# Valley Academy for Career and Technology Education Financial Statements Year Ended June 30, 2016

# VALLEY ACADEMY FOR CAREER AND TECHNOLOGY EDUCATION

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# VALLEY ACADEMY FOR CAREER AND TECHNOLOGY EDUCATION

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**REPORT ON AUDIT OF FINANCIAL STATEMENTS** 



#### **INDEPENDENT AUDITOR'S REPORT**

Governing Board Valley Academy for Career and Technology Education

#### **Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Academy for Career and Technology Education (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### **Basis for Disclaimer of Opinion**

We were unable to obtain written representations from management of Valley Academy for Career and Technology Education concerning transactions for the year ended June 30, 2016, which took place under substantially different management. In addition, Valley Academy for Career and Technology Education did not maintain sufficient internal controls and/or adequate records for payroll and disbursements. Accordingly, we were unable to perform procedures sufficient to achieve the audit objectives for these account balances and transaction classes.

#### **Disclaimer of Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

#### Change in Accounting Principle

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, for the year ended June 30, 2016, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

#### **Other Matters**

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and net pension liability information, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the scope limitation, lack of sufficient internal controls and/or adequate records. We do not express an opinion or provide any assurance on the information.

#### Other Information

We were engaged for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Because of the significance of the matters described above, it is inappropriate to and we do not express an opinion on the supplementary information referenced above.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017, on our consideration of Valley Academy for Career and Technology Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering Valley Academy for Career and Technology Education's internal control over financial reporting or over financial reporting and compliance.

Heinfeld, melch & Co., P.C.

Heinfeld, Meech & Co., P.C. Flagstaff, Arizona March 31, 2017 MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Required Supplementary Information)

As management of the Valley Academy for Career and Technology Education (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

# FINANCIAL HIGHLIGHTS

- The District's total net position of governmental activities increased \$124,608, which represents a 28 percent increase from the prior fiscal year which was a result of an increase in unrestricted state aid largely due to an increase in average daily membership.
- General revenues accounted for \$1.3 million in revenue, or 87 percent of all current fiscal year revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$186,811 or 13 percent of total current fiscal year revenues.
- The District had approximately \$1.3 million in expenses related to governmental activities, an increase of three percent from the prior fiscal year due to an increase in average daily membership and associated costs.
- Among major funds, the General Fund had \$1.3 million in current fiscal year revenues, which primarily consisted of state aid and property taxes, and \$1.1 million in expenditures. The General Fund's fund balance increased \$187,084 to \$286,158 at the end of the current fiscal year.

# **OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

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

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

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are 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 use the modified accrual basis of accounting and focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Other State Projects, Community School and Unrestricted Capital Outlay Funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining schedules.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

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

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$570,939 at the current fiscal year end.

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

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

	As of June 30, 2016	As of June 30, 2015
Current and other assets	\$ 929,862	\$ 769,728
Capital assets, net	208,914	380,451
Total assets	1,138,776	1,150,179
Deferred outflows	100,832	112,713
Current and other liabilities	83,809	104,749
Long-term liabilities	539,773	479,563
Total liabilities	623,582	584,312
Deferred inflows	45,087	83,070
Net position:		
Investment in capital assets	208,914	380,451
Restricted	556,187	26,262
Unrestricted	(194,162)	188,797
Total net position	\$ 570,939	\$ 595,510

At the end of the current fiscal year, the District reported positive balances in two categories of net position. Unrestricted net position, which is normally used to meet the District's mission, reported a deficit of \$194,161. The deficit is due to the District's proportionate share of the state pension plan's unfunded liability. The District reported positive balances in all three categories of net position in the prior year.

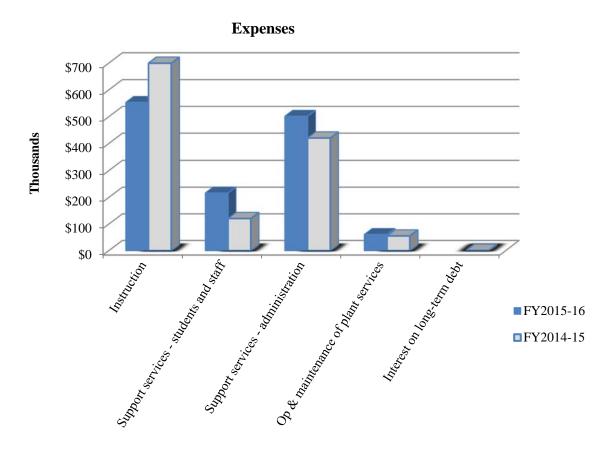
The District's financial position is the product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following are significant current year transactions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

- Accumulated depreciation increased \$22,358, as a result of current year depreciation expense.
- Increase of \$58,858 in pension liabilities due to changes in estimates and payments.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Changes in net position.** The District's total revenues for the current fiscal year were \$1.5 million. The total cost of all programs and services was \$1.3 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

	scal Year Ended e 30, 2016	Fiscal Year Ended June 30, 2015		
Revenues:	 			
Program revenues:				
Charges for services	\$ 68,782	\$	152,362	
Operating grants and contributions	118,029		28,153	
General revenues:				
Property taxes	404,726		395,573	
Investment income	2,899		2,266	
Unrestricted county aid	180,445		174,927	
Unrestricted state aid	643,235		488,782	
Unrestricted federal aid	39,171			
Total revenues	 1,457,287		1,242,063	
Expenses:				
Instruction	553,419		699,515	
Support services – students and staff	216,561		120,859	
Support services – administration	501,701		420,338	
Operation and maintenance of plant services	60,998		55,318	
Interest on long-term debt			962	
Total expenses	1,332,679		1,296,992	
Changes in net position	 124,608		(54,929)	
Net position, beginning	595,510		650,439	
Net effect of prior period adjustments	 (149,179)			
Net position, beginning of year, as restated	 446,331			
Net position, ending	\$ 570,939	\$	595,510	



### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

- Unrestricted state aid increased \$154,453 largely due to an increase in average daily membership.
- Instruction expenses decreased \$146,096 primarily due to a reduction in miscellaneous purchased services.

