

Pinon Community School Board, Inc.



Single Audit Reporting Package  
Year Ended June 30, 2020

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pinon Community School Board, Inc.

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pinon Community School Board, Inc. (the School) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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



### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.



***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2021, on our consideration of the School'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School's internal control over financial reporting and compliance.

*McCabe CPA Group, LLC*

Albuquerque, New Mexico

March 30, 2021

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

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2020**

As management of the Pinon Community School Board, Inc. (School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2020. The management's discussion and analysis are presented as required supplementary information to supplement the basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The School's total net position of governmental activities increased \$587,362 which represents an increase from the prior fiscal year as a result of additional funding and COVID-19 related Cares Act funding.
- General revenues accounted for \$19,698 in revenue, or 0.5 percent of all current fiscal year revenues. Program specific revenue in the form of charges for services and grants and contributions accounted for \$4 million or nearly 99.5 percent of total current fiscal year revenues.
- The School had approximately \$3.4 million in expenses related to governmental activities, which represents a slight increase from the prior fiscal year as result of increase in Administration and governing board.
- Among major funds, the General Fund had \$3.7 million in current fiscal year revenues, which primarily consisted of federal grants, and \$3.4 million in expenditures. The General Fund's fund balance increased from \$ 570,957 at the prior fiscal year end to \$ 885,112 at the end of the current fiscal year was primarily due to additional funding received in the current fiscal year.
- Net position for the Internal Service Fund increased by \$ 175,544 from prior fiscal year primarily due to decrease in claims. Operating revenues of \$291,050 was at a surplus to operating expenses of \$135,204 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 School's basic financial statements. The School'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 School's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

The statement of net position presents information on all of the School'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 School is improving or deteriorating.

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2020**

**OVERVIEW OF FINANCIAL STATEMENTS**

The statement of activities presents information showing how the School'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., earned but unused compensated absences).

The government-wide financial statements outline functions of the School that are principally supported by intergovernmental revenues. The governmental activities of the School include education, administration, and governing board, residential, and facilities, operations, and maintenance.

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 School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements use the modified accrual basis of accounting and focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School'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 School'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.

**Proprietary funds.** The School maintains one type of proprietary fund. The internal service fund is an accounting device used to accumulate and allocate costs internally among the School's various functions. The School uses its internal service fund to account for its employee benefit trust. Because this service predominantly benefits governmental functions, it has been included within governmental activities in the government-wide financial statements. The Employee Benefit Trust, although a legally separate component unit, functions for all employees of the School, and therefore has been included as an internal service fund.

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

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2020**

**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.

**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 School, assets exceeded liabilities by \$1,235,898 at the current fiscal year end.

A portion of the School's net position reflects its investment in capital assets (e.g., vehicles, machinery, and equipment), less any related outstanding debt used to acquire those assets. The School uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. The School had no related debt. The remaining balance is unrestricted and may be used to meet the School's ongoing obligations to its citizens and creditors.

The following table presents a summary of the School's net position for the fiscal year ended June 30, 2020 and June 30, 2019.

	As of June 30, 2020	As of June 30, 2019
<b>Assets</b>		
Current and other assets	\$ 1,230,463	\$ 696,603
Capital assets, net	169,284	74,408
<b>Total assets</b>	<b>1,399,747</b>	<b>771,011</b>
<b>Liabilities</b>		
Current and other liabilities	\$ 159,693	\$ 117,622
Long-term liabilities	4,156	4,854
<b>Total liabilities</b>	<b>163,849</b>	<b>122,476</b>
<b>Net position</b>		
Invest in capital assets	169,284	74,408
Unrestricted	1,066,614	574,127
<b>Total net position</b>	<b>\$ 1,235,898</b>	<b>\$ 648,535</b>

At the end of the current fiscal year the School reported positive balances in both categories of net position.

The School's financial position is the product of several financial transactions including the net result of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following is a significant current year transaction that has had an impact on the Statement of Net Position.

- The increase of \$193,704 in cash and investments due to additional funding allocation.
- The increase of \$398,224 in due from governmental entities due to additional funding allocation.

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2020**

**Changes in net position.** The School's total revenues for the current fiscal year were \$4 million. The total cost of all programs and services was \$3.4 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2020 and June 30, 2019.

