

**HOLBROOK UNIFIED SCHOOL
DISTRICT NO. 3**

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2022

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2022**

CONTENTS

Independent Auditors' 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* 1

Independent Auditors' 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 3

Schedule of Expenditures of Federal Awards 7

Notes to Schedule of Expenditures of Federal Awards 8

Schedule of Findings and Questioned Costs:

 Section I - Summary of Auditors' Results 9

 Section II - Financial Statement Findings 10

 Section III - Federal Award Findings and Questioned Costs 11

Corrective Action Plan 12

Summary Schedule of Prior Audit Findings 13



INDEPENDENT AUDITORS' 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

Governing Board of
Holbrook Unified School District No. 3

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holbrook Unified School District No. 3 (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 27, 2023.

Internal Control over Financial Reporting

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

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the District in a separate document entitled Uniform System of Financial Records (USFR) Compliance Questionnaire released January 27, 2023.

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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Scottsdale, Arizona

January 27, 2023



INDEPENDENT AUDITORS' 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

Governing Board of
Holbrook Unified School District No. 3
Holbrook, Arizona

**Report on Compliance for Each Major Federal Program
Opinion on Each Major Federal Program**

We have audited Holbrook Unified School District No. 3's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2022. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and that is described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on 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 the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of 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 the District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements. We issued our report thereon dated January 27, 2023, 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.

CWDL, Certified Public Accountants

Scottsdale, Arizona

January 27, 2023

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Grantor's Number	Expenditures and Transfers
<u>U.S. Department of Agriculture</u>			
Indirect:			
Arizona Department of Education:			
COVID-19 P-EBT Administration	10.542	None	\$ 3,063
Child Nutrition Cluster:			
National School Lunch Programs:			
Donated commodities	10.555	None	90,175
Summer Food Program	10.559	None	<u>1,129,132</u>
Total Child Nutrition Cluster			1,219,307
Fresh Fruit and Vegetable Program	10.582	22FFVPP2-211393-01A	<u>3,224</u>
Total U.S. Department of Agriculture			<u><u>1,225,594</u></u>
<u>U.S Department of Interior</u>			
Direct:			
Indian Education Assistance to Schools	15.130	N/A	137,563
<u>U.S. Department of Education</u>			
Direct:			
Impact Aid	84.041	N/A	3,870,159
Indian Education	84.060	N/A	223,289
Indirect:			
Arizona Department of Education:			
Title I Grants	84.010	22FT1TTI-211393-01A	1,351,728
Special Education Cluster:			
Special Education-Grants to States	84.027	22FESCBG-211393-09A	396,649
Special Education-Navajo Preschool	84.027	22FECNAV-211393-81A	3,986
Special Education - Preschool Grants	84.173	22FECCBP-211393-37A	<u>10,747</u>
Total Special Education Cluster			411,382
Career and Technical Education	84.048	22FCTDBG-211393-08A	79,122
Rural and Low-Income Schools Grant	84.358	22FTIRLC-211393-04A	18,760
Acceleration Academies Grant	84.425C	22FCAAAG-211393-01	37,007
Elem & Secondary School Emergency Relief I	84.425D	21FESSER-111393-01A	84,952
Elem & Secondary School Emergency Relief II	84.425D	21FESSII-111393-01A	1,395,201
Elem & Secondary School Emergency Relief III	84.425U	21FESIII-111393-01A	56,177
English Language Acquisition State Grants	84.365	22FELENG-211393-66A	8,927
Supporting Effective Instruction State Grant	84.367	22FT1TII-211393-03A	<u>109,209</u>
Total U.S. Department of Education			<u><u>7,645,913</u></u>
<u>Federal Communications Commission</u>			
Direct:			
Emergency Connectivity Fund Program	32.009	N/A	<u>515,043</u>
Total Expenditures of Federal Awards			<u><u>\$ 9,524,113</u></u>

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 1 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the District's federal grant activity for the year ended June 30, 2022. The information in this schedule is presented in accordance with the 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).

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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 3 - FEDERAL ASSISTANCE LISTING NUMBERS

The program titles and federal assistance listing numbers were obtained from the federal or pass-through grantor.

NOTE 4 - NON-CASH ASSISTANCE

Food donations as reported for the Child Nutrition Cluster represents the amount of donated food used during the fiscal year ended June 30, 2022. Commodities are valued at fair value at the time of donation.

NOTE 5 - INDIRECT COST RATE

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

NOTE 6 - COMPLIANCE SUPPLEMENT

The audit of the federal awards was completed under the OMB Compliance Supplement issued April 2022.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2022**

SECTION I - SUMMARY OF AUDITORS' RESULTS

As required by United States Office of Management and Budget Uniform Guidance, 2 CFR 200.15, the following is a summary of the results of the audit of Holbrook Unified School District No. 3 for the fiscal year ended June 30, 2022.

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes

Identification of major programs:

Federal Assistance Listing Numbers	Name of Federal Program or Cluster
84.010	Title I
84.041	Impact Aid
84.425D & 84.425U	Covid-19 Elem & Secondary School Emergency Relief
32.009	Emergency Connectivity Fund Program
	Special Education Cluster:
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants
	Child Nutrition Cluster:
10.555	National School Lunch Program
10.559	Summer Food Program

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

Other Matters:

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with 2 CFR 200.511(b)?	Yes
---	-----

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2022**

SECTION II - FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2022**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2022-001	Management Controls Child Nutrition Program
CFDA Number	10.555, 10.559
Program Title	Child Nutrition Cluster
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Arizona Department of Education (ADE)
Compliance Requirement	C. Cash Management
Finding Type	Noncompliance, Significant Deficiency

Condition

The following deficiencies were noted regarding the District's controls over the Child Nutrition Program:

- The District over claimed the number of meals served during fiscal year 2021-22. Based on audit recalculation, the dollar value of the over claimed meals was \$7,732.
- The District did not have a secondary review for the NSLP claim forms prior to submission.

Criteria

Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child's household to published income eligibility guidelines.

Child Nutrition Program claim forms should be supported by documentation showing that the number of meals for which reimbursement was requested and document that the meals were served prior to the date of the reimbursement request. The claim reports should be filed on a timely basis.

Cause

The District had insufficient controls and oversight over the Child Nutrition Program due to turnover in food service management personnel during the fiscal year.

Effect

Without proper controls over applications and the filing of claims, the District could over or under claim their reimbursements from the Child Nutrition Program without detecting the error.

Recommendation

We recommend the District have a second employee verify and approve all NSLP Claim forms to ensure the claim forms are accurate and complete prior to submission.



HOLBROOK UNIFIED SCHOOL DISTRICT #3



CORRECTIVE ACTION PLAN - FINDING 2022-001

We have prepared the accompanying corrective action plan as required by the standards applicable to the financial audit contained in Government Auditing Standards and by 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).

CFDA Number 10.555, 10.559
Program Title Child Nutrition Cluster
Federal Agency U.S. Department of Agriculture

Condition

The District did not properly review child nutrition claim forms prior to submission to the Arizona Department of Education resulting in net over claimed amount of \$7,732.

Corrective Action Plan

The District has implemented a review of child nutrition claims to source reports prior to submission to the Arizona Department of Education.

District Contact Erin Pugh, Business Manager

Completion Date January 27, 2023

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2022**

Prior Year Findings

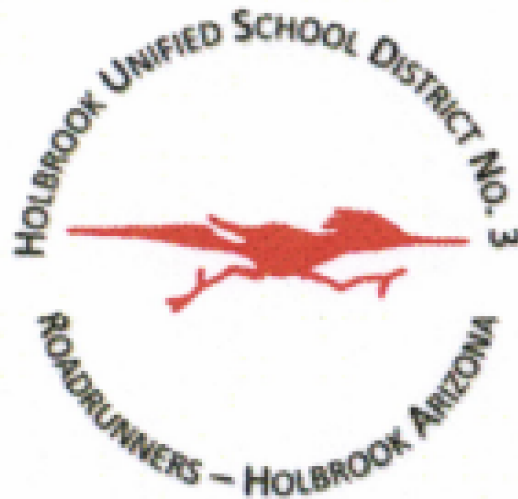
2021-001	Recording of E-Rate Revenues
Fiscal year of initial occurrence:	June 30, 2021 (Finding 2021-001)
Summary of Finding:	E-Rate revenues of \$127,042 paid directly to vendors on the District's behalf were not recorded.
Status:	Corrected.

2021-002	Management Controls Child Nutrition Program
Federal Assistance Number	10.553, 10.555, 10.559
Program Title	Child Nutrition Cluster
Federal Agency	U.S. Department of Agriculture
Compliance Requirement	C. Cash Management
Fiscal year of initial occurrence:	June 30, 2021 (Finding 2021-002)
Summary of Finding:	The District under claimed the # of meals served and the District did not have a secondary review of NSLP claim forms prior to submission.
Status:	Not Corrected. See current finding 2022-001

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
HOLBROOK, ARIZONA**

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2022



**Issued by:
Business and Finance Department**

This page is intentionally left blank.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
TABLE OF CONTENTS
JUNE 30, 2022**

Page

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT.....1

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A).....7

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements:

Statement of Net Position.....22

Statement of Activities.....23

Fund Financial Statements:

Governmental Funds:

Balance Sheet - Governmental Funds.....26

Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Position.....29

Statement of Revenues, Expenditures, and Changes In Fund Balances -
Governmental Funds30

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Government-Wide
Statement of Activities.....32

Notes to the Financial Statements.....33

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule - General Fund.....59

Budgetary Comparison Schedule - Title I Grant Fund.....61

Schedule of the District's Proportionate Share of the Net Pension Liability.....62

Schedule of the District's Proportionate Share of the Other Postemployment
Benefit Liability.....64

Schedule of District Pension Contributions.....66

Schedule of District Other Postemployment Benefit Contributions.....68

Note to Required Supplementary Information.....70

This page intentionally left blank.



INDEPENDENT AUDITOR'S REPORT

Governing Board of
Holbrook Unified School District No. 3
Holbrook, Arizona

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Holbrook Unified School District No. 3, (the District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the District, as of year ended June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Holbrook Unified School District No. 3's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, and the pension schedules, as presented in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

CWDL, Certified Public Accountants

Scottsdale, Arizona

January 27, 2023

This page intentionally left blank.

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

This page intentionally left blank.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

As management of the Holbrook Unified School District No. 3 (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, 2022. We encourage readers to consider the information presented here in conjunction with the audited financial statements included in this report.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year June 30, 2022, were as follows:

- As of June 30, 2022, the District's total net position was \$31.8 million. This is an increase of \$468,169, or 1.5 percent, from fiscal year 2020-21.
- General revenues of \$18.2 million accounted for 63.6 percent of all fiscal year 2021-22 revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions of \$10.4 million accounted for 36.4 percent of total fiscal year 2021-22 revenues.
- The District had \$28.1 million in expenses related to governmental activities; of which \$10.4 million of these expenses were offset by program specific charges for services, operating grants and contributions, and capital grants and contributions. General revenues of \$18.2 million provided resources for most of the remaining \$17.7 million of District costs. The excess between the general revenues and remaining District costs resulted in net position increasing \$468,169.
- The General Fund reported \$18.1 million in revenues and \$19.8 million in expenditures. The revenues consisted primarily of \$10.2 million in state aid and grants and \$4.0 million in federal aid and grants. As a result of annual activity, the General Fund's fund balance decreased \$1.7 million.
- The District's net capital assets increased \$1.7 million as a result of activity throughout the year. For additional information regarding the capital assets, see financial statement note 7.
- On July 1, 2021, the District made a \$265,000 principal payment on outstanding bonds reducing the principal owed to \$1.2 million as of June 30, 2022. For further information regarding bonds, see financial statement note 11.
- The District made a \$110,000 principal payment on the Financed Purchase reducing the principal balance to \$221,747 as of June 30, 2022. For further information regarding leases, see financial statement note 13.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

FINANCIAL HIGHLIGHTS

- The District was awarded \$3,381,050 in ESSER II grant monies that can be expended through September 30, 2022; and \$6,816,482 in ESSER III grant monies that can be expended through September 30, 2023. The District spent \$1,757,741 from ESSER II Fund and \$56,177 from ESSER III Fund during fiscal years 2020-21 and 2021-22. Therefore, the unspent remaining amounts were \$1,623,309 from ESSER II fund and \$6,760,305 from ESSER III Fund, which can be used for subsequent fiscal years.
- The District reported a cash and investment balance of \$10.5 million in the General Fund as of June 30, 2022. Of this amount, \$6.4 million is held in the Federal Impact Aid Fund and is unrestricted. During the fiscal year, the District recorded \$33,235 of interest revenue in the Impact Aid Fund.

OVERVIEW OF FINANCIAL STATEMENTS

The District's basic financial statements are comprised of the government-wide financial statements, the fund financial statements and the notes to the financial statements. These sections provide a comprehensive overview of the District's finances.

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

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

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

The government-wide financial statements of the District include the Governmental activities. Most of the District's basic services are included here, such as instruction, extra-curricular activities, curriculum and staff development, and general administration. Property taxes, intergovernmental revenues and grants finance most of these activities.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

OVERVIEW OF FINANCIAL STATEMENTS

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 presented within governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the 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. 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 all major funds. Data from the other non-major governmental funds are combined into a single, aggregated presentation.

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.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process. The District adopts an annual expenditure budget for all governmental funds. A budgetary comparison schedule is provided for the General Fund and any major special revenue funds. Additionally, pension schedules detailing the District's proportionate share of net pension liability and pension contributions are presented as required supplementary information.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table presents a comparison of the District's net position for the fiscal years ended June 30, 2022 and 2021.

	As of <u>June 30, 2022</u>	As of <u>June 30, 2021</u>	<u>Change</u>	<u>Percent Change</u>
ASSETS				
Current and other assets	\$ 15,510,642	\$ 17,929,526	\$ (2,418,884)	(13.5)%
Capital assets	<u>36,057,393</u>	<u>34,403,995</u>	<u>1,653,398</u>	<u>4.8 %</u>
Total assets	<u>51,568,035</u>	<u>52,333,521</u>	<u>(765,486)</u>	<u>(1.5)%</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>3,862,145</u>	<u>3,827,505</u>	<u>34,640</u>	<u>0.9 %</u>
LIABILITIES				
Current liabilities	1,352,980	1,710,798	(357,818)	(20.9)%
Noncurrent liabilities	<u>16,541,975</u>	<u>22,449,420</u>	<u>(5,907,445)</u>	<u>(26.3)%</u>
Total liabilities	<u>17,894,955</u>	<u>24,160,218</u>	<u>(6,265,263)</u>	<u>(25.9)%</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>5,757,875</u>	<u>691,627</u>	<u>5,066,248</u>	<u>732.5 %</u>
NET POSITION				
Net investment in capital assets	34,665,646	32,637,248	2,028,398	6.2 %
Restricted	4,075,924	3,869,090	206,834	5.3 %
Unrestricted	<u>(6,964,220)</u>	<u>(5,197,157)</u>	<u>(1,767,063)</u>	<u>(34.0)%</u>
Total net position	<u>\$ 31,777,350</u>	<u>\$ 31,309,181</u>	<u>\$ 468,169</u>	<u>1.5 %</u>

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

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 of resources exceeded liabilities and deferred inflows of resources by \$31.8 million as of June 30, 2022. The following represents significant information regarding changes and balances:

- The District's current assets decreased \$2.4 million primarily due to an increase in property tax receivable.
- The District had \$3.7 million in additions and \$15,249 of net deletions to capital assets that were offset by depreciation expense of \$2.1 million, resulting in an overall net increase in capital assets of \$1.7 million.
- Current liabilities decreased \$357,818 due to a decrease in expenditures during the 60-day encumbrance period after year end as compared to the prior year.
- Noncurrent liabilities decreased \$5.9 million, deferred outflows of resources increased \$34,640, and deferred inflows of resources increased \$5.1 million primarily due to the results of investment activity and participant activity when compared to Arizona State Retirement System's estimates.
- By far, the largest portion of the District's net position, \$34.7 million, reflects its net investment in capital assets. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Additionally, \$4.1 million of the District's net position represents resources that are subject to external restrictions. The remaining deficit balance of net position, \$7.0 million, is considered unrestricted. For additional information regarding net position, see financial statement note 1.Q.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table presents a comparison of the changes in net position for the fiscal years ended June 30, 2022 and 2021.