The following table presents the cost of the District's major functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the state and District's taxpayers by each of these functions.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

	Year Ended June 30, 2016					Year Ended June 30, 2015			
				Net					
		Total		(Expense)/		Total	Ne	et (Expense)/	
	]	Expenses	Revenue			Expenses Reve		Revenue	
Instruction	\$	553,419	\$	(553,342)	\$	699,515	\$	(681,324)	
Support services – students and staff		216,561		(157,418)		120,859		(119,667)	
Support services – administration		501,701		(374,110)		420,338		(259,206)	
Operation and maintenance of plant services		60,998		(60,998)		55,318		(55,318)	
Interest on long-term debt						962		(962)	
Total	\$	1,332,679	\$	(1,145,868)	\$	1,296,992	\$	(1,116,477)	

- The cost of all governmental activities this year was \$1.3 million.
- Federal and state governments subsidized certain programs with grants and contributions and other local revenues of \$186,811.
- Net cost of governmental activities of \$1.1 million was financed in part by general revenues, which are made up of primarily property taxes of \$404,726 and state and county aid of \$823,680.

# FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds**. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. At the end of the prior fiscal year, the governmental funds reported a combined fund balance of \$686,082, which increased to \$842,345 at the end of the current fiscal year, primarily due to a decrease in instructional expenditures.

### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund is the principal operating fund of the District. The increase in fund balance from \$99,074 to \$286,158 as of fiscal year end was a result of Proposition 123 funding.

The Community School Fund's fund balance decreased \$34,819 to \$226,432 as of fiscal year end as a result of an increase in administration expenditures.

The Unrestricted Capital Outlay Fund's fund balance increased \$892.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revised the General Fund annual expenditure budget for changes in student membership. The difference between the original budget and the final amended budget was a \$51,002 increase, or five percent primarily due to increases in student enrollment.

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

- A favorable variance of \$142,822 in support services students and staff was due to lower than anticipated salary costs due to the District having unfilled positions during the year.
- An unfavorable variance of \$130,073 in support services administration was due to higher than anticipated salaries and purchased professional services.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets**. At year end, the District had invested \$528,084 in capital assets, including building improvements, software and equipment. Total depreciation expense for the current fiscal year was \$22,358.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

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

. .

				As of
		As of	Jun	e 30, 2015
	Jun	e 30, 2016	(as	restated)
Capital assets – depreciable, net	\$	208,914	\$	231,272
Total	\$	208,914	\$	231,272

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

Debt Administration. At year end, the District had no long-term debt outstanding.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

- Employee salaries (estimated \$357,559)
- District student enrollment (estimated 241).

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

Budgeted expenditures in the General Fund increased three percent to \$1.2 million in fiscal year 2016-17. State aid and property taxes are expected to be the primary funding sources.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Business and Finance Department, Valley Academy for Career and Technology Education, 830 South Main Street, Suite 2i, Cottonwood, Arizona 86326.