	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 52,836	\$ 55,825
Operating Grants and contributions	3,973,694	3,284,571
General revenues:		
Investment income	2,113	1,478
Plan recoveries	17,585	66,529
Total revenues	<u>4,046,228</u>	<u>3,408,403</u>
<b>Expenses:</b>		
Education	1,105,706	1,174,709
Administration and governing board	755,638	525,837
Residential	445,808	469,277
Facilities, operation and maintenance	814,192	848,832
Transportation	337,522	386,552
Total expenses	<u>3,458,866</u>	<u>3,405,207</u>
Change in net position	587,362	3,197
<b>Net position, beginning</b>	467,846	464,649
<b>Net position, ending</b>	<u>\$ 1,055,208</u>	<u>\$ 467,846</u>



**PINON COMMUNITY SCHOOL BOARD, INC.**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2020**

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

- The increase of \$689,123 in operating grants and contributions was due to additional federal funding allocations.
- The increase of \$ 229,801, in Administration and governing board on expenses was due to additional funding allocation expensed in the current fiscal year.

The following table presents the cost of the School’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).

	Year Ended 6/30/20		Year Ended 6/30/19	
	Expenses	Revenue/(Ex	Expenses	Revenue/
Education	1,105,705	166,288	1,174,708	(74,173)
Administration and governing board	755,638	237,157	525,837	28,706
Residential	445,808	21,109	469,277	(124,030)
Facilities, operation and maintenance	814,192	163,876	848,832	312,464
Transportation	337,522	(20,766)	386,552	-
Total	3,458,865	567,665	3,405,206	142,967

- The cost of all governmental activities this year was \$3.4 million
- The federal government and charges for services subsidized certain programs with grants and contributions and other local revenues of \$3.3 million.

**FINANCIAL ANALYSIS OF THE SCHOOL’S FUNDS**

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

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

The financial performance of the School as a whole is reflected in its governmental funds. As the School completed the year, its governmental funds reported a combined fund balance of \$ 885,112, an increase of \$314,155 primarily due to additional funding allocations.

The General Fund comprise all of the total fund balance. All of the General Fund’s fund balance is unassigned.

The General Fund is the principal operating fund of the School. The increase in fund balance from \$570,957 to \$885,112 as of fiscal year end was a result of additional funding allocations. General Fund revenues increased by \$651,495. This was a result of increase of federal funding allocation. General Fund expenditures increased by \$371,253. This was a result of expenses on additional funding allocations.

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**YEAR ENDED JUNE 30, 2020**

**Proprietary funds.** Unrestricted net position of the Internal Service Fund at the end of the fiscal year amounted to \$198,127. This represents an increase of \$175,544 from the prior fiscal year primarily due to decreased claims.

**CAPITAL ASSETS**

At year end, the School had invested \$169,284 in capital assets, including building improvements, buses and other vehicles, computers, and other equipment. This amount represents a net increase of \$94,876 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$22,598. The net capital asset balance was \$169,284 on June 30, 2020, and \$74,408 on June 30, 2019. The School has no non-depreciable capital assets. Additional information on the School's capital assets can be found in Note 5.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Business and Finance Department, Pinon Community School Board, Inc., Navajo Route 4, Old BIA Campus, Pinon, Arizona 86510.

## **BASIC FINANCIAL STATEMENTS**

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

**PINON COMMUNITY SCHOOL BOARD, INC.**

**STATEMENT OF NET POSITION**

**JUNE 30, 2020**

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Current Assets:	
Cash and investments	\$ 812,023
Due from governmental entities	414,351
Other receivables, net	4,089
Prepaid items	-
Total current assets	<u>1,230,463</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>169,284</u>
Total noncurrent assets	<u>169,284</u>
<b>Total assets</b>	<u><b>1,399,747</b></u>
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Accounts payable and accrued liabilities	85,082
Due to others	16,445
Claims payable	35,745
Accrued payroll and employee benefits	9,952
Compensated absences payable	<u>12,469</u>
Total current liabilities	<u>159,693</u>
Noncurrent liabilities:	
Non-current portion of long-term obligations	<u>4,156</u>
Total non-current liabilities	<u>4,156</u>
<b>Total liabilities</b>	<u><b>163,849</b></u>
<b><u>NET POSITION</u></b>	
Invested in capital assets	169,284
Unrestricted	<u>1,066,614</u>
<b>Total net position</b>	<u><b>\$ 1,235,898</b></u>