	Fiscal Year Ended <u>June 30, 2022</u>	Fiscal Year Ended <u>June 30, 2021</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Program revenues:				
Charges for services	\$ 756,115	\$ 464,778	\$ 291,337	62.7 %
Operating grants and contributions	8,033,581	5,559,859	2,473,722	44.5 %
Capital grants and contributions	1,626,345	246,577	1,379,768	559.6 %
General revenues:				
Taxes	3,427,904	3,026,757	401,147	13.3 %
State aid	10,315,182	13,678,286	(3,363,104)	(24.6)%
Federal aid	3,870,159	4,253,316	(383,157)	(9.0)%
County aid	480,502	553,410	(72,908)	(13.2)%
Payments in lieu of taxes	17,315	16,620	695	4.2 %
Investment income	69,653	130,990	(61,337)	(46.8)%
Miscellaneous	10,311	6,633	3,678	55.5 %
Total revenues	<u>28,607,067</u>	<u>27,937,226</u>	<u>669,841</u>	<u>2.4 %</u>
Expenses:				
Instruction	14,825,422	13,728,531	1,096,891	8.0 %
Support services - students and staff	2,961,136	2,393,338	567,798	23.7 %
Support services - administration	3,373,653	2,312,143	1,061,510	45.9 %
Operation and maintenance of plant	3,629,356	3,403,693	225,663	6.6 %
Student transportation services	1,850,255	1,400,092	450,163	32.2 %
Operation of non-instructional services	1,435,434	1,431,856	3,578	0.2 %
Interest on long-term debt	63,642	80,186	(16,544)	(20.6)%
Total expenses	<u>28,138,898</u>	<u>24,749,839</u>	<u>3,389,059</u>	<u>13.7 %</u>
Change in net position	468,169	3,187,387	(2,719,218)	(85.3)%
Beginning net position (restated)	<u>31,309,181</u>	<u>28,121,794</u>	<u>3,187,387</u>	<u>11.3 %</u>
Ending net position	<u>\$ 31,777,350</u>	<u>\$ 31,309,181</u>	<u>\$ 468,169</u>	<u>1.5 %</u>

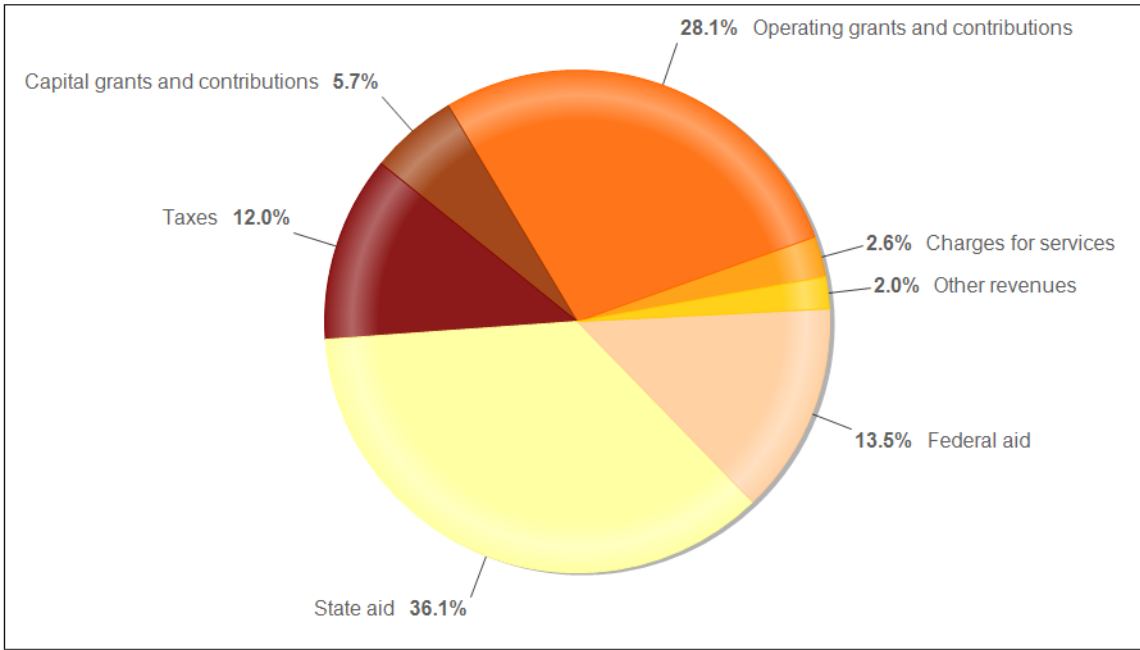
Net position increased \$468,169; the following represents significant information regarding changes:

- Revenues increased \$669,841 primarily due to an increase in property taxes.
- Expenses increased \$3.4 million due to implementation of cost savings measures due to the expectation of decreased tax revenues.

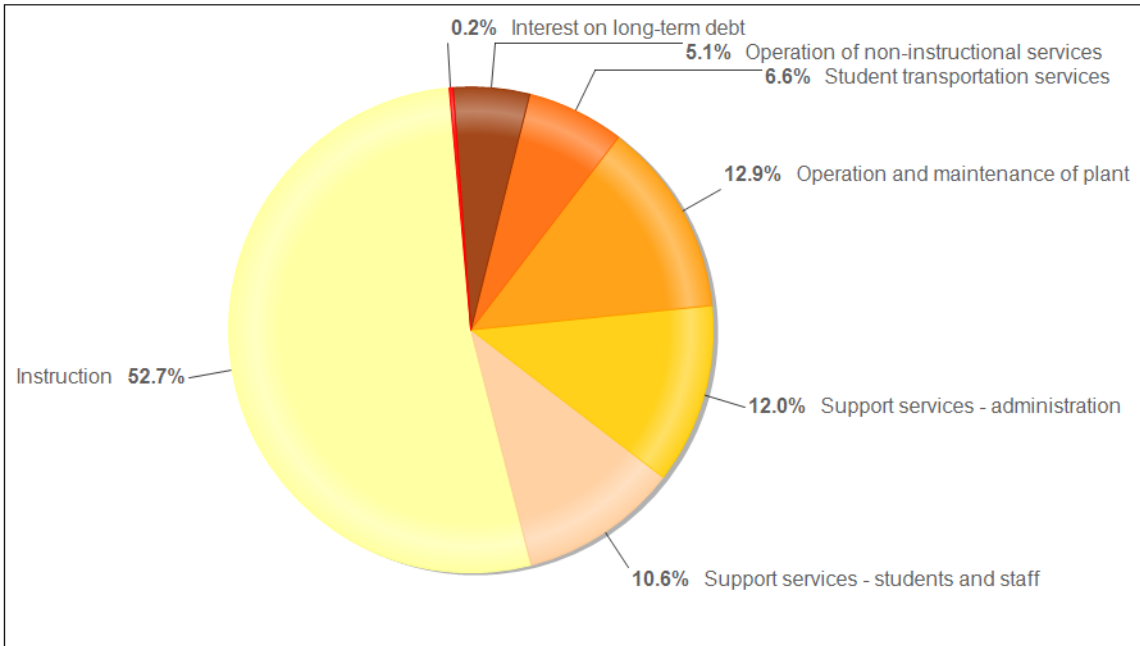
HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022

GOVERNMENT-WIDE FINANCIAL ANALYSIS

District-Wide Revenues
FY 2021-22



District-Wide Expenses
FY 2021-22

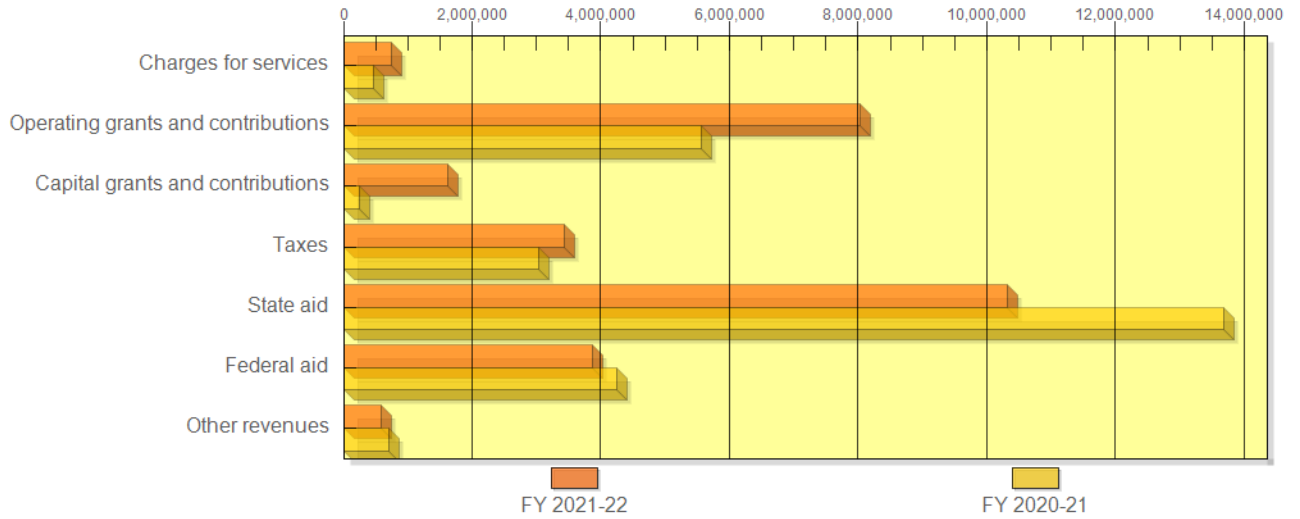


**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

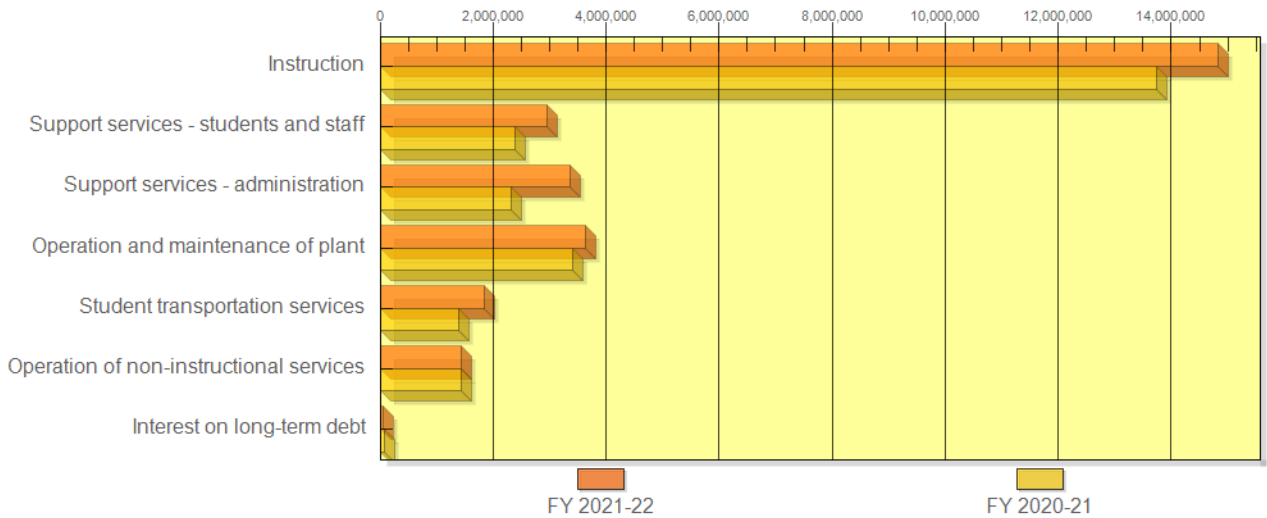
District-Wide Revenues

2 Year Comparison



District-Wide Expenses

2 Year Comparison



**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table displays information from the *Statement of Activities* governmental activities and compares the net cost of services for the two years ended June 30, 2022 and 2021.

<u>Expense Function</u>	Net (Expense) Revenue <u>June 30, 2022</u>	Net (Expense) Revenue <u>June 30, 2021</u>	<u>Change</u>	Percent <u>Change</u>
Instruction	\$ (9,409,391)	\$ (10,257,474)	\$ 848,083	8.3 %
Support services - students and staff	(1,899,051)	(1,734,251)	(164,800)	(9.5)%
Support services - administration	(3,090,053)	(2,154,056)	(935,997)	(43.5)%
Operation and maintenance of plant	(1,626,771)	(2,755,632)	1,128,861	41.0 %
Student transportation services	(1,672,910)	(1,399,307)	(273,603)	(19.6)%
Operation of non-instructional services	38,961	(97,719)	136,680	139.9 %
Interest on long-term debt	(63,642)	(80,186)	16,544	20.6 %
Total	<u>\$ (17,722,857)</u>	<u>\$ (18,478,625)</u>	<u>\$ 755,768</u>	<u>4.1 %</u>

The net cost of services decreased \$755,768, or 4.1 percent, due to overall expenses increasing \$3.4 million while program revenues increased \$4.1 million. The following represents significant information regarding changes and balances:

- Program revenues of \$10.4 million subsidized the government-wide expenses.
- The remaining net costs of governmental activities of \$17.7 million were financed through general revenues.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District's financing requirements. In particular, 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 following table provides analysis of the District's major and other governmental funds' fund balances and the total change in fund balances for the two years ended June 30, 2022 and 2021.

<u>Fund</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Change</u>	<u>Percent Change</u>
General Fund	\$ 10,316,031	\$ 12,028,040	\$ (1,712,009)	(14.2)%
Debt Service Fund	(104,111)	(29,932)	(74,179)	(247.8)%
Other Governmental Funds	2,911,669	3,117,604	(205,935)	(6.6)%
Total	<u>\$ 13,123,589</u>	<u>\$ 15,115,712</u>	<u>\$ (1,992,123)</u>	<u>(13.2)%</u>

The total governmental fund balances were \$13.1 million at June 30, 2022. It is not expected that the nature of the restrictions, commitments or other limitations on fund balances will significantly affect future operations. Overall governmental fund balance decreased \$2.0 million. The following represents significant information regarding changes:

- The General Fund's fund balance decreased \$1.7 million, or 14.2 percent, primarily due to expenditures exceeding revenues in the current year. Of the General Fund's fund balance, \$10.2 million is unassigned, which may serve as a useful measure of net resources available for spending at June 30, 2022.
- The Title I Grant Fund's fund balance did not reflect a change due to revenue being recorded to the extent earned for grant funds.
- The Debt Service Fund's fund balance decreased \$74,179, or 247.8 percent, primarily due to increased property tax revenues.
- The Other Governmental Funds' fund balance decreased \$205,935, or 6.6 percent, primarily due to reduced expenditures in the current fiscal year.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared annually according to Arizona law. The General Fund Budgetary Comparison Schedule presents the budgeted amounts, as well as the variances between the final budget and the actual expenditures incurred.

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.

The actual amounts expended in the General Fund were \$15.8 million, which was \$3.7 million, or 18.9 percent, less than the final budget. This difference was due to regular education instruction expenditures being less than anticipated.

CAPITAL ASSETS

As of June 30, 2022, the District had invested \$36.1 million in capital assets (net of accumulated depreciation) including school buildings, athletic facilities, buses, computers, and other equipment.

The following schedule presents a comparison of the capital asset balances for the years ended June 30, 2022 and 2021.

<u>Governmental activities:</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Change</u>	<u>Percent Change</u>
Land	\$ 294,043	\$ 294,043	\$ -	- %
Construction in progress	2,202,309	964,992	1,237,317	128.2 %
Land improvements	5,254,584	4,816,712	437,872	9.1 %
Buildings and improvements	54,749,328	53,196,987	1,552,341	2.9 %
Vehicles, furniture, and equipment	<u>10,226,251</u>	<u>9,921,775</u>	<u>304,476</u>	<u>3.1 %</u>
Total	<u>72,726,515</u>	<u>69,194,509</u>	<u>3,532,006</u>	<u>5.1 %</u>
Less: accumulated depreciation	<u>(36,669,122)</u>	<u>(34,790,514)</u>	<u>(1,878,608)</u>	<u>(5.4)%</u>
Capital assets, net	<u>\$ 36,057,393</u>	<u>\$ 34,403,995</u>	<u>\$ 1,653,398</u>	<u>4.8 %</u>

A more in-depth analysis of material activity within capital assets is presented within the analysis of the *Statement of Net Position* earlier in the Management's Discussion and Analysis. Detailed information on the District's capital assets can be found in financial statement note 7.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

LONG-TERM LIABILITIES

The following schedule presents a comparison of long-term liabilities for the years ended June 30, 2022 and 2021.