**BASIC FINANCIAL STATEMENTS** 

GOVERNMENT-WIDE FINANCIAL STATEMENTS

#### VALLEY ACADEMY FOR CAREER & TECHNOLOGY EDUCATION STATEMENT OF NET POSITION JUNE 30, 2016

ASSETSCurrent assets:\$ 730,079Property taxes receivable8,268Due from governmental entities128,964Prepaid items62,551Total current assets929,862Noncurrent assets:929,862Capital assets, net of accumulated depreciation208,914Total noncurrent assets1,138,776DEFERRED OUTFLOWS OF RESOURCES100,832Pension plan items100,832LIABILITIES100,832Current liabilities:89,682Noncurrent liabilities89,682Noncurrent liabilities533,900Total noncurrent liabilities623,582DEFERRED INFLOWS OF RESOURCES623,582Pension plan items45,087Noncurrent liabilities623,582DEFERRED INFLOWS OF RESOURCES623,582Pension plan items45,087Noncurrent liabilities533,900Total noncurrent liabilities533,900Total noncurrent liabilities623,582DEFERRED INFLOWS OF RESOURCES208,914Restricted for:7,509Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted for:(194,162)Total net position\$ 570,939		Governmental Activities	
Cash and investments\$ 730,079Property taxes receivable8,268Due from governmental entities128,964Prepaid items62,551Total current assets929,862Noncurrent assets:208,914Capital assets, net of accumulated depreciation208,914Total noncurrent assets208,914Total assets1,138,776DEFERRED OUTFLOWS OF RESOURCES100,832Pension plan items100,832LIABILITIES100,832Current liabilities:39,881Total current liabilities39,881Total current liabilities39,682Noncurrent liabilities:533,900Total noncurrent liabilities533,900Total noncurrent liabilities533,900Total noncurrent liabilities533,900Total liabilities533,900Total noncurrent liabilities533,900Total assets208,914Restricted for:208,914Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)	<u>ASSETS</u>		
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Prepaid items62,551Total current assets929,862Noncurrent assets:208,914Total noncurrent assets208,914Total assets1,138,776 <b>DEFERRED OUTFLOWS OF RESOURCES</b> 100,832Pension plan items100,832 <b>LIABILITIES</b> 100,832Current liabilities:43,928Compensated absences payable5,873Unearned revenues39,881Total current liabilities:89,682Noncurrent liabilities:533,900Total noncurrent liabilities533,900Total liabilities533,900Total liabilities533,900Total noncurrent liabilities533,900Total liabilities623,582 <b>DEFERRED INFLOWS OF RESOURCES</b> 208,914Pension plan items45,087Next proved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)	Property taxes receivable		8,268
Total current assets929,862Noncurrent assets: Capital assets, net of accumulated depreciation Total noncurrent assets208,914Total noncurrent assets208,914Total assets1,138,776 <b>DEFERRED OUTFLOWS OF RESOURCES</b> Pension plan items100,832 <b>LIABILITIES</b> 	Due from governmental entities		128,964
Total current assets929,862Noncurrent assets: Capital assets, net of accumulated depreciation Total noncurrent assets208,914Total noncurrent assets208,914Total assets1,138,776 <b>DEFERRED OUTFLOWS OF RESOURCES</b> Pension plan items100,832 <b>LIABILITIES</b> Current liabilities: Accounts payable Compensated absences payable43,928Compensated absences payable Total current liabilities: Non-current portion of long-term obligations Total noncurrent liabilities533,900Noncurrent liabilities: Non-current portion of long-term obligations Total noncurrent liabilities533,900Total liabilities623,582 <b>DEFERRED INFLOWS OF RESOURCES</b> Pension plan items45,087 <b>NET POSITION</b> Investment in capital assets Restricted for: Voter approved initiatives37,509 208,914Neter approved initiatives Capital outlay 292,24637,509Community school Capital outlay 292,246226,432 202,246	Prepaid items		62,551
Capital assets, net of accumulated depreciation208,914Total noncurrent assets208,914Total assets1,138,776DEFERRED OUTFLOWS OF RESOURCES100,832Pension plan items100,832LIABILITIES100,832Current liabilities:43,928Accounts payable5,873Unearned revenues39,881Total current liabilities:89,682Noncurrent liabilities:89,682Noncurrent liabilities533,900Total noncurrent liabilities533,900Total noncurrent liabilities623,582DEFERRED INFLOWS OF RESOURCES45,087Pension plan items45,087NET POSITION208,914Restricted for:208,914Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)	Total current assets		929,862
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DEFERRED OUTFLOWS OF RESOURCESPension plan items100,832LIABILITIESCurrent liabilities:Accounts payable43,928Compensated absences payable5,873Unearned revenues39,881Total current liabilities89,682Noncurrent liabilities:89,682Non-current portion of long-term obligations533,900Total noncurrent liabilities533,900Total noncurrent liabilities623,582DEFERRED INFLOWS OF RESOURCES45,087Pension plan items45,087Net POSITION37,509Investment in capital assets208,914Restricted for:37,509Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)	Total noncurrent assets		
Pension plan items100,832LIABILITIES Current liabilities: Accounts payable Compensated absences payable Unearned revenues Total current liabilities43,928 5,873 39,881 89,682Noncurrent liabilities: Non-current portion of long-term obligations Total noncurrent liabilities533,900 623,582DEFERRED INFLOWS OF RESOURCES Pension plan items45,087NET POSITION Investment in capital assets Restricted for: Voter approved initiatives Community school Capital outlay 292,246208,914 292,246	Total assets		1,138,776
LIABILITIES Current liabilities: Accounts payable Compensated absences payable Unearned revenues Total current liabilities43,928 5,873 39,881 39,881 39,881 Total current liabilitiesNoncurrent liabilities: Non-current portion of long-term obligations Total noncurrent liabilities533,900 533,900 623,582DEFERRED INFLOWS OF RESOURCES Pension plan items45,087NET POSITION Investment in capital assets Restricted for: Voter approved initiatives Community school Capital outlay Unrestricted208,914 292,246			
Current liabilities:43,928Accounts payable43,928Compensated absences payable5,873Unearned revenues39,881Total current liabilities89,682Noncurrent liabilities:89,682Non-current portion of long-term obligations533,900Total noncurrent liabilities533,900Total liabilities623,582DEFERRED INFLOWS OF RESOURCES45,087Pension plan items45,087Nett POSITION37,509Investment in capital assets208,914Restricted for:37,509Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)	Pension plan items		100,832
Accounts payable43,928Compensated absences payable5,873Unearned revenues39,881Total current liabilities89,682Noncurrent portion of long-term obligations533,900Total noncurrent portion of long-term obligations533,900Total noncurrent liabilities533,900Total liabilities623,582DEFERRED INFLOWS OF RESOURCES623,582Pension plan items45,087Nett POSITION208,914Restricted for:37,509Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)			
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Unearned revenues39,881Total current liabilities89,682Noncurrent liabilities:89,682Non-current portion of long-term obligations533,900Total noncurrent liabilities533,900Total liabilities623,582DEFERRED INFLOWS OF RESOURCES623,582Pension plan items45,087NET POSITION1000000000000000000000000000000000000			
Total current liabilities89,682Noncurrent liabilities: Non-current portion of long-term obligations Total noncurrent liabilities533,900 533,900 623,582DEFERRED INFLOWS OF RESOURCES Pension plan items45,087NET POSITION Investment in capital assets Restricted for: Voter approved initiatives208,914 226,432 292,246 (194,162)			
Noncurrent liabilities: Non-current portion of long-term obligations Total noncurrent liabilities533,900 533,900 623,582DEFERRED INFLOWS OF RESOURCES Pension plan items45,087NET POSITION Investment in capital assets Restricted for: Voter approved initiatives208,914 37,509 226,432 292,246 Unrestricted			
Non-current portion of long-term obligations533,900Total noncurrent liabilities533,900Total liabilities623,582DEFERRED INFLOWS OF RESOURCES623,582Pension plan items45,087NET POSITION208,914Investment in capital assets208,914Restricted for:37,509Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)	Total current liabilities		89,682
Total noncurrent liabilities533,900Total liabilities623,582DEFERRED INFLOWS OF RESOURCESPension plan items45,087NET POSITION208,914Investment in capital assets208,914Restricted for:37,509Community school226,432Capital outlay292,246Unrestricted(194,162)			
Total liabilities623,582DEFERRED INFLOWS OF RESOURCESPension plan items45,087NET POSITIONInvestment in capital assets208,914Restricted for:Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)			
DEFERRED INFLOWS OF RESOURCESPension plan items45,087NET POSITION			
Pension plan items45,087NET POSITIONInvestment in capital assetsInvestment in capital assets208,914Restricted for:7,509Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)	Total liabilities		623,582
NET POSITIONInvestment in capital assets208,914Restricted for:7,509Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)	DEFERRED INFLOWS OF RESOURCES		
Investment in capital assets208,914Restricted for:77,509Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)	Pension plan items		45,087
Restricted for:37,509Voter approved initiatives226,432Community school222,432Capital outlay292,246Unrestricted(194,162)	NET POSITION		
Voter approved initiatives37,509Community school226,432Capital outlay292,246Unrestricted(194,162)			208,914
Community school226,432Capital outlay292,246Unrestricted(194,162)			37,509
Capital outlay292,246Unrestricted(194,162)			
Unrestricted (194,162)	•		
	· ·		,
	Total net position	\$	