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**STATEMENT OF ACTIVITIES**  
**JUNE 30, 2020**

<b>Functions/Programs</b>	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services	Operations Grants and Contributions	Governmental Activities	
<b>Governmental activities:</b>				
Education	1,105,705	2,826	1,269,167	166,288
Administration and governing board	755,638	99	992,696	237,157
Residential	445,808	-	466,917	21,109
Facilities, operation and maintenance	814,192	49,911	928,158	163,876
Transportation	337,522	-	316,756	(20,766)
<b>Total governmental activities</b>	<b>3,458,865</b>	<b>52,836</b>	<b>3,973,694</b>	<b>567,665</b>
<b>General revenues:</b>				
Interest income				2,113
Plan recoveries				17,585
Total general revenues				<u>19,698</u>
<b>Changes in net position</b>				<b>587,363</b>
<b>Net position, beginning of year</b>				<b>648,535</b>
<b>Net position, end of year</b>				<b>1,235,898</b>

## FUND FINANCIAL STATEMENTS

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**JUNE 30, 2020**

	<b>General</b>	<b>Total Governmental Funds</b>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and investments	\$ 564,741	\$ 564,741
Due from governmental entities	414,351	414,351
Other receivables, net	1,054	1,054
Prepaid items	-	-
<b>Total assets</b>	<b>\$ 980,146</b>	<b>\$ 980,146</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>		
Current Liabilities:		
Accounts payable	85,082	\$ 85,082
Accrued payroll and employee benefits	9,952	9,952
<b>Total liabilities</b>	<b>95,034</b>	<b>95,034</b>
Fund balances:		
Unassigned	885,112	885,112
<b>Total fund balances</b>	<b>885,112</b>	<b>885,112</b>
<b>Total liabilities fund balances</b>	<b>\$ 980,146</b>	<b>\$ 980,146</b>

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF**  
**NET POSITION**  
**JUNE 30, 2020**

<b>Total governmental fund balances</b>	<b>\$</b>	<b>885,112</b>
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	\$ 525,331	
:less accumulated depreciation	<u>(356,047)</u>	169,284
The Internal Services Fund is used by management to charge the cost of insurance to the individual funds. The assets and liabilities of the Internal Service Fund are included in the Statement of Net Position		
		<u>198,127</u>
Compensated absences payable are not due and payable in the current period and therefore, are not reported in the funds		
		<u>(16,625)</u>
<b>Net position of governmental activities</b>	<b>\$</b>	<b><u>1,235,898</u></b>

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	General	Total Governmental Funds
<b>Revenues:</b>		
Federal aid, grants and reimbursements	\$ 3,682,644	\$ 3,682,644
Other local	52,836	52,836
<b>Total revenues</b>	<b>\$ 3,735,480</b>	<b>\$ 3,735,480</b>
<b>Expenditures:</b>		
Current -		
Education	1,045,780	1,045,780
Administration and governing board	723,923	723,923
Residential	426,456	426,456
Facilities, operation and maintenance	772,530	772,530
Transportation	335,162	335,162
Capital Outlay	117,474	117,474
<b>Total expenditures</b>	<b>3,421,325</b>	<b>3,421,325</b>
<b>Changes in fund balances</b>	<b>314,155</b>	<b>314,155</b>
<b>Fund balances, beginning of year</b>	<b>570,957</b>	<b>570,957</b>
<b>Fund balances, end of year</b>	<b>\$ 885,112</b>	<b>\$ 885,112</b>

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2020**

<b>Changes in fund balances - total governmental funds</b>		<b>\$ 314,155</b>
<p>Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:</p> <p>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</p>		
Expenditures for capitalized assets	\$117,474	
:less current year depreciation	<u>(22,598)</u>	94,876
<p>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</p>		
		2,788
<p>The Internal Service Fund is used by management to charge the cost of insurance to the individual funds. The changes in net position of the Internal Service Fund is reported with governmental activities in the Statement of Activities</p>		
		<u>175,544</u>
<b>Changes in net position in governmental activities</b>		<b><u>\$ 587,363</u></b>