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>Change</u>	<u>Percent Change</u>
Bonds payable	\$ 1,170,000	\$ 1,435,000	\$ (265,000)	(18.5)%
Net pension liability	\$ 14,851,640	\$ 20,322,275	\$ (5,470,635)	(26.9)%
Other postemployment benefits	22,800	86,717	(63,917)	(73.7)%
Financed Purchase	221,747	331,747	(110,000)	(33.2)%
Compensated absences	<u>275,788</u>	<u>273,681</u>	<u>2,107</u>	<u>0.8 %</u>
Total	<u>\$ 16,541,975</u>	<u>\$ 22,449,420</u>	<u>\$ (5,907,445)</u>	<u>(26.3)%</u>

Overall long-term liability balance decreased \$5.9 million. The following represents significant information regarding changes:

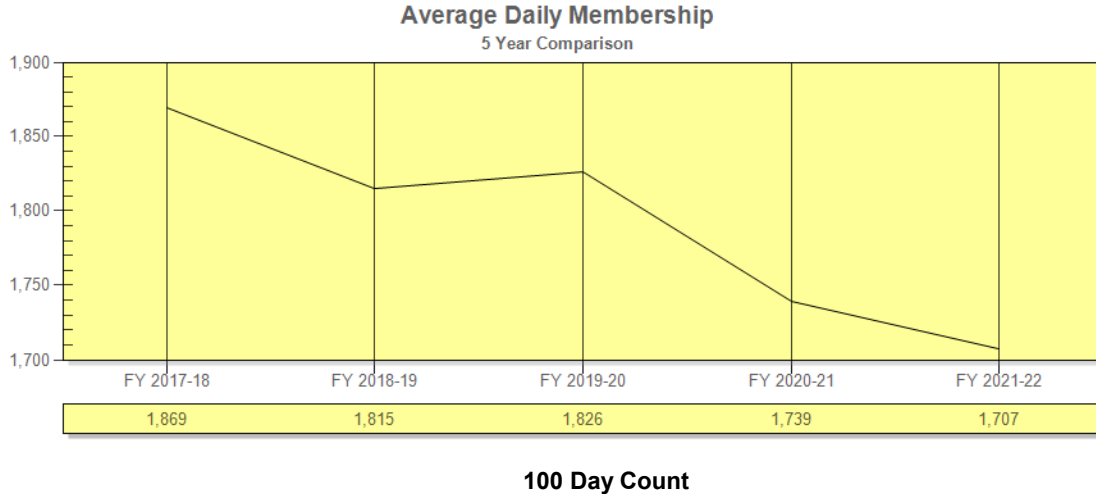
- Bonds payable decreased \$265,000, or 18.5 percent, due to the required payments of principal in accordance with the terms of the debt agreements.
- Net pension liability decreased \$5.5 million, or 26.9 percent, and Other postemployment benefits decreased \$63,917, or 73.7 percent due to the results of investment activity and participant activity when compared to anticipated results as determined by the Arizona State Retirement System's actuaries.
- The Financed Purchase decreased \$110,000, or 33.2 percent, due to the payment of principal as required by the financed purchase agreements.
- Compensated absences increased \$2,107, or 0.8 percent, due to the accrual and use of available leave balances by employees.

For additional information regarding long-term liabilities, see financial statement note 10.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

ECONOMIC FACTORS AND NEXT YEAR'S GENERAL FUND BUDGET AND RATES

Many factors were considered by the District's administration during the process of developing the General Fund's budget for the next fiscal year (fiscal year 2022-23). The primary factors considered in developing fiscal year 2022-23's budget were the District's student population and related employee salaries. This chart provides the District's average daily membership over the past five years.



Also considered in the development of the budget is the local economy and inflation of the surrounding area. Amounts available in the General Fund's fiscal year 2022-23 budget are \$20.8 million, an increase of 6.9 percent, which reflects the following:

- Available budget balance carryforward is \$3.7 million.
- Current year average daily membership is 1,707 and is expected to increase in the fiscal year 2022-23 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, 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 Finance Department, Holbrook Unified School District No. 3, P.O. Box 640, Holbrook, Arizona 86025.

This page intentionally left blank.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
STATEMENT OF NET POSITION
JUNE 30, 2022

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 11,382,981
Cash with paying agent	300,594
Refundable deposit	32,472
Property taxes receivable	258,665
Due from other governments	2,925,784
Inventories	81,623
Net other postemployment benefit asset	528,523
Capital assets:	
Capital assets not being depreciated	2,496,352
Capital assets being depreciated, net	<u>33,561,041</u>
Total assets	<u>51,568,035</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pensions and OPEB	<u>3,862,145</u>
LIABILITIES	
Accounts payable	609,619
Accrued payroll and benefits	546,226
Advances from grantors	171,541
Interest payable	25,594
Noncurrent liabilities:	
Due within one year	414,000
Due in more than one year	<u>16,127,975</u>
Total liabilities	<u>17,894,955</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pensions and OPEB	<u>5,757,875</u>
NET POSITION	
Net investment in capital assets	34,665,646
Restricted for:	
Capital outlay	1,142,027
Food service	117,045
Career technical instruction	369,212
Voter approved initiatives	1,660,176
Extracurricular tax credit	106,245
Student activities	105,420
State grant funding	307,838
Other purposes	267,961
Unrestricted	<u>(6,964,220)</u>
Total net position	<u>\$ 31,777,350</u>

The accompanying notes are an integral part of these statements.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net</u>
		<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>(Expense) Revenue and Change in Net Position</u>
Governmental activities:					<u>Governmental Activities</u>
Instruction	\$14,825,422	\$ 341,774	\$ 5,074,257	\$ -	\$ (9,409,391)
Support services - students and staff	2,961,136	181,686	880,399	-	(1,899,051)
Support services - administration	3,373,653	-	283,600	-	(3,090,053)
Operation and maintenance of plant	3,629,356	-	376,240	1,626,345	(1,626,771)
Student transportation services	1,850,255	-	177,345	-	(1,672,910)
Operation of non-instructional services	1,435,434	232,655	1,241,740	-	38,961
Interest on long-term debt	63,642	-	-	-	(63,642)
Total governmental activities	<u>\$28,138,898</u>	<u>\$ 756,115</u>	<u>\$ 8,033,581</u>	<u>\$ 1,626,345</u>	<u>(17,722,857)</u>

General revenues:

Taxes:

Property taxes, general purposes 3,106,911

Property taxes, debt service 320,993

State aid:

General purposes 9,616,979

Capital outlay 626,485

Instructional improvement 71,718

Federal aid 3,870,159

County aid 480,502

Payments in lieu of taxes 17,315

Investment income 69,653

Miscellaneous 10,311

Total general revenues 18,191,026

Change in net position 468,169

Net position, July 1, 2021 31,309,181

Net position, June 30, 2022 \$ 31,777,350

The accompanying notes are an integral part of these statements.

This page intentionally left blank.

FUND FINANCIAL STATEMENTS

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2022

	General Fund	Title I Grant Fund
ASSETS		
Cash and investments	\$ 10,462,813	\$ 86,218
Cash with paying agent	-	-
Refundable deposit	-	-
Property taxes receivable	232,696	-
Due from other governments	4,589	387,419
Due from other funds	289,556	-
Inventories	81,623	-
	<u>\$ 11,071,277</u>	<u>\$ 473,637</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS)		
Liabilities:		
Accounts payable	\$ 350,150	\$ 10,698
Accrued payroll and benefits	197,615	273,995
Advances from grantors	-	6,399
Bonds payable	-	-
Interest payable	-	-
Due to other funds	-	182,545
	<u>547,765</u>	<u>473,637</u>
Total liabilities		
Deferred inflows of resources:		
Unavailable revenue - property tax	207,481	-
	<u>207,481</u>	<u>-</u>
Total liabilities and deferred inflows of resources		
	<u>755,246</u>	<u>473,637</u>
Fund balances (deficits):		
Nonspendable:		
Inventories	81,623	-
Restricted:		
Capital outlay	-	-
Food service	-	-
Career technical education	-	-
Voter approved initiatives	-	-
Extracurricular tax credit	-	-
Student activities	-	-
State grant funding	-	-
Other purposes	-	-
Unassigned	10,234,408	-
	<u>10,316,031</u>	<u>-</u>
Total fund balances (deficits)		
	<u>10,316,031</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balances (deficits)		
	<u>\$ 11,071,277</u>	<u>\$ 473,637</u>

The accompanying notes are an integral part of these statements.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 833,950	\$ 11,382,981
300,594	-	300,594
-	32,472	32,472
25,969	-	258,665
-	2,533,776	2,925,784
-	-	289,556
-	-	81,623
<u>\$ 326,563</u>	<u>\$ 3,400,198</u>	<u>\$ 15,271,675</u>
\$ -	\$ 248,771	\$ 609,619
-	74,616	546,226
-	165,142	171,541
275,000	-	275,000
25,594	-	25,594
107,011	-	289,556
<u>407,605</u>	<u>488,529</u>	<u>1,917,536</u>
23,069	-	230,550
<u>430,674</u>	<u>488,529</u>	<u>2,148,086</u>
-	-	81,623
-	1,142,027	1,142,027
-	117,045	117,045
-	369,212	369,212
-	1,660,176	1,660,176
-	106,245	106,245
-	105,420	105,420
-	307,838	307,838
-	267,961	267,961
<u>(104,111)</u>	<u>(1,164,255)</u>	<u>8,966,042</u>
<u>(104,111)</u>	<u>2,911,669</u>	<u>13,123,589</u>
<u>\$ 326,563</u>	<u>\$ 3,400,198</u>	<u>\$ 15,271,675</u>

The accompanying notes are an integral part of these statements.

This page intentionally left blank.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2022**

Fund balances - total governmental funds	\$ 13,123,589
 Amounts reported for governmental activities in the <i>Statement of Net Position</i> are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund statements.	36,057,393
Revenues reported in the <i>Statement of Activities</i> that will be collected beyond the 60 day recognition period do not provide current financial resources and are deferred in the governmental fund statements.	
Property taxes	230,550
Deferred outflows and inflows of resources and other postemployment benefits (OPEB) are applicable to future reporting periods and, therefore, are not reported in the governmental fund statements.	
Deferred outflows of resources related to pensions	3,862,145
Deferred inflows of resources related to pensions	(5,757,875)
The net OPEB asset is not a current financial resource and, therefore, is not reported in the governmental fund statements.	528,523
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund statements.	
Bonds payable	(895,000)
Net pension liability	(14,851,640)
OPEB	(22,800)
Financed Purchase	(221,747)
Compensated absences	<u>(275,788)</u>
Net position of governmental activities	<u>\$ 31,777,350</u>

The accompanying notes are an integral part of these statements.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022

	<u>General Fund</u>	<u>Title I Grant Fund</u>	<u>Debt Service Fund</u>
Revenues:			
Property taxes	\$ 3,054,577	\$ -	\$ 316,780
State aid and grants	10,200,860	-	-
Federal aid and grants	3,977,870	1,370,488	-
Other local revenue	<u>873,619</u>	<u>-</u>	<u>1,799</u>
Total revenues	<u>18,106,926</u>	<u>1,370,488</u>	<u>318,579</u>
Expenditures:			
Current:			
Instruction	9,013,459	965,319	-
Support services - students and staff	1,954,827	302,566	-
Support services - administration	2,989,402	32,651	66,570
Operation and maintenance of plant	2,736,003	-	-
Student transportation services	1,541,598	-	-
Operation of non-instructional services	78,790	-	-
Capital outlay	1,516,463	-	-
Debt service:			
Principal	-	-	275,000
Interest	<u>-</u>	<u>-</u>	<u>51,188</u>
Total expenditures	<u>19,830,542</u>	<u>1,300,536</u>	<u>392,758</u>
Excess (deficiency) of revenues over expenditures	(1,723,616)	69,952	(74,179)
Other financing sources (uses):			
Transfers in	2,514,497	-	-
Transfers out	<u>(2,512,862)</u>	<u>(69,952)</u>	<u>-</u>
Total other financing sources (uses)	<u>1,635</u>	<u>(69,952)</u>	<u>-</u>
Net change in fund balances (deficits)	(1,721,981)	-	(74,179)
Fund balances (deficits), July 1, 2021	12,028,040	-	(29,932)
Change in inventories	<u>9,972</u>	<u>-</u>	<u>-</u>
Fund balances (deficits), June 30, 2022	<u>\$ 10,316,031</u>	<u>\$ -</u>	<u>\$ (104,111)</u>

The accompanying notes are an integral part of these statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 433	\$ 3,371,790
4,342,211	14,543,071
4,283,466	9,631,824
<u>712,731</u>	<u>1,588,149</u>
<u>9,338,841</u>	<u>29,134,834</u>
4,448,588	14,427,366
743,975	3,001,368
329,098	3,417,721
428,125	3,164,128
25,433	1,567,031
1,299,453	1,378,243
2,215,967	3,732,430
110,000	385,000
<u>12,454</u>	<u>63,642</u>
<u>9,613,093</u>	<u>31,136,929</u>
(274,252)	(2,002,095)
187,281	2,701,778
<u>(118,964)</u>	<u>(2,701,778)</u>
<u>68,317</u>	<u>-</u>
(205,935)	(2,002,095)
3,117,604	15,115,712
<u>-</u>	<u>9,972</u>
<u>\$ 2,911,669</u>	<u>\$ 13,123,589</u>

The accompanying notes are an integral part of these statements.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

Net change in fund balances - total governmental funds **\$ (2,002,095)**

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

Governmental funds report capital outlays as expenditures. However, in the *Statement of Activities*, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	3,732,430
Depreciation	(2,063,783)
Adjustment/disposal of capital assets	(15,249)

Property taxes and other receipts in the *Statement of Activities* that do not provide current financial resources are not reported as revenues in the governmental funds.

Prior year unavailable property tax	(174,436)
Prior year receipts after 60 day recognition period	(583,881)
Current year unavailable property tax	230,550

District pension and other postemployment benefits (OPEB) contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the *Statement of Net Position* because the reported net pension liability is measured a year before the District's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the *Statement of Activities*.

Pension contribution	1,608,959
Pension expense	(752,124)
OPEB contribution	52,101
OPEB expense	42,832

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*.

Bonds principal payment	275,000
Financed Purchase payment	110,000

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the *Statement of Activities*, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.

Compensated absences	(2,107)
----------------------	---------

Some cash outlays are reported as expenditures in the governmental funds when purchased. In the *Statement of Activities*, however, they are reported as expenses when consumed.

Change in inventories using purchases method	9,972
--	-------

Change in net position of governmental activities **\$ 468,169**

The accompanying notes are an integral part of these statements.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Holbrook Unified School District No. 3 (District) has prepared the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For the year ended June 30, 2022, the District implemented the provisions of GASB Statement No. 87, *Leases*, as amended, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. As a result, the District's financial statements have been modified to reflect the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on the contract payment provisions.

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

A. Reporting Entity

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

The Governing Board is organized under §15-321 of the Arizona Revised Statutes (A.R.S.). Management of the District is independent of other state or local governments. Under existing statutes, the Governing Board's duties and powers include, but are not limited to, the acquisition, maintenance and disposition of school property; the development and adoption of a school program; and the establishment, organization and operation of schools. The Board also has broad financial responsibilities, including the approval of the annual budget, and the establishment of a system of accounting and budgetary controls. The District's major operations include education, student transportation, food service, and maintenance of District facilities.

Criteria for determining if other entities are potential component units which should be reported within the District's basic financial statements are identified and described in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, §'s 2100 and 2600. The application of these criteria provides for identification of any entities for which the District is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Accordingly, for the year ending June 30, 2022, the District does not have any component units and is not a component unit of any other reporting entity.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basis of Presentation

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

Government-Wide Financial Statements - Provide information about the primary government (the District). The statements include a *Statement of Net Position* and a *Statement of Activities*. These statements report the overall government's financial activities. They also distinguish between the District's governmental and any business-type activities. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties. The District does not have any business type activities.

A *Statement of Activities* presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segments of any business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers for goods, services, or privileges provided
- operating grants and contributions
- capital grants and contributions

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double-counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund Financial Statements - Provide information about the District's funds. Separate statements are presented for the governmental fund categories. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's accounts are organized into major governmental funds and other governmental funds as follows:

Major Governmental Funds:

General Fund - to account for all resources used to finance District operations except those required to be accounted for in other funds. The General Fund as presented includes the District's Maintenance and Operation Fund and other special revenue funds that do not have a substantial restriction on expenditures.