#### VALLEY ACADEMY FOR CAREER & TECHNOLOGY EDUCATION STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

		 Program	Re	venues	I	let (Expense) Revenue and hanges in Net Position
E	<b>F</b>	Charges for		Operating Grants and	C	Sovernmental
Functions/Programs	 Expenses	 Services	_	Contributions		Activities
Governmental activities:						
Instruction	\$ 553,419	\$ 77	\$		\$	(553,342)
Support services - students and staff	216,561			59,143		(157,418)
Support services - administration	501,701	68,705		58,886		(374,110)
Operation and maintenance of plant services	60,998					(60,998)
<b>Total governmental activities</b>	\$ 1,332,679	\$ 68,782	\$	118,029		(1,145,868)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	404,726
Investment income	2,899
Unrestricted county aid	180,445
Unrestricted state aid	643,235
Unrestricted federal aid	39,171
Total general revenues	1,270,476
Changes in net position	124,608
Net position, beginning of year, as restated	446,331
Net position, end of year	\$ 570,939

# FUND FINANCIAL STATEMENTS

#### VALLEY ACADEMY FOR CAREER & TECHNOLOGY EDUCATION BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2016

	General		• • •	ner State rojects		mmunity School
<u>ASSETS</u> Cash and investments	\$	149,324	\$	39,881	\$	240,907
Property taxes receivable	Ψ	8,268	Ψ	57,001	Ψ	240,707
Due from governmental entities		91,575				
Prepaid items		62,551				
Total assets	\$	311,718	\$	39,881	\$	240,907
<u>LIABILITIES, DEFERRED INFLOWS OF</u> <u>RESOURCES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$	21,852	\$		\$	14,475
Unearned revenues		,		39,881		,
Total liabilities		21,852		39,881		14,475
Deferred inflows of resources:						
Unavailable revenues - property taxes		3,708				
Fund balances:						
Nonspendable		62,551				
Restricted		,				226,432
Unassigned		223,607				
Total fund balances		286,158				226,432
Total liabilities, deferred inflows of resources and fund balances	\$	311,718	\$	39,881	\$	240,907
una rana balances	Ψ	511,710	Ψ	57,001	Ψ	270,707

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

	restricted ital Outlay	Gov	Non-Major Governmental Funds		Total rernmental Funds
\$	292,246	\$	7,721	\$	730,079
			37,389		8,268 128,964
			57,507		62,551
\$	292,246	\$	45,110	\$	929,862
\$		\$	7,601	\$	43,928
+		+	.,	-	39,881
			7,601		83,809
					2 700
					3,708
					62,551
	292,246		37,509		556,187
					223,607
	292,246		37,509		842,345
\$	292,246	\$	45,110	\$	929,862

#### VALLEY ACADEMY FOR CAREER & TECHNOLOGY EDUCATION RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION JUNE 30, 2016

Total governmental fund balances		\$ 842,345
Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets Less accumulated depreciation	\$ 528,084 (319,170)	208,914
Some property tax receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.		3,708
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions Deferred inflows of resources related to pensions	100,832 (45,087)	55,745
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences payable Net pension liability	(5,873) (533,900)	 (539,773)
Net position of governmental activities		\$ 570,939

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

#### VALLEY ACADEMY FOR CAREER & TECHNOLOGY EDUCATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2016

	General		Community School		Unrestricted Capital Outlay	
Revenues:						
Other local	\$	180,831	\$	69,639	\$	1,497
Property taxes		406,586				
State aid and grants		640,288				
Federal aid, grants and reimbursements		39,171				
Total revenues		1,266,876		69,639		1,497
Expenditures:						
Current -						
Instruction		522,460		1,888		
Support services - students and staff		150,424		2,428		
Support services - administration		369,425		100,142		
Operation and maintenance of plant services		60,345				
Capital outlay						605
Total expenditures		1,102,654		104,458		605
Changes in fund balances		164,222		(34,819)		892
Fund balances, beginning of year		99,074		261,251		291,354
Increase (decrease) in reserve for prepaid items		22,862				
Fund balances, end of year	\$	286,158	\$	226,432	\$	292,246

Non-Major Governmenta Funds	1	Total Governmental Funds		
5,44		\$ 252,126 406,586 645,735		
<u> </u>		<u>154,700</u> <u>1,459,147</u>		
59,14 58,88		524,348 211,995 528,453 60,345		
118,02	29	<u>605</u> 1,325,746		
3,10	)6	133,401		
34,40	)3	686,082		
		22,862		
\$ 37,50	)9	\$ 842,345		

#### VALLEY ACADEMY FOR CAREER & TECHNOLOGY EDUCATION RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

Changes in fund balances - total governmental funds		\$ 133,401
Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:		
Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.		(22,358)
Some property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(1,860)
Governmental funds report pension contributions as expenditures. However, they are reported as deferred outflows of resources in the Statement of Net Position. The change in the net pension liability, adjusted for deferred pension items, is reported as pension expense in the Statement of Activities.		
Current year pension contributions Pension expense	30,871 (63,627)	(32,756)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Prepaid items Compensated absences	22,862 25,319	 48,181
Changes in net position in governmental activities		\$ 124,608

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

### VALLEY ACADEMY FOR CAREER AND TECHNOLOGY EDUCATION NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Valley Academy for Career and Technology Education (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

### A. Reporting Entity

The Governing Board is organized under Section 15-393 of the Arizona Revised Statutes (A.R.S.). Management of the District is independent of other state or local governments. The County Treasurer collects taxes for the District, but exercises no control over its expenditures/expenses.

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

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

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of the District. The District's major operation is providing career and technical education.

# NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## **B.** Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the District. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

# NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Fund Financial Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Compensated absences as well as judgments are recorded only when payment is due.

Property taxes, federal, state and county aid, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Unearned revenues arise when resources are received by the District before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

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

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

The District reports the following major governmental funds:

<u>General Fund</u> – The General Fund is the District's primary operating fund. It accounts for all resources used to finance District maintenance and operation except those required to be accounted for in other funds. The General Fund includes the District's Maintenance and Operation Fund as well as the certain activities budgeted in separate funds in accordance with A.R.S. These funds are maintained as separate funds for budgetary purposes but do not meet the criteria for separate reporting in the financial statements.

<u>Other State Projects Fund</u> – The Other State Projects Fund accounts for financial assistance received for other state projects.

# NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Community School Fund</u> – The Community School Fund accounts for activity related to academic and skill development for all citizens.

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

# **D.** Cash and Investments

A.R.S. require the District to deposit certain cash with the County Treasurer, except as discussed below. Cash with the County Treasurer is pooled for investment purposes. Interest earned from investments purchased with pooled monies is allocated to each of the District's funds based on their average balances. All investments are stated at fair value.