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**STATEMENT OF NET POSITION- PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	Governmental Activities: Internal Service Funds
<b><u>ASSETS</u></b>	
Current assets:	
Cash and investments	\$ 230,837
Accounts Receivable	3,035
Total current assets	233,872
<b>Total assets</b>	233,872
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Claims payable	35,745
Total current liabilities	35,745
<b>Total liabilities</b>	35,745
<b><u>NET POSITION</u></b>	
Unrestricted	198,127
<b>Total net position</b>	\$ 198,127

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	Governmental Activities: Internal Service Funds
<b>Operating revenues:</b>	
Contributions	\$ 291,050
<b>Total operating revenues</b>	<u>\$ 291,050</u>
<b>Operating expenses:</b>	
Claims	40,832
Premiums	78,777
Administrative fees	15,595
<b>Total operating expenses</b>	<u>135,204</u>
<b>Operating income (loss)</b>	<u>155,846</u>
<b>Nonoperating revenues (expenses)</b>	
Investment income	2,113
Plan recoveries	17,585
<b>Total nonoperating revenues (expenses)</b>	<u>19,698</u>
<b>Changes in net position</b>	175,544
<b>Total net position, beginning of year</b>	<u>22,583</u>
<b>Total net position, end of year</b>	<u>\$ 198,127</u>

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	<u>Governmental Activities: Internal Service Funds</u>
<b><u>Increase/Decrease in Cash and Cash Equivalents</u></b>	
<b>Cash flows from operating activities:</b>	
Cash received from contributions	\$ 276,179
Cash payments to suppliers for goods and services	(94,372)
Cash payments for claims	(25,960)
<b>Net cash provided by/used for operating activities</b>	<b>155,847</b>
<b>Cash flow from investing activities:</b>	
Investment income	2,113
Plan recoveries	17,585
<b>Net cash provided by/used for investing activities</b>	<b>19,698</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>175,545</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>55,292</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 230,837</b>
<b><u>Reconciliation of Operating Income/Loss to Net Cash provided/used for Operating Activities</u></b>	
Operating income/loss	\$ 155,846
Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities:	
Changes in assets and liabilities:	
Increase/decrease in stop loss receivable	(14,873)
Increase/decrease in claims payable	14,872
<b>Total adjustments</b>	<b>(1)</b>
<b>Net cash provided by/used for operating activities</b>	<b>\$ 155,845</b>

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**STATEMENT OF ASSETS AND LIABILITIES – FIDUCIARY FUNDS**  
**JUNE 30, 2020**

	<u>Agency</u>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 16,445
Total assets	<u>\$ 16,445</u>
<b><u>LIABILITIES</u></b>	
Due to student groups	\$ 16,445
Total Liabilities	<u>\$ 16,445</u>

**PINON COMMUNITY SCHOOL BOARD, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Pinon Community School Board, Inc. (the School) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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

**A. Reporting Entity**

Pinon Community School Board, Inc. was established as a Bureau of Indian Affairs grant school and is located on the Navajo Indian Reservation in northern Arizona. The School provides educational and residential services to Navajo children in grades K through 12. The School receives funding from the federal government and other sources. The School is operated as a Navajo governmental organization under the direction of an elected Board of Directors.

The Board of Directors consists of four voting members elected by Pinon community members. The 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 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 School 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, component units combined with the School for financial statement presentation purposes, and the School, are not included in any other governmental reporting entity. Consequently, the School's financial statements include only the funds of those organizational entities for which its elected governing board is financially accountable. The School's major operations include education, student transportation, construction, and maintenance of School facilities, residential, administration, and food services.

**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 School as a whole. The reported information includes all the nonfiduciary activities of the School and its component unit. 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 School. Governmental activities normally are supported by intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The School does not have any business-type activities.

**PINON COMMUNITY SCHOOL BOARD, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

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. Other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

**Government-Wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 rule, the effect of interfund 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.

**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 School 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 are recorded only when payment is due.

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

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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

**PINON COMMUNITY SCHOOL BOARD, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

The School reports the following major governmental fund:

General fund - The General Fund is the School's primary operating fund. It accounts for resources received by the School from the Departments of Interior and education. Its main function is to provide education, administration, facilities, and residential care to Navajo Children.

Additionally, the School reports the following funds:

Proprietary Fund - The Proprietary fund is an Internal Service Fund that accounts for activities related to the School's self-insurance program.