Title I Grant Fund - to account for federal financial assistance received to help improve disadvantaged students academic performance.

Debt Service Fund - to account for the accumulation of resources and the payment of principal and interest on bonds.

Other Governmental Funds:

Special Revenue Funds - to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Project Funds - to account for the acquisition and construction of all major governmental general capital assets.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Basis of Accounting

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 at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenues in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

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

Governmental Fund Financial Statements - Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Major revenue sources that are susceptible to accrual are property taxes, tuition, intergovernmental grants and aids, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. As permitted by generally accepted accounting principles it is the District's policy to apply 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 any debt service principal and interest due early in the following year (usually one to several days, up to one month). Therefore, the expenditures and related liabilities have been recognized in the current period. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under lease contracts are reported as other financing sources.

D. Expenses and Expenditures

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, expenditures are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental fund statements. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Cash and Investments

The District considers cash on hand, demand deposits, cash and investments held by the County Treasurer, investments in the State Treasurer's local government investment pool, and only those highly liquid investments with a maturity of 3 months or less when purchased to be cash and cash equivalents.

Arizona Revised Statutes require the District to deposit all cash with the County Treasurer, except as discussed below. Cash with the County Treasurer is pooled for investment purposes, except for cash in the Bond Building and Debt Service Funds, which may be invested separately.

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

Statute authorizes the District to deposit monies of the Auxiliary Operations and Student Activities Funds in bank accounts. The District may also invest these monies. In addition, statute authorizes the District to maintain various bank accounts, such as clearing accounts to temporarily deposit receipts before they are transmitted to the County Treasurer; revolving accounts to pay minor disbursements; and withholdings accounts for taxes and employee insurance programs. Some of these bank accounts may be interest bearing.

Statute does not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk.

F. Property Taxes

The Navajo 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.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

The District does not report a reserve for uncollectible property taxes as they are considered 100 percent collectible due to the County attaching a lien against all amounts past due as noted above.

G. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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."

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

H. Inventories

Inventories in the government-wide and financial statements are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the first-in/first-out (FIFO) method. The costs of inventories are accounted for using the consumption method (expensed when consumed).

I. Capital Assets

Capital assets are reported in the government-wide financial statements. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition value. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) are \$5,000 for all assets.

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

Land improvements	15 - 50 years
Buildings and improvements	7 - 75 years
Vehicles, furniture, and equipment	5 - 30 years

J. Deferred Outflows and Inflows of Resources

The *Statement of Net Position* and *Balance Sheet* include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods. Delinquent property taxes that will not be collected within the 60 day availability period are reported as deferred inflows of resources in the governmental fund financial statements.

K. Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB) asset and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/deductions from the plans' 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.

L. Advances from Grantors

Advances from grantors arise when assets are received before revenue recognition criteria have been satisfied. Advances from grantors generally comprise of federal and state entitlement revenues received before eligibility requirements are met.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. 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.

N. Federal Revenue Sources

The District receives federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting agencies. For federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

O. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment income is included in other local revenue in the fund financial statements. Interest earned from investments purchased with pooled monies is allocated to each of the District's funds based on their average balances.

P. 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.

Q. Net Position

In the government-wide financial statements, net position is reported in three components:

Net investment in capital assets - Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by any outstanding debt used to acquire, construct, or improve these assets.

Restricted - Restricted net position is reported when constraints placed on the net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or by state legislation.

Unrestricted - Unrestricted net position is used to account for the net position balance that does not meet the definition of either of the first two categories of net position.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

R. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable fund balance - Amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. This would include items not expected to be converted to cash including inventories and prepaid items.

Restricted fund balance - Amounts with constraints placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or state legislation.

Committed fund balance - Amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of the Governing Board. These amounts cannot be used for any other purposes unless the Governing Board removes or changes the specific purpose by taking the same kind of formal action previously used to commit these amounts. Adoption of the annual budget does not constitute a commitment as appropriations lapse at year end without Governing Board action. This also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance - Amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by the Governing Board or body or official to which the Governing Board has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balance in governmental funds, other than the General Fund, includes all spendable amounts that are not restricted or committed, if that amount is positive. 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 District does not have a formal policy or procedures for the utilization of assigned fund balance, accordingly, no assigned fund balance amounts are reported.

Unassigned fund balance - Spendable amounts in the General Fund that are not restricted, committed or assigned. The General Fund is the only fund that may report a positive unassigned fund balance amount. For governmental funds other than the General Fund, negative fund balances are reported here if restricted, committed, or assigned amounts exceed total spendable fund balance.

Hierarchy for use of fund balances - When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, the District uses restricted fund balance first. For the disbursement of unrestricted fund balances, the District uses committed amounts first, followed by assigned amounts, and, lastly, unassigned amounts.

Minimum fund balance policy - The District has not adopted a policy regarding maintenance of minimum fund balances.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

S. 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 - IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Net position and fund balance as of July 1, 2021, has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

	Governmental Activities
Net position/fund balance as previously reported at June 30, 2020	\$ 31,257,650
Prior period adjustment - implementation of GASB 84:	
Net OPEB Assets	79,699
Net OPEB Liabilities	(86,717)
Deferred outflows of resources related to OPEB	222,681
Deferred inflows of resources related to OPEB	(164,132)
Total prior period adjustment	51,531
Net position/fund balance, July 1, 2020, as restated	\$ 31,309,181

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's cash deposits may not be returned. The District does not have an adopted policy for custodial credit risk. As of June 30, 2022, the carrying amount (reported) cash balance was \$417,367, while the total bank balance was \$420,226, which was fully insured by the Federal Deposit Insurance Corporation (FDIC) and the collateral described below. The FDIC protects deposits in each bank the District uses against loss for the first \$250,000 of demand deposits and \$250,000 of time deposits. Any deposits of cash deposits in excess of \$250,000 are covered by collateral held by the pledging financial institution's trust department in the District's name.

Arizona statute requires eligible depositories that accept public monies to participate in the pooled collateral program for public deposits. The Statewide Collateral Pool Administrator (Administrator) is responsible for ensuring that eligible depositories have posted 102% collateral for each public depositor in excess of any federally insured deposits. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured against loss. 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.

External Investment Pool. A.R.S. §15-996, authorizes the Navajo County Treasurer to receive and hold all District monies and pool the monies with other school districts for investment purposes. As of June 30, 2022, the District reported \$10,965,614 on deposit with the Navajo County Treasurer's Investment Pool (NCTIP). The NCTIP is an external investment pool with no regulatory oversight. The NCTIP is not required to register (and is not registered) with the Securities and Exchange Commission. As of June 30, 2022, the NCTIP did not receive a credit quality rating from a national rating agency. The Navajo County Treasurer invests the cash in a pool under policy guidelines established by the County. The Navajo County Treasurer accounts for the investment pool in their Fiduciary Investment Trust Fund. Interest rate risk, credit risk, custodial credit risk and concentration of credit risk regarding the NCTIP are included in the Annual Comprehensive Financial Report of Navajo County. The fair value of each participant's position in the NCTIP approximates the value of the participant's shares in the pool and the District's 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.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. The District does not have an adopted investment policy that limits investment maturities to one year or less as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an insurer or other counterparty to an investment in a debt security will not fulfill its obligations. The District has no investment policy that would further limit its investment choices than what is allowable per A.R.S.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 - CASH HELD BY PAYING AGENT

As of June 30, 2022, the District reported \$300,594 held by a paying agent for bond principal and interest payments that were made July 1, 2022. The cash with paying agent was not insured nor collateralized.

NOTE 5 - DUE FROM OTHER GOVERNMENTS

Receivable balances have been disaggregated by type and presented separately in the financial statements with the exception of the amounts due from other governments. The District's due from other governments as of June 30, 2022, are as follows:

	General Fund	Title I Grant Fund	Other Governmental Funds	Totals
Due from local governments:				
Due from other districts	\$ -	\$ -	\$ 9,056	\$ 9,056
Due from state government:				
State grants	-	-	217,893	217,893
SFB construction commitments	-	-	273,277	273,277
Due from federal government:				
Federal grants	4,589	387,419	2,033,550	2,425,558
Total due from other governments	\$ 4,589	\$ 387,419	\$ 2,533,776	\$ 2,925,784

NOTE 6 - ADVANCES FROM GRANTORS

Governmental funds report advances from grantors for assets that are transferred to the District prior to the District fulfilling all program requirements that would entitle them to recognize the revenue. As of June 30, 2022, the advances from grantors reported in the governmental funds were as follows:

Title I Grant Fund:	
Advances from federal grants	\$ 6,399
Total Title I Grant Fund:	6,399
Other Governmental Funds:	
Advances from state grants	4,215
Advances from federal grants	160,927
Total Other Governmental Funds:	165,142
Total advances from grantors	\$ 171,541

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 - CAPITAL ASSETS

Capital asset governmental activity for the year ended June 30, 2022, was as follows:

<u>Governmental activities:</u>	<u>Balance June 30, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2022</u>
Non-depreciable capital assets:				
Land	\$ 294,043	\$ -	\$ -	\$ 294,043
Construction in progress	964,992	2,616,049	(1,378,732)	2,202,309
Total non-depreciable capital assets	<u>1,259,035</u>	<u>2,616,049</u>	<u>(1,378,732)</u>	<u>2,496,352</u>
Depreciable capital assets:				
Land improvements	4,816,712	437,872	-	5,254,584
Buildings and improvements	53,196,987	1,552,341	-	54,749,328
Vehicles, furniture, and equipment	9,921,775	504,900	(200,424)	10,226,251
Total depreciable capital assets	<u>67,935,474</u>	<u>2,495,113</u>	<u>(200,424)</u>	<u>70,230,163</u>
Less accumulated depreciation for:				
Land improvements	(3,149,055)	(157,796)	-	(3,306,851)
Buildings and improvements	(25,742,700)	(1,376,536)	-	(27,119,236)
Vehicles, furniture, and equipment	(5,898,759)	(529,451)	185,175	(6,243,035)
Total accumulated depreciation	<u>(34,790,514)</u>	<u>(2,063,783)</u>	<u>185,175</u>	<u>(36,669,122)</u>
Total depreciable capital assets, net	<u>33,144,960</u>	<u>431,330</u>	<u>(15,249)</u>	<u>33,561,041</u>
Total capital assets, net	<u>\$ 34,403,995</u>	<u>\$ 3,047,379</u>	<u>\$ (1,393,981)</u>	<u>\$ 36,057,393</u>

Depreciation was charged to governmental functions as follows:

Instruction	\$ 1,039,632
Support services - students and staff	52,154
Support services - administration	48,113
Operation and maintenance of plant	507,944
Student transportation services	328,799
Operations of non-instructional services	87,141
Total depreciation expense	<u>\$ 2,063,783</u>

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8 - CONSTRUCTION CONTRACT COMMITMENTS

The District had the following construction contract commitments as of June 30, 2022:

Project	Contract Amount	Amount Paid as of June 30, 2022	Contract Balance
High School Roofing	\$ 1,261,342	\$ 692,553	\$ 568,789
Jr. High School Roofing	558,611	438,294	120,317
Park Elementary School Roofing	1,071,654	445,747	625,907
Totals	<u>\$ 2,891,607</u>	<u>\$ 1,576,594</u>	<u>\$ 1,315,013</u>

These projects are being financed with the Building Renewal Grant received from the School Facilities Board.

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund receivables and payables reported as of June 30, 2022:

Funds	Interfund	
	Due From	Due To
General Fund	\$ 289,556	\$ -
Title I Grant Fund	-	182,545
Debt Service Fund	-	107,011
Total	<u>\$ 289,556</u>	<u>\$ 289,556</u>

These interfund amounts primarily represent loans to cover temporary cash deficits in pooled accounts due to delayed revenues and grant expenditures that were incurred prior to reimbursements from outside parties. These amounts are expected to be repaid within one year.

NOTE 10 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities of the District for the year ended June 30, 2022:

	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Due Within One Year
Bonds payable	\$ 1,435,000	\$ -	\$ (265,000)	\$ 1,170,000	\$ 275,000
Net pension liability	20,322,275	3,458,544	(8,929,179)	14,851,640	-
Other postemployment benefits	86,717	36,695	(100,612)	22,800	-
Financed Purchase	331,747	-	(110,000)	221,747	111,000
Compensated absences	273,681	195,013	(192,906)	275,788	28,000
Total	<u>\$ 22,449,420</u>	<u>\$ 3,690,252</u>	<u>\$ (9,597,697)</u>	<u>\$ 16,541,975</u>	<u>\$ 414,000</u>

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 11 - BONDS PAYABLE

The District's bonded debt consisted of the following outstanding school improvement bonds. The bonds are callable with interest payable semiannually. Bond proceeds pay primarily for acquiring or constructing capital facilities. The District repays bonded debt from voter-approved property taxes recorded in the Debt Service Fund.

The following bonds were outstanding at June 30, 2022:

<u>Governmental activities:</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2022</u>	<u>Due Within One Year</u>
School improvement bonds:					
Series 2006A	\$ 4,098,000	4.375%	7/1/22-25	\$ 1,170,000	\$ 275,000

Annual requirements to amortize all bonded debt outstanding as of June 30, 2022, are as follows:

<u>Fiscal Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 275,000	\$ 45,172	\$ 320,172
2024	285,000	32,922	317,922
2025	300,000	20,126	320,126
2026	310,000	6,782	316,782
Total	<u>\$ 1,170,000</u>	<u>\$ 105,002</u>	<u>\$ 1,275,002</u>

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

Retirement initial membership date:

	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and ages equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years after age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2022, statute required active ASRS members to contribute at the actuarially determined rate of 12.41 percent (12.22 percent for retirement and 0.19 percent for long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 12.41 percent (12.01 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.19 percent for long-term disability) of the active members' annual covered payroll. In addition, the District is required by statute to contribute at the actuarially determined rate of 10.22 percent (10.13 percent for retirement, and 0.09 percent for long-term disability) of annual covered payroll of retired members who may have worked for the District in positions an employee who contributes to the ASRS would typically fill. The District's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2022, and for the two preceding years, all of which were equal to the required contributions, were as follows:

<u>Year ended June 30</u>	<u>Retirement Fund</u>	<u>Health Insurance Premium Benefit</u>	<u>Long-Term Disability Fund</u>	<u>Total Contributions</u>
2022	\$ 1,608,959	\$ 28,134	\$ 23,967	\$ 1,661,060
2021	1,460,867	48,905	21,406	1,531,178
2020	1,450,163	62,059	20,245	1,532,467

During fiscal year ending June 30, 2022, the District paid for pension and OPEB contributions as follows:

<u>Fund:</u>	<u>Pension and OPEB Contribution</u>	<u>Percentage by Fund</u>
General Fund	\$ 1,204,542	72.52 %
Title I Grant Fund	89,887	5.41 %
Other Governmental Funds	366,631	22.07 %
Total	<u>\$ 1,661,060</u>	<u>100.00 %</u>

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Liability - At June 30, 2022, the District reported the following asset and liabilities for its proportionate share of the ASRS' net pension and OPEB asset or liability.

	Net Pension /OPEB (Asset) Liability
Pension	\$ 14,851,640
Health insurance premium benefit	(528,523)
Long-term disability	22,800
Total OPEB	\$ (505,723)

The net liability was measured as of June 30, 2021. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2020, to the measurement date of June 30, 2021. The total liability as of June 30, 2021, reflects changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2020, including decreasing the discount rate from 7.5 percent to 7.0 percent and changing the projected salary increases from 2.7–7.2 percent to 2.9–8.4 percent.

The District's proportion of the net liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2021, and the change from its proportions measured as of June 30, 2020, were:

	Proportion June 30, 2021	Increase (Decrease) From June 30, 2020
Pension	0.1130 %	(0.0043)%
Health Insurance premium benefit	0.1085 %	(0.0041)%
Long-term disability	0.1105 %	(0.0039)%

Expense - For the year ended June 30, 2022, the District recognized the following pension and OPEB expense.