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

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

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

# E. Investment Income

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

# NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

# F. Receivables and Payables

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

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

# G. Property Tax Calendar

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

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

# H. Prepaid Items

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

# I. Capital Assets

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

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

# NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Land improvements	15-20 years
Buildings and improvements	10-35 years
Furniture and equipment	3-10 years

# J. Deferred Outflows/Inflows of Resources

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

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

# K. Compensated Absences

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

# L. Pensions

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

# NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

# **M. Long-term Obligations**

In the government-wide financial statements, long-term debt, of which the District currently has none, and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

# N. Interfund Activity

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

## **O.** Net Position Flow Assumption

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

### P. Estimates

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

# **NOTE 2 – FUND BALANCE CLASSIFICATIONS**

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

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

# NOTE 2 – FUND BALANCE CLASSIFICATIONS

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

*Committed.* The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Governing Board. Those committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The District does not have a formal policy or procedures for the utilization of committed fund balance, accordingly, no committed fund balance amounts are reported.

*Assigned.* Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board or a management official delegated that authority by the formal Governing Board action. The 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.** Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

## NOTE 2 – FUND BALANCE CLASSIFICATIONS

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

	(	General Fund	ommunity School Fund	0.1	restricted ital Outlay Fund	on-Major vernmental Funds
Fund Balances:						 
Nonspendable:						
Prepaid items	\$	62,551	\$	\$		\$
Restricted:						
Capital projects					292,246	
Voter approved initiatives						37,509
Community school			226,432			
Unassigned		223,607				
Total fund balances	\$	286,158	\$ 226,432	\$	292,246	\$ 37,509

# NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

# **NOTE 4 – CASH AND INVESTMENTS**

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of bank failure the District's deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. At year end, the carrying amount of District's deposits was \$2,000 and the bank balance was \$2,000.

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

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

# NOTE 4 – CASH AND INVESTMENTS

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

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

	Average Maturities	F	air Value
County Treasurer's investment pool	1.32 years	\$	728,079
Total		\$	728,079

*Interest Rate Risk.* The District does not have any investments and, accordingly, does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The District has no investment policy that would further limit its investment choices. As of year end, the District's investment in the County Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

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

# **NOTE 5 – RECEIVABLES**

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

		No	on-Major
(	General Governme		
	Fund		Funds
\$		\$	36,522
	91,575		867
\$	91,575	\$	37,389
		Fund \$ 91,575	General Gov Fund \$ \$ 91,575

# **NOTE 6 – CAPITAL ASSETS**

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

	Beginning Balance			Ending
Governmental Activities	(as restated)	Increase	Decrease	Balance
Capital assets, being depreciated:				
Buildings and improvements	\$ 243,056	\$	\$	\$ 243,056
Vehicles, furniture and equipment	285,028			285,028
Total capital assets being depreciated	528,084			528,084
Less accumulated depreciation for:				
Buildings and improvements	(84,339)	(10,664)		(95,003)
Vehicles, furniture and equipment	(212,473)	(11,694)		(224,167)
Total accumulated depreciation	(296,812)	(22,358)		(319,170)
Total capital assets, being depreciated, net	231,272	(22,358)		208,914
Governmental activities capital assets, net	\$ 231,272	\$ (22,358)	\$	\$ 208,914

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 22,358
Total depreciation expense – governmental activities	\$ 22,358

# NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

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

	eginning Balance	A	dditions	Re	ductions	Ending Balance	ue Within One Year
Governmental activities:							
Net pension liability	\$ 475,042	\$	58,858	\$		\$ 533,900	\$
Compensated absences payable	31,192		5,889		31,208	5,873	5,873
Governmental activity long-term							
liabilities	\$ 506,234	\$	64,747	\$	31,208	\$ 539,773	\$ 5,873

# **NOTE 8 – CONTINGENT LIABILITIES**

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

**Lawsuits** – The District is a party to a number of various types of lawsuits, many of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable.

# **NOTE 9 – PRIOR PERIOD ADJUSTMENT**

The July 1, 2015, government-wide net position does not agree to the prior year financial statements due to a correction of an error. Capital assets were previously included that were not supported.

	atement of Activities
Net position, June 30, 2015, as	
previously reported	\$ 595,510
Corrections to capital assets	 (149,179)
Net position, July 1, 2015, as restated	\$ 446,331

# NOTE 10 – RISK MANAGEMENT

The District was unable to obtain general property and liability insurance at a cost it considered to be economically justifiable. Therefore, the District joined the Arizona School Risk Retention Trust, Inc. (ASRRT). ASRRT is a public entity risk pool currently operating as a common risk management and insurance program for school districts and community colleges in the State. The District pays an annual premium to ASRRT for its general insurance coverage. The agreement provides that ASRRT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified amounts.

The District's employees have health and accident insurance coverage with the Arizona School Board Association Insurance Trust (ASBAIT). ASBAIT is a public entity risk pool currently operating as a common risk management and insurance program for school districts in the State. The District pays a monthly premium to ASBAIT for employees' health and accident insurance coverage. The agreement provides that ASBAIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified amounts.

# NOTE 10 – RISK MANAGEMENT

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

# NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

**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:

		ent Initial ship Date:
	Before July 1, 2011	On or After July 1, 2011
Years of service and	Sum of years and age equals 80	30 years age 55
age required to	10 years age 62	25 years age 60
receive benefit	5 years age 50*	10 years age 62
	Any years age 65	5 years age 50*
		Any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%
•	*With actuarially reduced benefi	ts

# NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

**Contributions.** In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. The District's contributions to the pension plan for the year ended June 30, 2016 were \$30,871.

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

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

	Health Benefit Supplement Fund		g-Term ability Fund
Year ending June 30:			
2016	\$ 1,423	\$	341
2015	1,866		324
2014	1,733		589

# NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

**Pension Liability.** At June 30, 2016, the District reported a liability of \$533,900 for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the District's proportion was 0.003 percent, which was unchanged from its proportion measured as of June 30, 2014.