Agency Fund - The Agency Fund which accounts for resources held by the School on behalf of others. This fund type includes the Student Activities Fund, which accounts for monies raised by students to finance student clubs and organizations held by the School as an agent.

The Proprietary Fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting and are presented in a single column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the School's internal service funds are charged for health and welfare benefits and charges to School departments for goods and services. Operating expenses for internal service funds include the cost of goods and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**D. Cash and Investments**

For purposes of the Statement of Cash Flows, the School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at year end were cash in bank and cash with trustee.

The Pinon Community School Board, Inc.'s Board of Directors authorizes the School to invest monies in interest bearing savings accounts, money market funds, certificates of deposit and U.S. government securities. All investments are stated at fair value.

**E. Investment Income**

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

**PINON COMMUNITY SCHOOL BOARD, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**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 are shown net of an allowance for uncollectable.

**G. 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.

**H. Capital Assets**

Capital assets, which include vehicles, machinery, and equipment, are reported in the government-wide financial statements.

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

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

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

Building improvements	10 years
Vehicles	7 years
Machinery and equipment	7-10 years

**I. 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. The School did not have any items that qualified for reporting in this category.

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 and 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. The School did not have any items that qualified for reporting in this category.

**PINON COMMUNITY SCHOOL BOARD, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**J. Compensated Absences**

The School'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.

**K. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position.

**L. 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 financial sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

**M. Net Position Flow Assumption**

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

**N. 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.

**O. Budgetary Data**

An annual budget is not adopted by the School's Board of Directors and adoption of an annual budget is not legally required. Budgets for individual grants are submitted with original requests for funding through the approval of the Board of Directors. Modifications are made to these budgets as funding levels are changed or as program requirements change. The individual grant budgets are not aggregated to create an annual budget. Therefore, a budgetary comparison schedule is not presented.

**PINON COMMUNITY SCHOOL BOARD, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**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 non-spendable, 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 are legally or contractually required to be maintained intact.

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

***Committed.*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The School 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 School for specific purposes but do not meet the criteria to be classified as restricted or committed. In the 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 Board of Directors or a management official delegated that authority by the formal Board of Directors action. The School 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 School 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 classification could be used.

**PINON COMMUNITY SCHOOL BOARD, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

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

	<u>General Fund</u>
Fund Balances:	
Unassigned	<u>885,112</u>
Total fund balances	<u><u>\$ 885,112</u></u>

**NOTE 3 - CASH AND INVESTMENTS**

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of bank failure the School's deposits may not be returned to the School. At year end, the carrying amount of the School's deposits was \$581,186 and a bank balance of \$730,386. Of the bank balance, \$250,000 was covered by Federal Deposit Insurance Corporation, and the balance of \$480,386 was covered by collateral agreements with Wells Fargo. \$230,837 was held by the self-insurance pool.

**NOTE 4- RECEIVABLES**

Receivable balances, net of allowance for uncollectable, 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 uncollectable, in the aggregate, as of year-end for the School's General Fund was \$414,351 due from the federal government. The amount represents federal drawdowns that were approved in the current year and received after year-end.

**NOTE 5 - CAPITAL ASSETS**

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 91,350	\$ 94,660	\$ -	\$ 186,010
Furniture and equipment	269,463	22,814	-	292,277
Vehicles	47,044	-	-	47,044
	<hr/>			<hr/>
Total capital assets being depreciated	407,857	117,474	-	525,331
	<hr/>			<hr/>
Less accumulated depreciation for:				
Buildings and improvements	(33,445)	(12,502)	-	(45,947)
Furniture and equipment	(252,960)	(10,096)	-	(263,056)
Vehicles	(47,044)	-	-	(47,044)
Total accumulated depreciation	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	(333,449)	(22,598)	-	(356,047)
Total capital assets being depreciated, net	<hr/>	<hr/>	<hr/>	<hr/>
Governmental activities capital assets, net	74,408	94,876	-	169,284
	<hr/>	<hr/>	<hr/>	<hr/>
	74,408	94,876	-	169,284

**PINON COMMUNITY SCHOOL BOARD, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

Depreciation expense was charged to governmental functions as follows:

Operation and maintenance of plant services	\$	7,818
Education		14,111
Residential		669
Total depreciation expense - governmental activities	\$	<u>22,598</u>