	Pension /OPEB Expense
Pension	\$ 752,124
Health Insurance premium benefit	(58,165)
Long-term disability	15,333

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Deferred outflows/inflows of resources - At June 30, 2022, the District reported deferred outflows and deferred inflows of resources related to the pension and OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 226,400	\$ -
Changes in assumptions or other inputs	1,933,060	-
Net difference between projected and actual earnings on pension plan investments	-	4,705,522
Changes in proportion and differences between District contributions and proportionate share of contributions	-	599,368
District contributions subsequent to the measurement date	<u>1,608,959</u>	<u>-</u>
Total	<u>\$ 3,768,419</u>	<u>\$ 5,304,890</u>

OPEB -

	<u>Health insurance premium benefit</u>		<u>Long-term disability</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 183,293	\$ 6,586	\$ 1,858
Changes in assumptions or other inputs	26,203	21,368	7,292	28,728
Net difference between projected and actual earnings on pension plan investments	-	196,055	-	15,790
Changes in proportion and differences between District contributions and proportionate share of contributions	1,544	158	-	5,735
District contributions subsequent to the measurement date	<u>28,134</u>	<u>-</u>	<u>23,967</u>	<u>-</u>
Total	<u>\$ 55,881</u>	<u>\$ 400,874</u>	<u>\$ 37,845</u>	<u>\$ 52,111</u>

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net liability in the year ending June 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to ASRS pensions will be recognized in expenses as follows:

<u>Year ending June 30</u>	<u>Deferred Outflows (Inflows)</u>	<u>Health Insurance Premium Benefit</u>	<u>Long-Term Disability</u>
2023	\$ (334,379)	\$ (87,543)	\$ (5,383)
2024	(152,166)	(83,868)	(5,110)
2025	(1,037,327)	(91,939)	(5,681)
2026	(1,621,558)	(101,661)	(8,069)
2027	-	(8,116)	(3,531)
Thereafter	-	-	(10,459)
Total	<u>\$ (3,145,430)</u>	<u>(373,127)</u>	<u>(38,233)</u>

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

Actuarial valuation date	June 30, 2020
Actuarial roll forward date	June 30, 2021
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increase	2.9 - 8.4% for pensions /not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions /not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium
Recovery rates	2012 GLTD for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The long-term expected rate of return on ASRS plan investments was determined to be 7.0 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equity	50.00 %	4.90 %
Fixed income - credit	20.00 %	5.20 %
Fixed income - interest rate sensitive	10.00 %	0.70 %
Real estate	20.00 %	5.70 %
Total	<u>100.00 %</u>	

Discount rate - At June 30, 2021, the discount rate used to measure the ASRS total pension and OPEB liability was 7.0 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2020. 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 plans' 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 plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.

Sensitivity of the District's proportionate share of the ASRS net pension and OPEB liability to changes in the discount rate - The following table presents the District's proportionate share of the net pension and OPEB liability calculated using the discount rate of 7.0 percent, as well as what the District's proportionate share of the net pension and OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
District's proportionate share of the:			
Net pension liability	\$ 23,360,386	\$ 14,851,640	\$ 7,757,700
Net health insurance premium benefit liability (asset)	(349,938)	(528,523)	(680,381)
Net long-term disability liability	29,688	22,800	16,135

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

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Contributions payable - The District's accrued payroll and employee benefits included \$51,059 of outstanding pension and OPEB contribution amounts payable to ASRS for the year ended June 30, 2022.

NOTE 13 - FINANCED PURCHASES

The District made a purchase for energy system improvements under contract agreements for a total purchase price of \$1,318,494. The following schedule details debt service requirements to maturity for the District's financed purchases as of June 30, 2022:

Year ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 111,000	\$ 7,481
2024	110,747	2,492
Total	<u>\$ 221,747</u>	<u>\$ 9,973</u>

NOTE 14 - TRANSWESTERN PIPELINE PROPERTY TAX SETTLEMENT

A summary judgment was issued August 6, 2020 affirming that the valuation of Transwestern Pipeline's property exceeded the property's market value for ad valorem tax purposes for the tax years 2016, 2017, 2018 and 2019. In Arizona the pipeline extends through Apache, Coconino, Maricopa, Mohave Navajo, Pinal and Yavapai counties. The District resides in Navajo County and their share of the settlement to be repaid was \$742,340.

As provided in A.R.S. §15-915(B)(1), on October 1, 2021 the District received \$583,881 in additional state aid to pay a portion of the settlement and the remaining portion \$158,459 was paid by the District with existing property tax revenues.

NOTE 15 - DEFICIT FUND BALANCES

The District reported a deficit fund balance in the following funds:

	<u>Deficit</u>
Debt Service Fund	\$ 104,111
Other Governmental Funds:	
First Things First Grant Fund	64,805
Building Renewal Grant Fund	1,099,450

The deficits are due to the differences of the District being allowed to expend up to approved award amounts and the timing of related revenue to be received by the District. Future receipts are expected to eliminate the deficit fund balances.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 16 - INTERFUND TRANSFERS

The following is a summary of interfund transfers reported as of June 30, 2022:

Funds	Interfund	
	Transfers In	Transfers Out
General Fund	\$ 2,514,497	\$ 2,512,862
Title I Grant Fund	-	69,952
Other Governmental Funds	187,281	118,964
Total	\$ 2,701,778	\$ 2,701,778

The transfer was made to 1) move indirect costs from federal grant funds to the Indirect Costs Fund, which is grouped within the General Fund, 2) transfer monies from the Maintenance and Operation Fund to the Energy and Water Savings Fund to cover the QZAB lease payment, and 3) transfer monies from the Impact Aid Fund to the Maintenance and Operation Fund, which both are grouped within the General Fund.

NOTE 17 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Arizona School Risk Retention Trust, Inc (ASRRT), together with other school districts in the state. ASRRT is a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The District pays an annual premium to ASRRT for its general insurance coverage. The agreement provides that ASRRT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified amounts.

For employee health insurance, the District is a member of the Arizona School Boards Association Insurance Trust (ASBAIT), together with other school districts. ASBAIT was established in 1981 by the Arizona School Board Association. Its formation was in response to Arizona school administrators desire to obtain comprehensive health benefits at reasonable costs. ASBAIT operates by an "Agreement and Declaration of Trust" in accordance with the laws of the State of Arizona, including, without limitation, §15-382 A.R.S. 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 is a member of the Arizona School Alliance for Workers' Compensation, Inc. (the Alliance). The Alliance was established in 1996 and is structured as a self-insurance pool that is owned and governed by its members. The agreement provides that the Alliance will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified amounts.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior fiscal years.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 18 - COMMITMENTS AND CONTINGENCIES

Budget Override - During the fiscal year ending June 30, 2019, the voters of the District approved a 10% Maintenance and Operation Budget Override beginning with the fiscal year ending June 30, 2020 and for the six subsequent years. The override allows the District to exceed the revenue control limit by ten percent of the revenue control limit. In fiscal years ending June 30, 2020 through June 30, 2024, the amount of the proposed increase will be ten percent of the District's revenue control limit in each of such years, as provided in Section 15-481(P) of the Arizona Revised Statutes. In fiscal year ending June 30, 2025, the amount of the proposed increase will be two-thirds of the initial increase and in fiscal year ending June 30, 2026, one-third of the initial increase, as provided in Section 15-481(P)(2) of the Arizona Revised Statutes.

Federal grants - In the normal course of operations, the District receives grant funds from various federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of audits of grant funds is not believed by District officials to be material.

Litigation - Each year the District receives notices of claims for damages occurring generally from negligence, bodily injury, breach of contract, and other legal matters. The filing of such claims commences a statutory period for initiating a lawsuit against the District arising therefrom. The District has comprehensive general liability insurance with the ASRRT. The District is not aware of any litigation that might result in a materially adverse outcome.

This page is intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

This page is intentionally left blank.

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2022

	<u>Budgeted Amounts</u>		Actual Amounts	Variance
	<u>Adopted</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 4,343,394	\$ 4,370,456	\$ 3,054,577	\$ (1,315,879)
State aid and grants	14,504,908	14,595,281	10,200,860	(4,394,421)
Other local revenue	<u>704,243</u>	<u>708,631</u>	<u>495,273</u>	<u>(213,358)</u>
Total revenues	<u>19,552,545</u>	<u>19,674,368</u>	<u>13,750,710</u>	<u>(5,923,658)</u>
Expenditures:				
Regular education:				
Instruction	6,150,080	6,150,080	4,589,682	1,560,398
Support services - students and staff	936,656	936,656	931,512	5,144
Support services - administration	2,485,702	2,496,319	2,252,867	243,452
Operation and maintenance of plant	1,966,255	2,076,255	1,731,420	344,835
Operation of non-instructional services	63,500	63,500	38,327	25,173
School-sponsored cocurricular activities	81,000	81,000	65,359	15,641
School-sponsored athletics	<u>382,000</u>	<u>382,000</u>	<u>370,632</u>	<u>11,368</u>
Total regular education	<u>12,065,193</u>	<u>12,185,810</u>	<u>9,979,799</u>	<u>2,206,011</u>
Special education:				
Instruction	2,480,485	2,480,485	1,966,326	514,159
Support services - students and staff	637,600	637,600	383,814	253,786
Support services - administration	<u>46,710</u>	<u>46,710</u>	<u>11,633</u>	<u>35,077</u>
Total special education	<u>3,164,795</u>	<u>3,164,795</u>	<u>2,361,773</u>	<u>803,022</u>
Student transportation services:				
Student transportation services	1,783,000	1,783,000	1,293,308	489,692
Desegregation:				
Instruction	2,245,968	2,245,968	2,078,365	167,603
K-3 reading program:				
Instruction	<u>100,000</u>	<u>100,000</u>	<u>89,628</u>	<u>10,372</u>
Total expenditures	<u>19,358,956</u>	<u>19,479,573</u>	<u>15,802,873</u>	<u>3,676,700</u>
Excess (deficiency) of revenues over expenditures	193,589	194,795	(2,052,163)	(2,246,958)
Other financing sources (uses):				
Transfers in	-	-	2,389,750	2,389,750
Transfers out	<u>-</u>	<u>-</u>	<u>(123,112)</u>	<u>(123,112)</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>2,266,638</u>	<u>2,266,638</u>
Net changes in fund balances	193,589	194,795	214,475	19,680
Fund balance, July 1, 2021	2,501,556	2,501,556	2,501,556	-
Change in inventories	<u>-</u>	<u>-</u>	<u>9,972</u>	<u>9,972</u>
Fund balance, June 30, 2022	<u>\$ 2,695,145</u>	<u>\$ 2,696,351</u>	<u>\$ 2,726,003</u>	<u>\$ 29,652</u>

See note accompanying this schedule.

This page is intentionally left blank.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
BUDGETARY COMPARISON SCHEDULE - TITLE I GRANT FUND
YEAR ENDED JUNE 30, 2022**

	<u>Budgeted Amounts</u>		
	<u>Adopted and Final</u>	<u>Actual Amounts</u>	<u>Variance</u>
Revenues:			
Federal aid and grants	\$ 2,525,000	\$ 1,370,488	\$ (1,154,512)
Total revenues	<u>2,525,000</u>	<u>1,370,488</u>	<u>(1,154,512)</u>
Expenditures:			
Instruction	1,855,617	965,319	890,298
Support services - students and staff	581,618	302,566	279,052
Support services - administration	<u>62,765</u>	<u>32,651</u>	<u>30,114</u>
Total expenditures	2,500,000	1,300,536	1,199,464
Excess of revenues over expenditures	25,000	69,952	44,952
Other financing uses:			
Transfers out	<u>-</u>	<u>(69,952)</u>	<u>(69,952)</u>
Net change in fund balances	25,000	-	(25,000)
Fund balance, July 1, 2021	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2022	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ (25,000)</u>

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2022

ASRS - Pension	Reporting Fiscal Year (Measurement Date)			
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)
District's proportion of the net pension liability	0.11 %	0.12 %	0.12 %	0.12 %
District's proportionate share of the net pension liability	\$14,851,640	\$20,322,275	\$17,576,350	\$17,382,894
District's covered payroll	\$12,975,354	\$13,266,994	\$12,994,190	\$12,724,447
District's proportionate share of the net pension liability as a percentage of its covered payroll	114.46 %	153.18 %	135.26 %	136.61 %
Plan fiduciary net position as a percentage of the total pension liability	78.58 %	69.33 %	73.24 %	73.40 %

Reporting Fiscal Year (Measurement Date)				
2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2013
0.13 %	0.13 %	0.13 %	0.13 %	Information is not available. Additional information will be presented as it becomes available.
\$20,047,393	\$21,396,516	\$20,439,295	\$19,629,230	
\$13,131,820	\$12,827,781	\$12,437,408	\$12,192,280	
152.66 %	166.80 %	164.34 %	161.00 %	
69.92 %	67.06 %	68.35 %	69.49 %	

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE OTHER
POSTEMPLOYMENT BENEFIT LIABILITY
JUNE 30, 2022

ASRS - Health Insurance Premium Benefit	Reporting Fiscal Year (Measurement Date)			
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)
District's proportion of the net pension liability	0.11 %	0.12 %	0.12 %	0.12 %
District's proportionate share of the net pension liability	\$ (528,523)	\$ (79,699)	\$ (31,839)	\$ (43,625)
District's covered payroll	\$12,975,354	\$13,266,994	\$12,994,190	\$12,724,447
District's proportionate share of the net pension liability as a percentage of its covered payroll	(4.07)%	(0.60)%	(0.25)%	(0.34)%
Plan fiduciary net position as a percentage of the total pension liability	130.24 %	104.33 %	101.62 %	102.20 %

ASRS - Long-Term Disability	Reporting Fiscal Year (Measurement Date)			
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)
District's proportion of the net pension liability	0.11 %	0.12 %	0.12 %	0.12 %
District's proportionate share of the net pension liability	\$ 22,800	\$ 86,717	\$ 76,082	\$ 65,062
District's covered payroll	\$12,975,354	\$13,266,994	\$12,994,190	\$12,724,447
District's proportionate share of the net pension liability as a percentage of its covered payroll	0.18 %	0.65 %	0.59 %	0.51 %
Plan fiduciary net position as a percentage of the total pension liability	78.58 %	68.01 %	72.85 %	77.83 %

Reporting
Fiscal Year
(Measurement Date)

2018
through
2013

Information
not available;
additional
information
will be
presented as
it becomes
available.

Reporting
Fiscal Year
(Measurement Date)

2018
through
2013

Information
not available;
additional
information
will be
presented as
it becomes
available.

**HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
JUNE 30, 2022**

ASRS - Pension	Reporting Fiscal Year			
	2022	2021	2020	2019
Statutorily required contribution	\$ 1,608,959	\$ 1,460,867	\$ 1,450,163	\$ 1,403,465
District's contributions in relation to the statutorily required contribution	1,608,959	1,460,867	1,450,163	1,403,465
District's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 13,777,156	\$ 12,975,354	\$ 13,266,994	\$ 12,994,190
District's contributions as a percentage of covered payroll	11.68 %	11.26 %	10.93 %	10.80 %

Reporting Fiscal Year

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 1,338,946	\$ 1,353,850	\$ 1,420,103	\$ 1,418,978	\$ 1,325,232	Information is not available. Additional information will be presented as it becomes available.
<u>1,338,946</u>	<u>1,353,850</u>	<u>1,420,103</u>	<u>1,418,978</u>	<u>1,325,232</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
\$ 12,724,447	\$ 13,131,820	\$ 12,827,781	\$ 12,437,408	\$ 12,192,280	
10.52 %	10.31 %	11.07 %	11.41 %	10.87 %	

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
SCHEDULE OF DISTRICT OTHER POSTEMPLOYMENT BENEFIT CONTRIBUTIONS
JUNE 30, 2022

ASRS - Health Insurance Premium
Benefit

	Reporting Fiscal Year			
	2022	2021	2020	2019
Statutorily required contribution	\$ 28,134	\$ 48,905	\$ 62,059	\$ 57,745
District's contributions in relation to the statutorily required contribution	<u>28,134</u>	<u>48,905</u>	<u>62,059</u>	<u>57,745</u>
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 13,777,156	\$ 12,975,354	\$ 13,266,994	\$ 12,994,190
District's contributions as a percentage of covered payroll	<u>0.20 %</u>	<u>0.38 %</u>	<u>0.47 %</u>	<u>0.44 %</u>

ASRS - Long-Term Disability

	Reporting Fiscal Year			
	2022	2021	2020	2019
Statutorily required contribution	\$ 23,967	\$ 21,406	\$ 20,245	\$ 18,736
District's contributions in relation to the statutorily required contribution	<u>23,967</u>	<u>21,406</u>	<u>20,245</u>	<u>18,736</u>
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 13,777,156	\$ 12,975,354	\$ 13,266,994	\$ 12,994,190
District's contributions as a percentage of covered payroll	<u>0.17 %</u>	<u>0.16 %</u>	<u>0.15 %</u>	<u>0.14 %</u>

Reporting Fiscal Year

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 53,962	\$ 70,330	\$ 69,424	\$ 69,393	\$ 57,208	Information not available; additional information will be presented as it becomes available.
<u>53,962</u>	<u>70,330</u>	<u>69,424</u>	<u>69,393</u>	<u>57,208</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
\$ 12,724,447	\$ 13,131,820	\$ 12,827,781	\$ 12,437,408	\$ 12,192,280	
<u>0.42 %</u>	<u>0.54 %</u>	<u>0.54 %</u>	<u>0.56 %</u>	<u>0.47 %</u>	

Reporting Fiscal Year

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 18,595	\$ 16,667	\$ 14,271	\$ 13,773	\$ 26,604	Information not available; additional information will be presented as it becomes available.
<u>18,595</u>	<u>16,667</u>	<u>14,271</u>	<u>13,773</u>	<u>26,604</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
\$ 12,724,447	\$ 13,131,820	\$ 12,827,781	\$ 12,437,408	\$ 12,192,280	
<u>0.15 %</u>	<u>0.13 %</u>	<u>0.11 %</u>	<u>0.11 %</u>	<u>0.22 %</u>	

HOLBROOK UNIFIED SCHOOL DISTRICT NO. 3
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022

NOTE 1 - BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- A. The General Fund, as reported in the budgetary comparison schedule, includes the District's Maintenance and Operation Fund (M&O) in addition to several other District funds consistent with accounting principles generally accepted in the United States of America. In accordance with Arizona Revised Statutes, the District is required to budget expenditures at the individual fund level.