**Pension Expense and Deferred Outflows/Inflows of Resources.** For the year ended June 30, 2016, the District recognized pension expense of \$63,627 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	D	Deferred	D	eferred
	Ou	tflows of	Inf	lows of
	R	esources	Re	sources
Differences between expected and actual experience	\$	14,569	\$	27,977
Net difference between projected and actual earnings on				
pension plan investments				17,110
Changes in proportion and differences between				
contributions and proportionate share of contributions		55,392		
Contributions subsequent to the measurement date		30,871		
Total	\$	100,832	\$	45,087
Changes in proportion and differences between contributions and proportionate share of contributions Contributions subsequent to the measurement date	\$	30,871	\$	

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

2017	\$	23,479
2018		(846)
2019		(10,111)
2020		12,352
	2018 2019	2018 2019

# NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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

# NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

	1%	Current	1%
	Decrease	Discount Rate	Increase
	(7.0%)	(8.0%)	(9.0%)
Proportionate share of the net			
pension liability	\$ 699,591	\$ 533,900	\$ 420,347

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

**REQUIRED SUPPLEMENTARY INFORMATION** 

## VALLEY ACADEMY FOR CAREER & TECHNOLOGY EDUCATION SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL YEAR ENDED JUNE 30, 2016

	Budgeted	Amounts	Non-GAAP	Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Other local	\$	\$	\$ 180,809	\$ 180,809
Property taxes			406,586	406,586
State aid and grants			640,288	640,288
Total revenues			1,227,683	1,227,683
Expenditures: Current -				
Instruction	479,085	530,087	522,460	7,627
Support services - students and staff	293,246	293,246	150,424	142,822
Support services - administration	225,805	225,805	355,878	(130,073)
Operation and maintenance of plant services	83,234	83,234	60,345	22,889
Total expenditures	1,081,370	1,132,372	1,089,107	43,265
Changes in fund balances	(1,081,370)	(1,132,372)	138,576	1,270,948
Fund balances, beginning of year			59,608	59,608
Increase (decrease) in reserve for prepaid items			22,862	22,862
Fund balances (deficits), end of year	\$ (1,081,370)	\$ (1,132,372)	\$ 221,046	\$ 1,353,418

### VALLEY ACADEMY FOR CAREER & TECHNOLOGY EDUCATION SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL COMMUNITY SCHOOL YEAR ENDED JUNE 30, 2016

	Budgeted Amounts Original & Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Other local	\$	\$ 69,639	\$ 69,639
Total revenues		69,639	69,639
Expenditures: Current - Instruction		1,888	(1,888)
Support services - students and staff		2,428	(2,428)
Support services - administration	100,000	100,142	(142)
Total expenditures	100,000	104,458	(4,458)
Changes in fund balances	(100,000)	(34,819)	65,181
Fund balances, beginning of year		261,251	261,251
Fund balances (deficits), end of year	\$ (100,000)	\$ 226,432	\$ 326,432

#### VALLEY ACADEMY FOR CAREER & TECHNOLOGY EDUCATION SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY ARIZONA STATE RETIREMENT SYSTEM LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.003%	0.003%
District's proportionate share of the net pension liability (asset)	\$ 533,900	\$ 475,042
District's covered payroll	\$ 316,107	\$ 288,832
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	168.90%	164.47%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

#### SCHEDULE OF CONTRIBUTIONS ARIZONA STATE RETIREMENT SYSTEM LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 30,871	\$ 34,424
Contributions in relation to the actuarially determined contribution	 30,871	 34,424
Contribution deficiency (excess)	\$	\$ 
District's covered payroll	\$ 284,525	\$ 316,107
Contributions as a percentage of covered payroll	10.85%	10.89%

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

# VALLEY ACADEMY FOR CAREER AND TECHNOLOGY EDUCATION NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

# NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

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

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

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

		Total	Fund Balances		
	Ez	xpenditures	En	d of Year	
Statement of Revenues, Expenditures and Changes in					
Fund Balances – Governmental Funds	\$	1,102,654	\$	286,158	
Activity budgeted as special revenue funds		(13,547)		(65,112)	
Schedule of Revenues, Expenditures and Changes in					
Fund Balances – Budget and Actual – General Fund	\$	1,089,107	\$	221,046	

# NOTE 2 – PENSION PLAN SCHEDULES

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

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

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

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SUPPLEMENTARY INFORMATION

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# **GOVERNMENTAL FUNDS**

	Classroom Site				
	Budget	A	Actual	Variance - Positive (Negative)	
Revenues:					
Other local	\$	\$	150	\$	150
State aid and grants			2,169		2,169
Federal aid, grants and reimbursements					
Total revenues			2,319		2,319
Expenditures: Current -					
Instruction	969,520				969,520
Support services - students and staff	, ,				,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
Support services - administration					
Total expenditures	969,520				969,520
Changes in fund balances	(969,520)		2,319		971,839
Fund balances, beginning of year, as restated			32,099		32,099
Fund balances (deficits), end of year	\$ (969,520)	\$	34,418	\$	1,003,938

Instructional Improvement						Vocational Education						
Budget	Ao	Actual		ance - sitive gative)	Budget		Budget					riance - ositive egative)
\$	\$	9 778 787	\$	9 778 787	\$			5,529 5,529	\$	<u>115,529</u> <u>115,529</u>		
		787		787		250,000 250,000 (250,000)	5	56,643 5,886 5,529		(56,643) 191,114 134,471 250,000		
\$	\$	2,304 3,091	\$	2,304 3,091	\$	(250,000)	\$		\$	250,000		

	National Forest Fees				
	Budget	Non-GAAP Actual	Variance - Positive (Negative)		
Revenues:	<i>•</i>	<b>.</b>	<b>A</b>		
Other local	\$	\$	\$		
State aid and grants					
Federal aid, grants and reimbursements		39,171	39,171		
Total revenues		39,171	39,171		
Expenditures:					
Current -					
Instruction					
Support services - students and staff					
Support services - administration		13,547	(13,547)		
Total expenditures		13,547	(13,547)		
Changes in fund balances		25,624	25,624		
Fund balances, beginning of year, as restated		33,232	33,232		
Fund balances (deficits), end of year	\$	\$ 58,856	\$ 58,856		

St	ate Vocational Educati	on	Civic Center		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$ 2,500 2,500	\$ 2,500 2,500	\$	\$	\$
25,000	2,500	22,500	10,000		10,000
25,000	2,500	22,500	10,000		10,000
(25,000)	\$	25,000 \$ 25,000	(10,000)	\$	\$ 10,000