**NOTE 6 - CHANGES IN LONG-TERM LIABILITIES**

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

	Beginning Balance	Addition	Reduction	Ending balance	Due within one year
Governmental activities					
Compensated absences payable	\$ 19,412	75,628	78,415	16,625	12,469
Governmental activity long term liabilities	\$ 19,412	\$ 75,628	\$ 78,415	\$ 16,625	\$ 12,469

**NOTE 7 - CONTINGENT LIABILITIES**

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

**Lawsuits** - The School is not party to any types of lawsuits as of yearend but may become party to them of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable; however, School management believes that the outcome of any proceedings, either individually or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

**NOTE 8 - RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for all risks of loss, including property and liability, and workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School established an Employee Benefits Fund (an Internal Service Fund) to account for and finance its uninsured risks of loss related to employee health claims. Under this program, the Fund provides coverage for up to a maximum of \$25,000 for each claim, not to exceed an annual aggregate of \$1,000,000. The Fund purchases commercial insurance for claims in excess of this coverage. Settled claims have not exceeded this coverage in any of the past three fiscal years. Liabilities of the fund are

**PINON COMMUNITY SCHOOL BOARD, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and number of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claim's liability estimate. Changes in the balances of claims liabilities during the past two years are as follows:

Employee Benefits	Claims Payable Beginning of	Current Year Claims and Changes in	Claim Payments	Claims Payable at End of Year
2019-2020	\$ 50,617	\$ 25,960	\$ 40,832	\$ 35,745
2018-2019	11,230	224,937	185,550	50,617

**NOTE 9 - ECONOMIC DEPENDENCY**

The School's revenue sources are based primarily on federal financial assistance subject to availability of funds and the School's compliance with federal rules and regulations.

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

The School adopted a defined contribution retirement plan qualifying under the Internal Revenue Code Section 401(k). The Pinon Community School Board's 401(k) Profit Sharing Plan is administered by Alliance Benefit Group Southwest, LLC, under the direction of the Retirement Committee. The Pinon Community School Retirement Committee is the Plan Administrator. Eligibility requirements for the salary deferral component of the Plan are met on the date an employee is hired, provided they have attained age 18. Eligibility requirements for the employer matching component of the Plan are met after attainment of age 18 and completion of three months of service. Participating employee contributions are vested immediately, with employer matching contributions vesting over a period of three years. The employer and employee contributions to the plan in 2020 were \$55,563 and \$83,458, respectively.

**NOTE 11 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

The following accounting pronouncements have been issued but have not yet been implemented by the School.

*Leases*

On February 25, 2016, the FASB issued ASU 2016-02 Leases, which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB ASC Topic 840. With this update, U.S. GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position, a liability to make lease payments (the "lease liability"), and an asset representing its right to use the underlying asset for the lease term.

**PINON COMMUNITY SCHOOL BOARD, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020**

For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2020 (The School's fiscal year ending June 30, 2022). As of the date of these financial statements, management has not determined the impact this new accounting pronouncement will have on future reporting periods.

**NOTE 12 - UNCERTAINTY RELATED TO THE COVID-19 OUTBREAK**

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the school's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on federal funding, charges for services, employees, and vendors, all of which are uncertain and cannot be predicted. At this time, the extent to which COVID-19 may impact the school's financial condition or results of operations is uncertain.

**SINGLE AUDIT SECTION**



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

To the Board of Directors  
Pinon Community School Board, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pinon Community School Board, Inc. (the School) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 30, 2021.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Purpose of this Report**

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

*McLabe CPA Group, LLC*

Albuquerque, New Mexico

March 30, 2021



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

To the Board of Directors  
Pinon Community School Board, Inc.