The following schedule presents financial statement details of the District's M&O Fund, the main budgetary fund for the District per Arizona Revised Statutes, separately for analysis.

	<u>General Fund</u>					
	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Beginning Fund Balance</u>	<u>Change In Inventories</u>	<u>Ending Fund Balance</u>
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - General Fund	\$ 18,106,926	\$ 19,830,542	\$ 1,635	\$ 12,028,040	\$ 9,972	\$ 10,316,031
Less: budgeted special revenue funds reported within the General Fund	4,356,216	4,027,669	(2,265,003)	9,526,484	-	7,590,028
Maintenance and Operation - GAAP	<u>\$ 13,750,710</u>	<u>\$ 15,802,873</u>	<u>\$ 2,266,638</u>	<u>\$ 2,501,556</u>	<u>\$ 9,972</u>	<u>\$ 2,726,003</u>



See what's possible.

HOLBROOK UNIFIED SCHOOL
DISTRICT NO. 3

USFR Compliance Questionnaire

Fiscal Year Ended June 30, 2022

Holbrook Unified School District No. 3
USFR Compliance Questionnaire
Comments
June 30, 2022

GOVERNING BOARD/MANAGEMENT PROCEDURES

1. 8 of 10 student fundraising events were not provided to the Governing Board for approval. *See Governing Board question #10.*

BUDGETING

2. Per the BUDG25 Budget Analysis Letter date 10/28/21, the District exceeded the general budget limit by 1% of its General Budget Limit and as such, the District was required to revise the FY2022 budget by December 15th to reduce the expenditures to within the calculated budget limits. However, a budget revision was not done until May 2022. *See Budgeting question #3.*

ACCOUNTING RECORDS

3. Four of twenty adjusting journal entries reviewed were not signed or dated by a secondary reviewer. *See Accounting Records question #2.*
4. The District transferred \$13,376 between funds 513 and 465 to correct the recording of a deposit that was initially applied to the wrong fund. It was noted that the transfer was not listed as an allowable transfer in the USFR §III Chart of Accounts–Authorized Transfers. *See Accounting Records question #3.*
5. The District's reconciliation to the CSS records had unresolved variances in the June 2022 reconciliation that netted to \$1,884. The District's cash balance June 30, 2022 was reported at \$11,096,291. *See Accounting Records question #4.*
6. The CSS reconciliation to the Treasurer for June 2022 indicated a variance of \$8,564. The District's cash balance June 30, 2022 was reported at \$11,096,291. *See Accounting Records question #5.*

CASH AND REVENUE

7. 4 of 10 student activity deposits were not properly supported by prepared reports that reconciled sales to cash collected. The four deposits noted were for concession sales and the amounts collected did not agree to the sales report provided by "Squares". The differences ranged from underreporting collections by \$41.50 to overreporting collections by \$205.14. *See Cash & Revenues questions #11 & 23.*

PROPERTY CONTROL

8. One of five items selected from the stewardship list was not found. *See Property Control question #5.*

Holbrook Unified School District No. 3
USFR Compliance Questionnaire
Comments
June 30, 2022

CREDIT CARDS AND PURCHASING CARDS (P-CARD)

9. The District incurred \$129.18 in credit card late fees and finance charges during fiscal year 2021-22. *See Credit Cards and P-Cards question #9.*

PROCUREMENT

10. For two purchases within the written quote range, documentation was not provided to support written quotes were obtained, or the purchases were otherwise exempt from requiring written quotes (i.e., sole source, cooperative purchases, etc.). *See Procurement question #1.*
11. Due diligence documentation was not provided for one purchase made through a school purchasing cooperative. *See Procurement question #19.*
12. Written determinations as required by R7-2-1004, were not provided for one purchase made through a school purchasing cooperative for specified professional engineering and design services. *See Procurement question #20.*

FINANCIAL REPORTING

13. Expenditures as reported on the AFR did not agree with the District's accounting records for the following funds:

Fund	AFR	District Records	Difference
010	\$1,361,418	\$1,362,624	\$1,206

See Financial Reporting question #2.

STUDENT ATTENDANCE REPORTING

14. Absences were not reported correctly for five of ten elementary and junior high school students reviewed, resulting in absences being underreported by 3 days. *See Student Attendance Reporting question #3.*
15. For three of five students reviewed for high school attendance for the month of September 2021, the District did not properly report attendance. The errors netted to no difference in absences reported. *See Student Attendance Reporting question #3.*
16. For one of ten students reviewed, legal documentation was not provided to support the student's name in the student management system. *See Student Attendance Reporting question #13.*
17. For two of ten students reviewed, documentation was not provided to support the students' Arizona Residency. *See Student Attendance Reporting question #16.*

Holbrook Unified School District No. 3
USFR Compliance Questionnaire
Comments
June 30, 2022

18. The AzEd ADM15 report's membership days did not agree to the District's computerized attendance system records. The AzEd ADM15 reported 172,326 membership days while the District's computerized records reported 176,024 membership days, a difference of 3,698 days. Additionally, the AzEd ADM15 reported 23,652.25 absence days, and the District's computerized records reported 21,610.92 absence days, a difference of 2,041.33 days. *See Student Attendance Reporting question #20.*

19. Documentation was not provided to support the year-end status code for one of five students selected to review. *See Student Attendance Reporting question #22.*

INFORMATION TECHNOLOGY (IT)

20. One employee that resigned in FY22 was still active user for Visions financial software in FY23. Subsequent to audit inquiry their access was disabled. **See IT question #4.**

Holbrook Unified School District
Uniform System of Financial Records Compliance Questionnaire
For Fiscal Year Ended June 30, 2022

Instructions

Arizona Revised Statutes (A.R.S.) §15-271 requires the Arizona Auditor General to inform any school district failing to establish and maintain the requirements prescribed by the *Uniform System of Financial Records for Arizona School Districts* (USFR) that it has 90 days to correct the cited deficiencies. The USFR prescribes the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements. To help the Arizona Auditor General determine whether a district has attained an acceptable degree of compliance with USFR requirements, the audit firm must complete this USFR Compliance Questionnaire (CQ).

A.R.S. §§15-213(F) and 15-914(G) require districts to have a systematic review of their purchasing practices and average daily membership (ADM), respectively, performed in conjunction with their annual or biennial financial audit to determine whether the district complied with the applicable State of Arizona procurement and student attendance laws and rules. Auditor completion of the Procurement and Student attendance reporting CQ sections constitutes the required systematic reviews.

Audit firms must gain an understanding of the district's internal controls and obtain and document sufficient, appropriate evidence annually to support each CQ response. These instructions, the CQ questions, and the required review procedures constitute the minimum audit standards for completing the CQ. Required review procedures are included in the "tooltip" next to applicable questions in the web-based auditor submission CQ. The Arizona Auditor General may reject CQs that are not prepared in compliance with the minimum audit standards.

- Audit documentation must describe the procedures performed, items reviewed, and the results of such procedures and reviews to support the auditor's CQ responses and related comments.
- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" responses on the CQ.
- The audit firm must determine the district reviewed documents and transactions and provided sufficient evidence of approval including manual or electronic signatures or initials and date of review.
- Audit firms must consider population size in determining the number of items to test (i.e., sample, scan, review, examine, or observe), and the items selected should be representative of the population. Therefore, testing 1 transaction, record, or item is not sufficient. The Credit cards and purchasing cards, Procurement, and Student attendance reporting CQ sections prescribe minimum sample sizes for specific questions. Population and samples sizes used for test work should be entered in the fields provided next to the applicable questions throughout the CQ.
- A "Yes" response indicates that the audit firm has determined that the district complied with the USFR for that question based on auditor obtained evidence. Several review procedures allow for auditors to determine whether the district implemented compensating controls when recommended USFR procedures could not be implemented due to limited staff size. When compensating controls are found, auditors should answer the question "Yes" and describe in the comments the compensating controls in place to meet the question's objective. However, the Arizona Auditor General makes the final determination of compliance with the USFR based on the evidence presented in the CQ, audit reports, audit documentation, and any other sources of information available.
- A "No" response indicates the district did not comply with the USFR for that question. Audit firms must explain the district's deficiency noted for all "No" responses in the comment box below the question. Deficiencies must be described in sufficient detail to enable the Arizona Auditor General to determine the nature and significance of the deficiency for: (a) assessing compliance with the USFR, (b) appropriately describing the deficiency in a report, and (c) testing compliance during a status review. The description should include the number of items tested and the number of exceptions noted, or dollar amount of the error, and any other relevant information that would provide context for the deficiency.

Cash and revenues questions apply to all the district's cash and revenue, including food service, auxiliary operations, extracurricular activities fees tax credit, and student activities receipts and bank accounts. Comments for "No" responses to these questions should indicate the type of receipt or bank account to which the deficiency applies.

- An "N/A" response indicates the district did not have activity related to the USFR requirements for that question. The audit firm must explain all "N/A" responses in the comment box below the question, unless the reason for the N/A is obvious.

The questions in the CQ do not address all requirements of the USFR. If the audit firm is aware of noncompliance with a requirement of the USFR that is not addressed in the CQ, including the School District Procurement Rules and the Arizona Department of Education's (ADE) membership and attendance guidelines, the audit firm should include the compliance findings in its reports issued in accordance with Governmental Auditing Standards and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, as applicable.

The audit firm must make the resulting audit documentation supporting the audit firm's CQ responses and comments available on request for the Arizona Auditor General and the ADE's review. To facilitate this review, the audit firm should include in the audit documentation a copy of the CQ with references to the audit procedures performed for each question.

Once the audit firm has completed, reviewed, and signed the CQ, it must submit it electronically to the Arizona Auditor General by following the instructions at the end of the web-based auditor submission CQ. Audit firms should print the file to PDF to create the CQ document to distribute to the district. As required by A.R.S. §15- 914(D), the district must submit the completed CQ with the audit reporting package to the district’s county school superintendent’s office and ADE.

Governing board/management procedures

Objective: To determine whether the governing board and District management have established and implemented certain procedures as required by statute.

1. The District held governing board meetings in accordance with [A.R.S. §§38-431 to 38-431.09](#), and prepared and retained written minutes and/or recordings. Yes

2. The District annually provided guidance to all governing board members and employees on what constitutes a substantial interest and that the conflict-of-interest statutes apply to all District governing board members and employees as part of their employment. [A.R.S. §§38-502](#) and [38-509](#) Yes

3. The District annually obtained conflict-of-interest (COI) forms that adequately allowed governing board members and employees to fully disclose a conflict of interest in any contract, sale, purchase, or service, and prior to accepting the forms, management reviewed the information to ensure governing board members and employees properly completed the form and sufficiently disclosed the required information. [A.R.S. §38-502](#) Yes

4. The District maintained, for public inspection, a special file with all documents necessary to memorialize all conflict-of-interest disclosures. [A.R.S. §38-509](#) Yes

5. Employees or governing board members with reported conflicts, except as provided in [A.R.S. §15-323](#), refrained from voting upon or otherwise participating in any manner in that purchase. [A.R.S. §§38-502\(11\)](#) and [38-503\(B\)](#) Yes

6. The District's management notified the Arizona Auditor General and appropriately resolved all allegations of theft, fraud, or misuse of District monies and assets in a timely manner.

N/A

No allegations of theft, fraud or misuse of District monies / assets

7. The governing board established written personnel and payroll policies and approved employee contracts, wage agreements, salary and wage schedules, and any other agreed-upon terms of employment.

Yes

8. The governing board appointed a student activities treasurer and, if applicable, assistant student activities treasurers. [A.R.S. §15-1122](#)

Yes

9. The governing board received monthly Student Activities Fund Reports of Cash Receipts, Disbursements, Transfers, and Cash Balances that were accurately prepared. [A.R.S. §15-1123](#)

Yes

10. The governing board approved student clubs' and organizations' fund-raising events. [A.R.S. §15-1121](#) and AG Opinion I84-018

No

8 of 10 student fundraising events were not provided to the Governing Board for approval.

Sample

10

11. The governing board obtained voter approval to construct buildings and purchase or lease school sites, unless otherwise exempted by [A.R.S. §15-342\(25\)](#).

N/A

No construction or purchase / lease of school sites

Budgeting

Objective: To determine whether the District's budget preparation processes ensure that the District properly allocates the monies it receives, stays within those budgets, and accurately informs the public about the use of those monies.

1. The budget included all funds as required by [A.R.S. §15-905](#) and followed the form's [Budget—Submission and Publication Instructions](#).

Yes ▼

2. Total budgeted expenditures on the originally adopted budget for the Maintenance and Operation (M&O) and Unrestricted Capital Outlay Funds (UCO) were less than or equal to the budgeted amounts on the published proposed budget. [A.R.S. §15-905\(E\)](#).

Yes ▼

3. Total budgeted expenditures on the adopted budget for the M&O Fund and UCO Fund were within the general budget limit and the unrestricted capital budget limit. If not, and ADE notified the District that the budget exceeded either limit, the District followed the requirements of [A.R.S. §15-905\(E\)](#).

No ▼

Per the BUDG25 Budget Analysis Letter date 10/28/21, the District exceeded the general budget limit by 1% of its General Budget Limit and as such, the District was required to revise the FY2022 budget by December 15th to reduce the expenditures to within the calculated budget limits. However, a budget revision was not done until May 2022.

4. The District completed its revised expenditure budget before May 15 and filed it electronically with the Superintendent of Public Instruction by May 18. [A.R.S. §15-905\(I\)](#)

Yes ▼

5. The District reduced the budget by the prior year's overexpenditure (or a portion of the prior year's overexpenditure, as approved by the Superintendent of Public Instruction) or the District began the process to correct its prior year's data that impacts state-aid and/or budget capacity. [A.R.S. §15-905\(M\)](#) and [A.R.S. §15-915](#)

N/A ▼

No prior year over expenditures

Accounting records

Objective: To determine whether the District accurately maintains accounting records to provide support for financial information. Test work should indicate the procedures performed to document what processes and controls the District has in place to reduce the risk of undiscovered errors that would affect the reliability of information reported to the public and oversight agencies, such as tracing detailed source documents to the District's trial balance that agree to the financial statements.

1. The District coded transactions in accordance with the [USFR §III Chart of Accounts](#).

Yes ▼

2. The District sequentially numbered journal entries and retained supporting documentation and evidence that journal entries were signed, dated, and approved by someone other than the preparer.

No ▼

Four of twenty adjusting journal entries reviewed were not signed or dated by a secondary reviewer.

Population

242

Sample

20

3. The District transferred monies only between funds listed in the USFR §III Chart of Accounts–Authorized Transfers.

No ▼

The District transferred \$13,376 between funds 513 and 465 to correct the recording of a deposit that was initially applied to the wrong fund. It was noted that the transfer was not listed as an allowable transfer in the USFR §III Chart of Accounts–Authorized Transfers.