	Gifts and Donations		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Other local	\$	\$	\$
State aid and grants			
Federal aid, grants and reimbursements			
Total revenues			
Expenditures:			
Current -	10.000		10.000
Instruction	10,000		10,000
Support services - students and staff			
Support services - administration			
Total expenditures	10,000		10,000
Changes in fund balances	(10,000)		10,000
Fund balances, beginning of year, as restated		91	91
Fund balances (deficits), end of year	\$ (10,000)	\$ 91	\$ 10,091

	Insurance Proceeds	5		Litigation Recovery	7
Budget	Actual	Variance - Positive (Negative)	Budget	Non-GAAP Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$ 22	\$ 22
				22	22
50,000		50,000	10,000		10,000
50,000		50,000	10,000		10,000
(50,000)		50,000	(10,000)	22	10,022
				6,143	6,143
\$ (50,000)	\$	\$ 50,000	\$ (10,000)	\$ 6,165	\$ 16,165

		Totals	
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:	<b>A</b>	<b>•</b> • • • • •	<b>•</b> • • • • •
Other local	\$	\$ 181	\$ 181
State aid and grants		5,447	5,447
Federal aid, grants and reimbursements		154,700	154,700
Total revenues		160,328	160,328
Expenditures: Current -			
Instruction	1,049,520		1,049,520
Support services - students and staff	25,000	59,143	(34,143)
Support services - administration	250,000	72,433	177,567
Total expenditures	1,324,520	131,576	1,192,944
Changes in fund balances	(1,324,520)	28,752	1,353,272
Fund balances, beginning of year, as restated		73,869	73,869
Fund balances (deficits), end of year	\$ (1,324,520)	\$ 102,621	\$ 1,427,141

	Unrestricted Capital Outlay		
Decement	Budget	Actual	Variance - Positive (Negative)
Revenues: Other local	\$	\$ 1,497	\$ 1,497
Total revenues	Ψ	1,497	1,497
Expenditures: Capital outlay Total expenditures	303,360 303,360	<u>605</u> 605	<u> </u>
Changes in fund balances	(303,360)	892_	304,252
Fund balances, beginning of year		291,354	291,354
Fund balances (deficits), end of year	\$ (303,360)	\$ 292,246	\$ 595,606

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**REPORT ON INTERNAL CONTROL AND ON COMPLIANCE** 

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

## Independent Auditor's Report

Governing Board Valley Academy for Career and Technology Education

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Valley Academy for Career and Technology Education, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Valley Academy for Career and Technology Education's basic financial statements, and have issued our report thereon dated March 31, 2017 which included a disclaimer of opinion because of a scope limitation, a lack of internal controls and/or adequate records. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 72.

### Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of Valley Academy for Career and Technology Education, 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 Valley Academy for Career and Technology Education's internal control. Accordingly, we do not express an opinion on the effectiveness of Valley Academy for Career and Technology Education's internal control.

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

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

## **Compliance and Other Matters**

In connection with our engagement to audit Valley Academy for Career and Technology Education's financial statements, 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 engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item FS-2016-002. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

## Valley Academy for Career and Technology Education's Response to Findings

Valley Academy for Career and Technology Education's responses to the findings identified in our engagement are described in the accompanying schedule of findings and responses. Valley Academy for Career and Technology Education's responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the responses.

## Purpose of this Report

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

Heinfeld, meech & Co., P.C.

Heinfeld, Meech & Co., P.C. Flagstaff, Arizona March 31, 2017

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

# Finding Number: FS-2016-001

Type of Finding: Material Weakness

**Description:** Internal Controls Over Financial Reporting and Accounting Records, Cash, Capital Assets, Disbursements and Payroll

# CRITERIA

District is responsible for establishing and maintaining internal controls that include controls for the generally accepted accounting principles (GAAP) basis financial statements issued by the District. The District's system of internal controls must extend beyond the cash basis general ledger and the supporting schedules prepared by the District; rather, it must also include controls over the GAAP basis financial statements including:

- All differences noted on the reconciliations with the County Treasurer must be adequately reviewed and resolved by the District in a timely manner.
- The District must properly reconcile all bank accounts to the District's financial records and resolve all reconciling differences to ensure the bank statements reflect the District's records.
- The District management is responsible for establishing and maintaining internal controls that include the preparation of complete and accurate capital asset schedules for inclusion in the financial statements.
- The District must have internal controls over its payroll records and disbursements to ensure that all disbursements were properly processed and controlled.
- The District should ensure that access to the accounting system is adequately safeguarded, and that access to individual modules is limited to authorized personnel.

# **CONDITION**

The District lacked adequate internal controls over processes for cash, capital assets, disbursements, payroll, and accounting records.

# CAUSE

USFR requirements and District policies were not always complied with. The District did not properly perform monthly cash reconciliations, prepare schedules, and provide supporting documentation. The District lacked appropriate controls and oversight in the various USFR compliance areas. The District did not adequately segregate duties. Assets were not adequately safeguarded to prevent misappropriation. Additionally, the District's internal controls over accounting records and financial reporting at the financial statement and general ledger level were not adequate to ensure that a misstatement would be prevented and/or detected.

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

# Finding Number: FS-2016-001

# **EFFECT**

When reconciling differences from cash reconciliations are not investigated timely, the District is not able to effectively manage its finances. Errors in revenues, expenditures, or other accounts, or instances of fraud, may not be caught by the District and corrected timely. When District policies over capital assets are not followed the District may not be able to catch and correct errors in the capital asset schedules. The District's internal controls over payroll were not adequate to ensure that all payroll disbursements were properly processed and recorded. Employees could be entitled to more or less pay based on actual time worked. The District's internal controls over information technology were not adequate to prevent, deter, or detect the potential occurrence of fraud. Finally, the District's accounting records were not maintained in accordance with the USFR.