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

We have audited Pinon Community School Board, Inc. (the School)'s compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2020. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the School, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

## **Report on Internal Control over Compliance**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

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

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

We have audited the financial statements of the School as of and for the year ended June 30, 2020, and have issued our report thereon dated March 30, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing

standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*McCabe CPA Group, LLC*

Albuquerque, New Mexico

March 30, 2021

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2020**

<u>Federal/Pass-Through/Agency</u>	<u>CFDA</u> <u>Number</u>	<u>Federal Award</u> <u>Number or Other</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<b>U.S. Department of Education</b>			
Passed through Bureau of Indian Affairs:			
Title I Grants to Local Educational Agencies	84.010	A19AV00930	\$ 120,947
Special Education - Grants to States	84.027	A19AV00930	87,664
Indian Education Grants to Local Education	84.060	A19AV00930	5,059
Twenty First Century Community Learning Centers	84.287	A19AV00930	(126)
Teacher Quality Partnership Grants	84.336	A19AV00930	30,950
Grants for State Assessments	84.369	A19AV00930	6,436
Student Support and Academic Enrichment	84.424	A19AV00930	29,533
Education Stabilization under the CARES Act	84.425	A19AV00930	237,694
<i>Passed through Arizona Department of Education:</i>			
Teacher Quality Partnership Grants	84.412	A19AV00930	22,984
<b>Total U.S. Department of Education</b>			541,141
<b>U.S. Department of Agriculture</b>			
Passed through State of Arizona			
Child Nutrition Cluster:			
Non-cash Assistance (Commodities):			
National School Lunch Program	10.555	NA	2,371
Cash Assistance:			
School Breakfast Program	10.553	NA	12,954
National School Lunch Program	10.555	NA	36,176
Cash Assistance Subtotal			49,130
Total Child Nutrition Cluster			51,501
<b>Total U.S. Department of Agriculture</b>			51,501
<b>U.S. Department of Interior</b>			
Passed through Bureau of Indian Affairs:			
Indian School Equalization	15.042	A19AV00930	986,750
Indian School Student Transportation	15.044	A19AV00930	335,162
Administrative Cost Grants for Indian Schools	15.046	A19AV00930	478,963
Indian Education Facilities, Operations and Maintenance	15.047	A19AV00930	746,683
Replacement and Repair of Indian Schools	15.062	A19AV00930	128,227
Education Enhancements	15.151	A19AV00930	133,990
<b>Total U.S. Department of Interior</b>			2,809,775
<b>Total Expenditure of Federal Awards</b>			\$ 3,400,046

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Pinon Community School Board, Inc. under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net position or cash flows of the School.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 – INDIRECT COST RATE**

The auditee did not use the de minimis cost rate.

**NOTE 4 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS**

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2020 Catalog of Federal Domestic Assistance. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

**NOTE 5 - NON-CASH ASSISTANCE**

The School received noncash assistance in the amount of \$2,371 for FY 2020.

**NOTE 6 - RECONCILIATION OF SCHEDULE OF EXPENDITUES OF FEDERAL AWARDS TO THE FINANCIAL STATEMENT**

The following is a reconciliation of the expenditures reported on the Schedule of Federal Awards to the expenditures reported in the Statement of Activities included in the accompanying financial statements:

Expenditures according to the schedule of expenditures of federal awards	\$ 3,400,046
Expenditures funded by nonfederal sources	<u>21,279</u>
Expenditures per financial statements	<u>\$ 3,421,325</u>

**PINON COMMUNITY SCHOOL BOARD, INC.  
SUMMARY OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2020**

**SECTION I -SUMMARY OF AUDITOR’S RESULTS:**

**Financial Statements**

Type of auditor’s report issued: **Unmodified**

Internal control over financial reporting:

- Significant deficiency(ies) identified: **No**
- Material weakness(es) identified: **No**
- Noncompliance material to financial statements noted: **No**

**Federal Awards**

Internal control over major programs:

- Significant deficiency(ies) identified: **No**
- Material weakness(es) identified: **No**

Type of auditor’s report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: **No**

Identification of major programs:

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL PROGRAM OF CLUSTER</u>
15.042	Indian School Equalization Program
15.046	Administrative Cost Grants for Indian Schools

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

Auditee qualified as low-risk auditee: **Yes**

**Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*:** **No**

**Findings and Questioned Costs Related to Federal Awards:** **No**

**Summary Schedule of Prior Audit Findings required to be reported:** **No**

**PINON COMMUNITY SCHOOL BOARD, INC.**  
**SUMMARY OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2020**

**Section II - Financial Statement Findings**

None reported

**Section III - Federal Award Findings and Questioned Costs**

None reported

**Section IV – Other Disclosures**

*Auditor Prepared Financials*

McCabe CPA Group, LLC assisted in the preparation of the financial statements presented in this report. The School's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.

**-END OF REPORT-**