Population

15

Sample

15

4. The District documented and dated a monthly review of financial transactions the county school superintendent (CSS) initiated (i.e., revenue or journal entries) for propriety and researched and resolved any differences.

No ▼

The District's reconciliation to the CSS records had unresolved variances in the June 2022 reconciliation that netted to \$1,884. The District's cash balance June 30, 2022 was reported at \$11,096,291.

5. The District reconciled cash balances by fund monthly with the CSS or county treasurer's records, as applicable, and properly supported, documented, and dated the reconciliations.

No ▼

The CSS reconciliation to the Treasurer for June 2022 indicated a variance of \$8,564. The District's cash balance June 30, 2022 was reported at \$11,096,291

6. The District reconciled revenues, expenditures, expenses, and cash balances (as applicable) by fund, program, function, and object code at least at fiscal year-end with the CSS, and the reconciliation was reviewed and properly supported.

No ▼

The District's reconciliation to the CSS records had unresolved variances in the June 2022 reconciliation that netted to \$1,884. The District's cash balance June 30, 2022 was reported at \$11,096,291.

Cash and revenue

Objective: To determine whether the District maintained controls over cash transactions to safeguard monies, protect employees involved in handling monies from accusations of misuse, and reduce the risk of theft or loss. Test work for cash and revenue should document how the processes work, employees involved in those processes, and how the processes were verified.

1. The District maintained only authorized bank accounts as listed in the USFR and did not have any inactive bank accounts.

Yes ▼

2. The District used an M&O Fund revolving bank account in accordance with [A.R.S. §15-1101](#).

Yes ▼

3. The District used miscellaneous receipts clearing bank account(s) in accordance with [A.R.S. §15-341\(A\)\(20\)](#).

N/A ▼

No account

4. The District used a Food Service Fund clearing bank account(s) in accordance with [USFR page X-F-5](#) and [Arizona Attorney General Opinion 160-35](#).

Yes ▼

5. The District used a Food Service Fund revolving bank account in accordance with [A.R.S. §15-1154](#).

N/A ▼

No account

6. The District used an Auxiliary Operations Fund bank account in accordance with [A.R.S. §15-1126](#).

Yes ▼

7. The Auxiliary Operations Fund bank or treasurer account deposits included all monies raised in connection with the activities of school bookstores and athletics. [A.R.S. §15-1126](#)

Yes ▼

Population

239

Sample

10

8. The extracurricular activities fees tax credit monies were included in the Auxiliary Operations Fund and/or separately accounted for in a Extracurricular Activities Fees Tax Credit Fund.

Yes ▼

9. The District used the Auxiliary Operations Fund revolving bank account(s) in accordance with [A.R.S. §15-1126](#).

N/A ▼

No account

10. The District used the Student Activities Fund bank account(s) in accordance with [A.R.S. §15-1122](#).

Yes ▼

11. The Student Activities Fund monies were deposited in a bank or treasurer account designated as the Student Activities Fund account.

No ▼

4 of 10 student activity deposits were not properly supported by prepared reports that reconciled sales to cash collected. The four deposits noted were for concession sales and the amounts collected did not agree to the sales report provided by "Squares". The differences ranged from underreporting collections by \$41.50 to overreporting collections by \$205.14.

12. The District used the Student Activities Fund revolving bank account in accordance with [A.R.S. §15-1124](#).

N/A ▼

No account

13. The District used the federal payroll tax withholdings bank account in accordance with [USFR page VI-H-6](#).

Yes ▼

14. The District used the State income tax withholdings bank account in accordance with [A.R.S. §15-1222](#).

Yes ▼

15. The District used the employee insurance programs withholdings bank account(s) in accordance with [A.R.S. §15-1223](#).

N/A ▼

No account

16. The District used the payroll direct deposits clearing bank account in accordance with [A.R.S. §15-1221](#).

N/A ▼

No account

17. The District used the electronic payments clearing bank account in accordance with [A.R.S. §15-1221](#).

N/A ▼

No account

18. The District used the grants and gifts to teachers bank account in accordance with [A.R.S. §15-1224](#).

N/A ▼

No account

19. The District used the principals' supplies bank account(s) in accordance with [A.R.S. §15-354](#).

N/A ▼

No account

20. The use of debit cards was prohibited as a payment method associated with any District bank account.

Yes ▼

21. The District paid bank charges from only the M&O Fund revolving bank account, Food Service Fund revolving bank account, Auxiliary Operations Fund bank account, and Auxiliary Operations Fund revolving bank account(s) or, if not, the bank charges were reimbursed from an appropriate District fund or bank account.

Yes ▼

22. The District separated responsibilities for cash-handling and recordkeeping among employees (i.e., receiving, depositing, and recording revenues), to safeguard monies.

Yes ▼

23. The District supported deposits with issued receipts, cash receipt summary reports, mail logs, etc., and reconciled sales to amounts collected with summary reports or ticket logs.

No ▼

4 of 10 student activity deposits were not properly supported by prepared reports that reconciled sales to cash collected. The four deposits noted were for concession sales and the amounts collected did not agree to the sales report provided by "Squares". The differences ranged from underreporting collections by \$41.50 to overreporting collections by \$205.14.

Sample

45

24. The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.

Yes ▼

Sample

45

25. The District's deposits with the county treasurer were reconciled.

Yes ▼

26. The District retained supporting documentation for disbursements from bank accounts.

Yes ▼

Sample

20

27. The District safeguarded unused checks.

Yes ▼

28. The District safeguarded signature stamps, signature plates, and electronic or digital signatures used for approving accounting transactions, checks, and other District documents to ensure that access was limited to only the employee whose signature they represented.

Yes ▼

29. All District bank accounts were reconciled monthly by an employee not involved with cash-handling or issuing checks, and reconciliations were reviewed, signed, and dated by an employee independent of the cash-handling process.

Yes ▼

30. The District tracked and reconciled the number of meals sold to the total cash collected per day.

Yes ▼

Supplies inventory

Objective: To determine whether the District has controls in place to help physically safeguard and report inventories to prevent theft, overstocking, understocking, spoilage, and obsolescence.

1. The District physically safeguarded supply inventories to prevent unauthorized use, theft, damage, and obsolescence and enable accurate financial reporting.

Yes ▼

Property control

Objective: To determine whether the District has effective controls to safeguard property from theft and misuse since significant resources are invested in acquiring and maintaining District property. Test work should be completed on a sample basis annually and documented to ensure that land, buildings, and equipment are properly valued, classified, and reported on the stewardship and capital assets lists.

1. The District maintained a capital assets list that included all required information listed in the USFR for all land, land improvements, buildings, building improvements, and equipment with costs that exceed the District's adopted capitalization threshold.

Yes ▼

2. The District had security controls in place to help prevent theft, loss, unauthorized use, or damage to District property.

Yes ▼

3. The District recorded additions including financed assets on the capital assets list and reconciled capitalized acquisitions to capital expenditures at least annually.

Yes ▼

4. The District's stewardship list for items costing at least \$1,000 but less than the District's capitalization threshold, included financed assets, and contained all required information.

Yes ▼

5. The District's capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.

No ▼

One of five items selected from the stewardship list was not found.

6. The District reconciled the current year's June 30 capital assets list to the previous year's June 30 list.

Yes ▼

7. The District performed a physical inventory of all equipment at least every 3 years and reconciled the inventory results to the stewardship and capital assets lists upon completion.

Yes ▼

Data Entry

May 2022

8. The governing board or authorized designee approved stewardship and capital asset items disposed of during the fiscal year, and the District removed the assets from the corresponding list and disposed of them in accordance with [Arizona Administrative Code \(A.A.C\) R7-2-1131](#).

Yes ▼

Data Entry

1/6/22, 1/13/22, 5/27/22

Expenditures

Objective: To determine whether the District has effective controls for expenditures in place to ensure expenditures are for an allowable District purpose. Test work should document processes and controls that demonstrate expenditure transactions are properly approved, are for an amount within budget capacity or available cash, and protect employees from allegations of misuse.

1. The District separated responsibilities for expenditure processing among employees (i.e., voucher preparation, recordkeeping, and authorization).

Yes ▼

2. The District monitored budget capacity in budget-controlled funds and cash balances in cash-controlled funds before approving purchase orders (PO) and authorizing expenditures, except as authorized in [A.R.S. §15-207](#), [A.R.S. §15-304](#), [A.R.S. §15-907](#), and [A.R.S. §15-916](#).

Yes ▼

3. The District's expenditures were made only for allowable District purposes, properly satisfied the specific purposes required for any restricted monies spent, and were adequately supported by documentation required by the USFR.

Yes ▼

Sample

40

4. The District's extracurricular activities fees tax credit monies were expended only for eligible activities that qualified under [A.R.S. §§43-1089.01](#) and [15-342\(24\)](#). Yes ▼

Population

74

Sample

5

5. The District's Student Activities Fund disbursements and transfers of monies among student clubs were issued only when cash was available in the student club account and properly authorized by or on behalf of the student members of a particular club and documented in the club minutes. Yes ▼

6. The District's expenditures made through written quotes or competitively awarded contracts, including cooperative contracts, agreed to quoted amounts or contract pricing and terms. Yes ▼

7. The District prepared an Advice of Encumbrance for levy funds based on list the liabilities for goods or services received but not paid for by June 30, including payroll, and filed it with the CSS by July 18. [A.R.S. §15-906](#) (Districts authorized by [A.R.S. §15-914.01](#) to participate in the accounting responsibility program should perform the duties as described in [A.R.S. §15-304](#).) Yes ▼

8. The District properly prepared the Career Technical Education District (CTED) Supplanting worksheet and adequately supported that monies received from a CTED were used only for career and technical education and to supplement, rather than supplant, the District's base year vocational education spending. [A.R.S. §15-393](#) Yes ▼

9. The District retained fully executed copies of each intergovernmental agreement (IGA) and payments for services were made or received, as applicable. [A.R.S. §11-952](#) Yes ▼

Travel

Objective: To determine whether the District implemented effective controls to ensure employees were traveling for District purposes and appropriately compensated.

1. The District's travel expenditures (lodging, meals, and incidentals) and mileage reimbursements were for District purposes and reimbursed within the maximum reimbursement amounts established by the Director of Arizona Department of Administration and in accordance with governing-board-prescribed policies and procedures. Amounts were reimbursed and reported as a taxable employee benefit if no overnight stay or no substantial sleep/rest occurred.

Yes ▼

Population

47

Sample

5

Credit cards and p-cards

Objective: To determine whether the District has implemented effective controls over credit card and p-card purchases to help reduce the risk of misuse and unapproved or fraudulent transactions.

1. The District used credit cards.

Yes ▼

Data Entry

1 AMEX card, 6 store

2. The District used p-cards.

No ▼

Data Entry

N/A

3. The District ensured different employees were responsible for issuing cards; requesting, authorizing, and executing purchases; and payment processing.

Yes ▼

4. The District issued and tracked possession of all District credit cards and trained employees who make credit card purchases or process transactions on the District's policies and procedures.

Yes ▼

5. The District recovered cards immediately from terminated employees.

N/A

No cards issued to employees - all cards must be signed out

6. The District's management periodically reviewed purchases for unauthorized vendors and purchases over approved limits and/or purchases that circumvent the procurement rules and District policies.

Yes

7. The District ensured someone other than a card user reconciled credit card and p-card supporting documentation and billing statements.

Yes

8. The District's card purchases were only for authorized District purposes, within the dollar limits authorized for the employee, and supported by valid receipts or transaction logs that clearly identify the employee making the purchase.

Yes

9. The District paid credit card and p-card statements before the due date to avoid finance charges and late fees.

No

The District incurred \$129.18 in credit card late fees and finance charges during fiscal year 2021-22.

Procurement

Objective: To determine whether the District followed the School District Procurement Rules and USFR purchasing guidelines to promote fair and open competition among vendors that helps ensure the District is getting the best value for the public monies it spends.

1. The District requested at least 3 written quotes for purchases costing at least \$10,000 but less than \$100,000 and followed the guidelines prescribed by the USFR.

No

For two purchases within the written quote range, documentation was not provided to support written quotes were obtained, or the purchases were otherwise exempt from requiring written quotes (i.e., sole source, cooperative purchases, etc.).

Population

11

Sample

11

2. The District properly procured expenditures that individually or cumulatively totaled over \$100,000.

Yes ▼

3. The District maintained a list of prospective bidders. R7-2-1023

Yes ▼

4. The District issued solicitations for invitation for bids (IFB) or request for proposals (RFP) during the fiscal year.

Yes ▼

5. The District published and, as applicable, provided other adequate notice of the issuance of solicitations. R7-2-1022, R7-2-1024(C), or R7-2-1042(C)

Yes ▼

Population

4

Sample

4

Data Entry

4 IFB's

6. The District issued solicitations at least 14 days before the time and date set for bid opening or the closing date and time for receipt of bids or proposals. R7-2-1024(A) or R7-2-1042(B)

Yes ▼

7. The District included all required content in the solicitation, as applicable. R7-2-1024(B) or R7-2-1042(A)

Yes ▼

8. The District recorded the time and date that sealed bids or proposals were received and stored bids or proposals unopened until the time and date set for opening. R7-2-1029 or R7-2-1045

Yes ▼

9. If the District awarded multiple contracts, it established and followed procedures for the use and award of multiple contracts. R7-2-1031(D) and R7-2-1050(C)

N/A

No multiple contract

10. The District awarded contracts according to R7-2-1031, R7-2-1032, R7-2-1046(A)(1), or R7-2-1050 and retained documentation to support the award(s).

Yes

11. If the District procured construction projects that used construction-manager-at-risk, design-build, job-order-contracting, or qualified select bidders lists to procure construction services, it complied with the requirements of R7-2-1100 through R7-2-1115.

N/A

No construction projects that used construction- manager-at-risk, design-build, job-order-contracting, or qualified select bidders lists

12. The District obtained signed procurement disclosure statements for all employees with job responsibilities related to each procurement and for all nonemployee consultants or technical advisors involved in each procurement process. R7-2-1008 and R7-2-1015

Yes

13. The District prepared applicable written determinations as required throughout the procurement rules that specify the reasons for the determination and how the determination was made. R7-2-1004.

Yes

14. The District followed [A.R.S. §15-213](#), and R7-2-1093 for the use of multi-term contracts.

Yes

15. The District followed R7-2-1117 through R7-2-1123 for contracts for specified professional services.

N/A

No specified professional services.

16. The District's procurement files included the required information, as applicable. R7-2-1001(97)

Yes

17. The District provided training and guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of \$300 or more. A.R.S. §15-213(N) and R7-2-1003

Yes

18. The District used only school district purchasing cooperatives contracts from cooperatives it was a member of or used only lead district contracts that it was listed as a member of in the solicitation or ensured its additional purchases would not have materially increased the volume stated in the original solicitation. R7-2-1191 through R7-2-1195

Yes

19. The District performed due diligence to support the use of each cooperative or lead district contract the District made purchases from during the audit period.

No

Due diligence documentation was not provided for one purchase made through a school purchasing cooperative.

Population

47

Sample

11

Data Entry

Mohave, 1GPA, AZPt

20. The District prepared written determinations for any specified professional services, construction, construction services, or materials purchased through a school purchasing cooperative, including how the determination was made. R7-2-1004

No

Written determinations as required by R7-2-1004, were not provided for one purchase made through a school purchasing cooperative for specified professional engineering and design services.

21. The District, when acting as a lead district in a procurement, followed the procurement procedures required for competitive sealed bidding or competitive sealed proposals, as applicable, and considered the total estimated volume of purchases for all public procurement units identified in the solicitation. R7-2-1011

N/A

District was not a lead district

Population

0

Sample

0

Data Entry

N/A

22. For all emergency procurements, the District retained a written statement documenting the basis for the emergency, the selection of the particular contractor, and why the price paid was reasonable, and this statement was signed by the individual authorized to initiate emergency procurements. R7-2-1055 and R7-2-1056 Yes ▼

Exhausted population

Sample
1

23. The District's governing board approved all sole-source procurements before any purchases were made, and the written determinations were retained in the procurement files. R7-2-1053 and R7-2-1086 Yes ▼

Exhausted population

Sample
9

24. For any purchase of services from governing board members or goods or services from District employees, regardless of the expenditure amount, the District followed the School District Procurement Rules, except as authorized by [A.R.S. §15-323](#). N/A ▼

No purchases from board members or employees

25. The District followed the School District Procurement Rules for purchases of any supplies, materials, and equipment from governing board members if the purchase exceeded \$100,000, or followed the guidelines for written quotes if below the threshold. [A.R.S. §38-503\(C\)](#) N/A ▼

No purchases from board members

26. For purchases the District made from General Services Administration (GSA) schedules 70-IT and 84-Law Enforcement, the governing board first authorized the contracts in writing. [A.R.S. §15-213\(K\)](#) and R7-2-1196(C) N/A ▼

No purchases from GSA

Classroom site fund

Objective: To determine whether the District appropriately spent these State sales tax revenues for teacher pay and programs to support students, such as class size reduction, dropout prevention, and tutoring, as allowed by law.