# CONTEXT

During our review of cash, capital assets, payroll, disbursements, accounting records and other items, we noted the following:

- A lack of internal controls over accounting records and inadequate segregation of duties, particularly over payroll, disbursements, and credit cards, led to several known and possible instances of misappropriation of District assets. The District is currently investigating.
- Proper bank reconciliations, including a reconciliation of bank balances to general ledger balances, were not performed for all District bank accounts.
- The District was unable to provide support for \$44,030 listed as outstanding warrants on the June 2016 reconciliation with the County Treasurer.
- The District was unable to provide documentation that transactions initiated by the County School Superintendent were periodically reviewed for propriety.
- Access to signature stamps were not limited to employees who did not have access to blank check stock.
- Four of five journal entries reviewed lacked supporting documentation. Additionally, the District did not have a process in place for the review and approval of journal entries and as a result, journal entries were not reviewed by anyone other than the preparer.
- For two disbursements reviewed, the items were received in fiscal year 2016 and the funds were disbursed in fiscal year 2017. In addition, for one disbursement reviewed, the service was received in fiscal year 2015 and the funds were disbursed in fiscal year 2016.
- The District over reported revenues and expenditures during the process of moving federal grant funds to the Community School Fund.

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

# Finding Number: FS-2016-001

# **CONTEXT**

- Nine of 31 disbursements and one of three M&O Fund revolving bank account disbursements reviewed were for unallowable purchases.
- The District provided travel reimbursements for non-District employees to attend conferences, without demonstrating a benefit to the District.
- For six of 10 credit card transactions reviewed, the District did not retain the receipts supporting the purchases. In addition, the charges appear to have been personal in nature and were later reimbursed by the employee. Finally, the credit statements for the employee were not always sent directly to the District.
- The District's capital assets listing did not allocate depreciation expense by function.
- The District's capital assets listing incorrectly included items below the \$5,000 capitalization threshold.
- The District did not adequately limit or review access to applications or software based on the needs of the individual's job function in order to prevent unauthorized access or changes to critical systems. As a result, unauthorized changes to employee's payroll and vendor files were frequently made.
- For three of eight personnel files reviewed, the employee accrued more leave than was earned based on District policy. Additionally, the District made multiple annual leave payouts which were not in accordance with the District's policies.
- For one of 16 payroll transactions reviewed, the time card did not agree to the number of hours paid, resulting in the employee being overpaid by \$450. In addition, the employee appears to have utilized the same time card for different pay periods.
- For two of eight employees reviewed, the District paid the employees more than contracted salary. In addition, we noted the District did not maintain supporting documentation for \$4,500 in stipends paid to three employees.
- The compensated absence listing was not prepared according to the District's adopted policies.
- Conflicts of interest were not always appropriately disclosed.

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

# Finding Number: FS-2016-001

# **RECOMMENDATION**

The District should design and implement effective internal control procedures to ensure the financial statements and related notes are free from material misstatements. The District should design and implement effective internal control procedures to ensure the cash balances reported in the District's accounting records reconcile to the cash balances reported by the County Treasurer and that bank accounts are properly reconciled monthly. The District should develop and implement stronger internal controls over its accounting of disbursements and payroll to ensure that all financial activities are properly assessed and recorded. Additionally, the District should implement stronger review controls over the capital asset process to ensure the listing contains only those items that meet the Board adopted policies. The District should apply resources and training to staff to increase their understanding of internal controls, GAAP basis financial statements and the USFR.

# VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Valley Academy for Career and Technology Education (VACTE) has a new Superintendent. The past CEO resigned in March 2016. We had an interim superintendent from April to June. The new superintendent took over in July. The business manager resigned in May, and we hired a subcontracted business manager and increased a secretary to fill the financial secretary position in May. The separation of duties in the financial area have been addressed and continue to be fixed as guidance is given from the auditors. We have selected a new auditor firm to perform our yearly compliance audits. The audit firm is working with use to offer suggestions and guidance to fix the findings from the fiscal year 2016 audit. The VACTE School Board has been given more oversite and opportunity to make decisions which involve all IGAs, purchases over \$5,000, new program creation and implementation, and legal and financial concerns. We have corrected the IGA monthly documentation of funding finding to the satellite districts. The District has been investigating the misappropriation of the District funds and is cooperating with the state agencies.

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

# Reference Number: FS-2016-002

Type of Finding: Noncompliance

**Description:** Substantial Noncompliance With Uniform System of Financial Records (USFR) Guidelines

# **CRITERIA**

The District must follow the guidelines and compliance requirements set forth in the Arizona Revised Statutes (A.R.S.), the Arizona Department of Education's (ADE) School Finance Procedures Manual and the Uniform System of Financial Records (USFR).

# CONDITION

The District lacked appropriate controls and oversight in the areas of cash, student attendance, disbursements, credit cards, procurement, and payroll.

# CAUSE

A lack of segregation of duties and appropriate review procedures.

# EFFECT

Due to the numerous instances of noncompliance cited, the District could be found in substantial noncompliance with the USFR, and therefore be issued a letter by the Arizona Auditor General informing the District that deficiencies should be corrected within 90 days.

# **CONTEXT**

During our review of the District's records and procedures, we noted numerous instances of noncompliance with the A.R.S., the Arizona Department of Education's School Finance Procedures Manual and the Uniform System of Financial Records (USFR), particularly in the areas of cash, student attendance, disbursements, credit cards, procurement and payroll. The specific instances of noncompliance are described in detail in the USFR Compliance Questionnaire dated March 31, 2017.

# RECOMMENDATION

To ensure compliance with USFR guidelines, ADE's School Finance Procedures Manual and A.R.S., the District should allocate the necessary resources and staff to the business office to review records and develop procedures in order to reduce the instances of noncompliance.

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

# **Reference Number:** FS-2016-002

## VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Valley Academy for Career and Technology Education (VACTE) has a new superintendent. The past CEO resigned in March 2016. We had an interim superintendent from April to June. The new superintendent took over in July. The business manager resigned in May, and we hired a subcontracted business manager and increased a secretary to fill the financial secretary position in May. The separation of duties in the financial area have been addressed and continue to be fixed as guidance is given from the auditors. We have selected a new auditor firm to perform our yearly compliance audits. The audit firm is working with us to offer suggestions and guidance to fix the findings from the fiscal year 2016 audit. The VACTE School Board has been given more oversite and opportunity to make decisions which involved all IGAs, purchases over \$5,000, new program creation and implementation, and legal and financial concerns. We have corrected the IGA monthly documentation of funding finding to the satellite districts. The District has been investigating the misappropriation of District funds and is cooperating with the state agencies.