared for financial reporting.

CAUSE

The capital outlay reconciliation was not reviewed to ensure all capital asset additions were captured. Additionally, capital asset additions were not reviewed to ensure they met the capital asset criteria.

EFFECT

The District's internal controls over capital assets with respect to financial reporting were not adequate to ensure that a misstatement would be prevented and/or detected. Additionally, management revisions to the District's capital asset schedules were necessary to correct errors noted by auditors.

CONTEXT

A prior year construction in progress project costing \$87,869 was not capitalized on the capital asset listing initially provided by the District. The District updated the capital asset listing, however the project was capitalized at the incorrect value, resulting in an understatement of \$18,910. Additionally, for two of five capital asset additions selected for review, the additions did not meet the criteria of a capital asset.

RECOMMENDATION

The District should implement the necessary review procedures to ensure that all capitalizable assets are included in the capital assets listings. Additionally, the District should perform additional reviews of capital asset additions to ensure they meet the capital asset criteria.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2017-001

Repeat Finding: No

Program Name/CFDA Title: Head Start

CFDA Number: 93.600

Federal Agency: U.S. Department of Health and Human Services

Federal Award No: N/A

Pass-Through Agency: Maricopa County

Questioned Costs: N/A

Type of Finding: Noncompliance, Material Weakness

Compliance Requirement: Reporting

CRITERIA

The District must submit invoices to the County to ensure reimbursement for Head Start eligible expenditures.

CONDITION

The District did not submit for \$107,049 of Head Start eligible expenditures made during fiscal year 2017.

CAUSE

The District did not include all expenditure account codes in the reports used as the basis for the invoices submitted to the County for reimbursement.

EFFECT

The District did not submit invoices in order to receive \$107,049 of Head Start grant funding. The District then used local monies to cover the expenditures from the M&O Fund.

CONTEXT

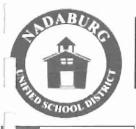
The District reclassified Head Start expenditures to the M&O fund after discovering the amount that was not submitted for reimbursement.

RECOMMENDATION

The District should ensure that there is a defined process to ensure that all expenditure codes are included in the report used to submit invoices to the pass-through agency. Furthermore, a comparison between expenditures and revenues billed for and received should be made.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.



Nadaburg Unified School District No. 81

Quality Education: Every Student! Every Day!

32919 Center Street, Wittmann, AZ 85361 Office: (623) 388.2100 Fax: (623) 388.2915 www.nadaburgsd.org

Rick Stephen Superintendent

Kerre Laabs Director of Business Services Human Resources

> James Scott Director of Educational Services

March 27, 2018

To Whom It May Concern:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Uniform Guidance. The name of the contact person responsible for corrective action, the planned corrective action, and the anticipated completion date for each finding included in the current year's Schedule of Findings and Questioned Costs have been provided.

In addition, we have also prepared the accompanying Summary Schedule of Prior Audit Findings which includes the status of audit findings reported in the prior year's audit.

Sincerely,

Kerre Laabs Director of Business Services

Governing Board

Sue Dolphin President

Matt Varitek Clerk

Sandy Jordan Member

Valerie Serrano Member

> Ann Brown Member

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NADABURG UNIFIED SCHOOL DISTRICT NO. 81 CORRECTIVE ACTION PLAN YEAR ENDED JUNE 30, 2017

Findings Related to Financial Statements Reported in Accordance with Government Auditing Standards

Finding Number: FS-2017-001

Contact Person: Kerre Laabs, Director of Business Services

Anticipated Completion Date: May 31, 2018

Planned Corrective Action: The Director of Business Services will meet with the Maricopa County Education Services staff who are responsible to assist the District with the cash reconciliation with the Treasurer's Office to ensure that all outstanding reconciling items are

resolved.

Finding Number: FS-2017-002

Contact Person: Kerre Laabs, Director of Business Services

Anticipated Completion Date: July 31, 2018

Planned Corrective Action: The Director of Business Services will ensure that the staff responsible for preparing and reconciling the capital assets are properly trained and that a full inventory of the

assets is conducted and updated in the capital asset record keeping system.

Findings and Questioned Costs Related to Federal Awards

Finding Number: 2017-001

Program Name/CFDA Title: Head Start

CFDA Number: 93.600

Contact Person: Kerre Laabs, Director of Business Services

Anticipated Completion Date: March 31, 2018

Planned Corrective Action: The Director of Business Services will review all Head Start invoices to ensure that all expenses are being claimed and submitted for reimbursement. In addition, the Director of Business Services will reconcile the revenues received to ensure the District is

reimbursed for all invoices submitted.

NADABURG UNIFIED SCHOOL DISTRICT NO. 81 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2017

Status of Findings Related to Financial Statements Reported in Accordance with Government Auditing Standards

Finding Number: FS-2016-001

Status: Not corrected.

Planned Corrective Action: The Director of Business Services will meet with the Maricopa County Education Services staff who are responsible to assist the District with the cash reconciliation with

the Treasurer's Office to ensure that all outstanding reconciling items are resolved.

Status of Findings and Questioned Costs Related to Federal Awards

Finding Number: 2016-001, 2015-001

Program Name/CFDA Title: Child Nutrition Cluster

CFDA Numbers: 10.553, 10.555

Status: Fully corrected.

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