1. The District's Classroom Site Fund (CSF) expenditures did not exceed its Classroom Site Fund Budget Limit (CSFBL).

Yes ▼

2. The District adopted a performance-based compensation system for at least a portion of its CSF monies and ensured CSF expenditures were made only for allowable purposes listed in [A.R.S. §15-977](#) (see CSF FAQs).

Yes ▼

3. The District's CSF monies were used to supplement, rather than supplant, existing funding from all other sources (see CSF FAQ 3).

Yes ▼

Payroll

Objective: To determine whether the District has implemented effective controls to reduce the risks associated with payroll expenditures by documenting evidence of review, verification, and approval to ensure employees are appropriately compensated.

1. The District's payroll-processing responsibilities (i.e., adding new employees, adjusting pay, payroll preparation, payroll authorization, and warrant distribution) were separated among employees.

Yes ▼

2. The District established a delayed payroll system for hourly employees that did not delay payments more than 7 business days during its normal 2-week payroll processing cycle and allowed adequate time for payroll adjustments to be made, if needed, between the end of the pay period and the payment date.

Yes ▼

3. The District required employees' contracts or personnel/payroll action forms to document the employees' election for prorated compensation.

Yes ▼

4. The District ensured any adjustments to pay for employees who received prorated wage payments during the year were based on each employee's official rate of pay.

Yes ▼

Population

1

Sample

1

5. The District ensured hourly employees were not paid for more than the actual hours worked to date.

Yes ▼

Population

129

Sample

10

6. The District's individual personnel files included all appropriate supporting documentation, as listed on USFR pages VI-H-2 through 4.

Yes ▼

7. The District ensured that valid fingerprint clearance cards were on file for all required personnel and a method to identify employees whose cards were going to expire was in place. [A.R.S. §§15-512, 15-342, and 41-1750\(G\)](#).

Yes ▼

8. The District enrolled employees who met the ASRS membership criteria, withheld employee contributions, and in a timely manner remitted employee and District contributions in accordance with the ASRS Employer Manual.

Yes ▼

9. The District accurately calculated and in a timely manner remitted the alternative contribution rate payments to ASRS for all applicable positions filled by ASRS retirees. [ASRS Alternate Contribution Rate](#)

Yes ▼

10. The District calculated the accrual and use of vacation, sick leave, and compensatory time for all employees in accordance with District accrual rates for specified years of service, maximum amounts to be accrued, and disposition of accrued time upon separation of employment following District policies. Yes

11. Attendance records were prepared for each pay period for each employee subject to the Fair Labor Standards Act (FLSA) and were approved by the employee and the employee's supervisor. Yes

12. The District's payroll was properly reviewed and approved before processing and distribution to employees. Yes

Financial reporting

Objective: To determine whether the District properly prepared its financial reports, including its Annual Financial Report (AFR), for the audit year to provide legislative and oversight bodies, investors and creditors, and the public a transparent view of the District's financial position and operational results.

1. Budgeted expenditures reported on the AFR agreed with the District's most recently revised adopted expenditure budget. Yes

2. The District reported revenue and expenditure amounts on the AFR that agreed with the District's accounting records and applicable supporting documentation. No

Expenditures as reported on the AFR did not agree with the District's accounting records for the following funds:

Fund AFR District Records Difference
010 \$1,361,418 \$1,362,624 \$1,206

3. The District prepared the AFR and AFR summary (if one was prepared) with all information as required by [A.R.S. §15-904](#), and followed the [AFR Review, Submission, and Publication Instructions](#). Yes

4. The District properly prepared the Food Service page of the AFR and reported expenditures from the M&O Fund 001 and Capital Fund 610 that agreed with the District's accounting records.

Yes ▼

5. Detailed source documents were traceable to the District's trial balance that was used to prepare the financial statements.

Yes ▼

6. The District's website included its average teacher salary information required by [A.R.S. §15-903\(E\)](#) and a copy of or a link to the District's page from the most recent Arizona Auditor General District Spending Report

Yes ▼

7. The District submitted the School District Employee Report (SDER) to ADE, and it was accurate and timely. [A.R.S. §15-941](#) and [School Finance Reports](#)

Yes ▼

Student attendance reporting

Objective: To determine whether the District has implemented effective controls to report accurate student membership and attendance information to ADE to reduce the risk that the District received an inappropriate amount of State aid and/or local property taxes.

1. The District's calendar ensured school was in session for the required days and offered students the required instructional hours per grade level, including Arizona Online Instruction (AOI) Programs as prescribed in [A.R.S. §§15-808\(J\)\(1\), 15-901\(A\)\(1\), 15-901.07, and 15-901.08](#)

Yes ▼

2. If the District had an early (pre-) kindergarten program, the District calculated and submitted membership information for early (pre-) kindergarten students' attendance records for this program only for students with disabilities. [A.R.S. §15-901\(A\)\(1\)\(a\)\(i\)](#) and [USFR Memorandum No. 175](#)

Yes ▼

Sample

3

3. The District appropriately tracked and reported student membership and absences. [A.R.S. §15-901](#)

No ▼

Absences were not reported correctly for five of ten elementary and junior high school students reviewed, resulting in absences being underreported by 3 days.

For three of five students reviewed for high school attendance for the month of September 2021, the District did not properly report attendance. The errors netted to no difference in absences reported.

Population

1707

Sample

15

Data Entry

Based upon review of

4. The District prorated high school students' membership if enrolled in less than 4 subjects.

Yes ▼

Sample

5

5. The District was a CTED or CTED member.

Yes ▼

6. The District had an AOI program. [A.R.S. §15-808](#)

N/A ▼

No AOI program

7. For students enrolled in a program provided by a CTED in a facility the District owned or operated (satellite programs), the District reported the actual enrollment for only the District classes the student was enrolled in at the District's school (excluding CTED program classes) under the District's CTDS number.

Yes ▼

Population

597

Sample

5

8. For students enrolled in a program the CTED provided in a facility the District owned or operated (satellite programs), the District calculated student absences in accordance with ADE's methods based on the number of District classes the student was enrolled in and attended at the District's school. (excluding CTED satellite program classes)

Yes ▼

9. For CTED satellite programs, the CTED reported actual student enrollment data for only the CTED program classes the student was enrolled in at that member district's satellite location (excluding school district classes). [A.R.S. §15-393\(Q\)](#)

N/A ▼

Not a CTED

Sample

0

10. For CTEDs that meet for at least 150 minutes (not including any breaks) per class period on a CTED central campus, the CTED reported the membership as 0.75. [A.R.S. §15-393\(Q\)](#)

N/A ▼

Not a CTED

Sample

0

11. For students enrolled in both District and in CTED central program courses, the sum of the ADM was no more than 1.75 and the amount claimed by either entity was no more than 1.0. [A.R.S. §15-393\(Q\)](#)

Yes ▼

Sample

5

12. The District maintained appropriate documentation and accurately reported students enrolled in its AOI program, including redetermining the actual full time equivalent (FTE) for each student enrolled in an AOI Program following a student's withdrawal or after the end of the school year. [A.R.S. §15-808](#)

N/A ▼

Sample

0

13. The District ensured the student's name in the student management system matched the name on the legal document on file. [A.R.S. §15-828\(D\)](#).

No ▼

For one of ten students reviewed, legal documentation was not provided to support the student's name in the student management system.

Sample

10

14. The entry date in the computerized attendance system agreed to the entry form and was entered into the attendance system within 5 working days after the actual date of the student's enrollment. [A.R.S. §15-828](#).

Yes ▼

Population

262

Sample

10

15. The student membership begins on the first day of actual attendance or, for continuing/pre-enrolled students, the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of school. [ADE's External Guideline GE-17](#)

Yes ▼

16. The District obtained and maintained verifiable documentation of Arizona residency for enrolled students, including students in its AOI program. [A.R.S. §15-802\(B\)\(1\)](#) and [ADE's Updated Residency Guidelines](#)

No ▼

For two of ten students reviewed, documentation was not provided to support the students' Arizona Residency.

17. The District reported student withdrawal dates to ADE within 5 working days and maintained documentation that supported the date of data entry.

Yes ▼

Population

357

Sample

10

18. The District prepared and retained the Official Notice of Pupil Withdrawal form for each withdrawal, and the forms were signed by a District administrator. [A.R.S. §15-827](#)

Yes ▼

19. The District counted students withdrawn for having 10 consecutive unexcused absences in membership only through the last day of actual attendance or excused absence. [A.R.S. §15-901\(A\)\(1\)](#) Yes ▾

Population

60

Sample

10

20. The District uploaded membership and absence information to ADE that agreed to the District's computerized system records for the first 100 days of school. [A.R.S. §15-901](#) No ▾

The AzEd ADM15 report's membership days did not agree to the District's computerized attendance system records. The AzEd ADM15 reported 172,326 membership days while the District's computerized records reported 176,024 membership days, a difference of 3,698 days. Additionally, the AzEd ADM15 reported 23,652.25 absence days, and the District's computerized records reported 21,610.92 absence days, a difference of 2,041.33 days.

21. The District excluded nonresident students from the District's student count and State aid calculations and charged tuition as applicable. [A.R.S. §15-823\(G\) and \(L\)](#) N/A ▾

No students noted that were nonresidents

22. The District reported students who completed all high school requirements with the applicable graduation code and used the appropriate year-end status code for all other students. No ▾

Documentation was not provided to support the year-end status code for one of five students selected to review.

Sample

5

23. For students participating in distance learning, the District followed attendance procedures defined in a governing-board-adopted ITM. N/A ▾

No distance learning in FY22

Information technology

Objective: To determine whether the District adopted an information technology (IT) security framework that aligned with credible industry standards and implemented controls that provide reasonable assurance that its data is accurate and reliable and protected from unintended exposure and consequences. Test work should determine that the District adopted a framework and controls were operating to protect District and student data.

1. The District maintained adequate separation of duties in its IT systems that prevented 1 employee from completing a transaction without additional review and approval procedures.

Yes ▼

2. The District reviewed and documented any system or software changes implemented.

Yes ▼

3. The District assessed security risks for its systems and data and provided employees annual security awareness training.

Yes ▼

4. The District immediately and appropriately modified terminated or transferred employees' or vendors' access to all District systems.

No ▼

One employee that resigned in FY22 was still active user for Visions financial software in FY23. Subsequent to audit inquiry their access was disabled.

5. The District's system software and hardware was physically protected from unauthorized access, theft, and environmental hazards.

Yes ▼

6. The District scheduled and performed data backup-control procedures for all critical systems at least systems at least daily, or more frequently, to ensure uninterrupted operations and minimal loss of data.

Yes ▼

7. The District routinely completed software and application updates and patches when they became available.

Yes ▼

8. The District had vendor contracts or data-sharing agreements in place with any 3rd parties accessing or hosting District data that addressed controls to support security and processing integrity, and backup procedures if applicable, before data was accessed/shared.

Yes ▼

9. The District ensured changes to data in business (i.e., employee information, pay rates) and IT (i.e., user roles, access rights) systems were approved by an authorized individual prior to processing changes.

Yes ▼

10. The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.

Yes ▼

11. The District's IT systems generated electronic audit trail reports or change logs with information about electronic transactions that the District reviewed or analyzed regularly to determine transactions' propriety.

Yes ▼

12. The District monitored and reviewed IT system-generated incident or error reports to identify security threats or other unusual activity and addressed noted issues.

Yes ▼

13. The District had recovery and contingency planning documents in place to restore or resume system services in case of disruption or failure that were reviewed and tested at least annually.

Yes ▼

Transportation support

Objective: To determine whether the District has implemented effective controls for its transportation program to ensure it properly reports its transportation miles and student riders to ADE, which helps to ensure the District receives the appropriate amount of State aid.

1. The District accurately calculated and maintained documentation for miles and students reported on the Transportation Route Report submitted to ADE. [A.R.S. §15-922](#)

Yes ▼

Records management

Objective: To determine whether the District has implemented effective controls to properly protect and maintain its records, including student and employee data, and that its records were disposed of securely and in accordance with established time frames.

1. The District established and followed policies and procedures to properly protect, maintain, and dispose of personally identifiable information and confidential records, such as student and employee information and social security numbers. www.azlibrary.gov/records

Yes ▼

General long-term debt

Objective: To determine whether the District is following the laws related to bonds to ensure voters are informed and the District complies with the bond covenants.

1. The District calculated and issued any bonds in accordance with Arizona Revised Statutes and the Arizona Constitution. [A.R.S. §15-1021](#)

N/A ▼

No debt issued FY22

2. The District expended bond proceeds only for voter-authorized purposes and not for items with useful lives less than the average life of the bonds issued or 5 years. [A.R.S. §15-1021\(F\)](#)

N/A ▼

No bond proceeds

3. If the District had outstanding bonded indebtedness and a balance remained in the Bond Building Fund after the acquisition or construction of facilities for which the bonds were issued, the governing board transferred the remaining balance to the Debt Service Fund. Otherwise, if the District had no outstanding bonded indebtedness and a balance remained in the Bond Building Fund after the acquisition or construction of facilities for which the bonds were issued, the governing board used the remaining balance to reduce taxes. [A.R.S. §15-1024\(B\)](#)

N/A ▼

The District has bonds payable outstanding and no balance in Bond Building Fund

4. The District credited interest or other money earned from investing bond proceeds to the Debt Service Fund unless the voters authorized the interest to be credited to the Bond Building Fund or federal laws or rules require the interest to be used for capital expenditures. [A.R.S. §15-1024\(C\)](#)

N/A ▼

No balance in Bond Building Fund

All noted instances of any noncompliance with USFR requirements have been included in the CQ.

Preparer (AUDIT FIRM Representative)	Title	Date
William Dobridge, CPA	Partner	01/27/2023



Governing Board
Holbrook Unified School District No. 3
Holbrook, Arizona

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holbrook Unified School District No. 3 (District) for the year ended June 30, 2022 and have issued or report thereon dated January 27, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated August 1, 2022, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Holbrook Unified School District No. 3 solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material weaknesses, and material noncompliance, and other matters noted during our audit in a separate letter to you dated January 27, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Holbrook Unified School District No. 3 are described in Note 1 to the financial statements. During the current year the District implemented the effects of GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which changed the name of the report issued.

We noted no transactions entered into by Holbrook Unified School District No. 3 during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of capital assets is based on an analysis of the assets' condition and the District's previous experience. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the program revenues and its allocation by function is based on each fund's percentage of expenditures, as well as historical data. We evaluated the key factors and assumptions used to develop the allocation of program revenues to various functions in determining the reasonableness in relation to the financial statements taken as a whole.
- Management's estimate of the unfunded pension liability related to the Arizona State Retirement System pension plan are based on actuarial reports prepared by other professionals. We reviewed the key assumptions used to estimate the liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any disclosures that were particularly sensitive during the current year.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. We noted no uncorrected misstatements during the current fiscal year.

Corrected Misstatements

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material audit adjustments were brought to management's attention, and management agreed with them:

- Material audit adjustments were necessary to convert the District's accounting records from the cash basis of accounting to the modified accrual basis of accounting for governmental funds, including adjustments to properly record revenues and expenditures for activity within the encumbrance period and within the proper funds. Additionally, conversion entries were recorded by the auditors to convert the modified accrual basis of accounting governmental funds to the government-wide financial statements.
- Material audit adjustments were necessary within the Self Insurance Fund to properly record current year activity.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representation

We will request certain representations from management that are to be included in the management representation letter dated the date of the finalized audit report.

Management Consultations with Other Independent Accountant

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Holbrook Unified School District No. 3's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Holbrook Unified School District No. 3's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

Restriction on Use

This information is intended solely for the information and use of the governing board and management of Holbrook Unified School District No. 3 and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



CWDL Certified Public Accountants
January 27, 2023
Scottsdale, Arizona