

Magazine School District No. 15

Logan County, Arkansas

Regulatory Basis Financial Statements And Other Reports

June 30, 2018

LEGISLATIVE JOINT AUDITING COMMITTEE



MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2018

Independent Auditor's Report
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*

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet – Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds - Regulatory Basis	B
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis	C
Notes to Financial Statements	

SCHEDULES

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Selected Information for the Last Five Years – Regulatory Basis (Unaudited)	2

Arkansas

Sen. Jason Rapert
Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. DeAnn Vaught
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Magazine School District No. 15 and School Board Members
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Magazine School District No. 15 (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's regulatory basis 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 the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by the District on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2018, or the changes in financial position for the year then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2018, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years – Regulatory Basis are presented for the purpose of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years – Regulatory Basis have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe that scope or our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Little Rock, Arkansas
February 26, 2019
EDSD22418

Arkansas

Sen. Jason Rapert
Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Rep. Richard Womack
House Chair
Rep. DeAnn Vaught
House Vice Chair

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

Magazine School District No. 15 and School Board Members
Legislative Joint Auditing Committee

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 each major governmental fund and the aggregate remaining fund information of the Magazine School District No. 15 (the "District"), as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 26, 2019. We have issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2018, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

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

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

Our consideration of 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 have not been identified. We did identify a certain deficiency in internal control, described below in the Audit Findings section of this report, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and 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*.

AUDIT FINDINGS

Material Weakness

Internal control is a process consisting of five interrelated components – *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. The District has not segregated financial accounting duties among appropriate employees. The District Treasurer is responsible for the electronic processing, payment, and reconciliation of payroll, with inadequate monitoring by management. Therefore, reasonable assurance cannot be provided about the achievement of the entity's objectives with regard to reliability of financial reporting.

District management, due to cost/benefit implications which hindered the District's ability to hire sufficient appropriate personnel, did not effectively address the deficiencies in internal control. The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weaknesses in the internal control component. District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Management Response: We concur with the recommendation and will implement corrective procedures to the extent possible.

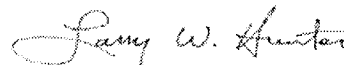
District's Response to Findings

The District's response to the finding identified in our audit is described previously. The District's response was not subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 26, 2019

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2018

Exhibit A

	Governmental Funds			
	Major			Fiduciary
	General	Special Revenue	Other Aggregate	Fund Types
ASSETS				
Cash	\$ 398,264		\$ 823,261	\$ 23,492
Investments			500,172	245,761
Accounts receivable	15,884	\$ 105,716		312
Due from other funds	95,825			
Deposit with paying agent			774,029	
TOTAL ASSETS	\$ 509,973	\$ 105,716	\$ 2,097,462	\$ 269,565
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 30,306	\$ 55		\$ 4,182
Due student groups				15,335
Due to other funds		95,825		
Total Liabilities	30,306	95,880		19,517
Fund Balances:				
Nonspendable				237,500
Restricted	87,747	9,836	\$ 774,029	12,548
Assigned	38,489		1,323,433	
Unassigned	353,431			
Total Fund Balances	479,667	9,836	2,097,462	250,048
TOTAL LIABILITIES AND FUND BALANCES	\$ 509,973	\$ 105,716	\$ 2,097,462	\$ 269,565

The accompanying notes are an integral part of these financial statements.

MAGAZINE SCHOOL DISTRICT NO. 15

Exhibit B

LOGAN COUNTY, ARKANSAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,203,946		
State assistance	3,861,145	\$ 2,683	
Federal assistance	45,366	791,272	
Activity revenues	119,808		
Meal sales		57,175	
Investment income	13,939		\$ 58,587
Other revenues	206,515	122	
TOTAL REVENUES	5,450,719	851,252	58,587
EXPENDITURES			
Regular programs	2,216,530	48,478	
Special education	198,623	122,672	
Career education programs	224,155		
Compensatory education programs	153,152	73,841	
Other instructional programs	75,037		
Student support services	333,748	60,112	
Instructional staff support services	340,481	107,119	3,447
General administration support services	151,695		
School administration support services	196,995		
Central services support services	143,075		
Operation and maintenance of plant services	647,930		
Student transportation services	394,691		
Other support services	33,728		
Food services operations	6,227	438,733	
Community services operations	43,547	9,231	
Facilities acquisition and construction services	20,711		36,809
Non-programmed costs		5,000	
Activity expenditures	106,053		
Debt Service:			
Principal retirement	48,558		185,000
Interest and fiscal charges	9,908		162,952
Net debt issuance costs	4,741		
TOTAL EXPENDITURES	5,349,585	865,186	388,208
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	101,134	(13,934)	(329,621)
OTHER FINANCING SOURCES (USES)			
Transfers in	310,349		594,073
Transfers out	(594,073)		(310,349)
Proceeds from installment contract	187,857		
TOTAL OTHER FINANCING SOURCES (USES)	(95,867)		283,724
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	5,267	(13,934)	(45,897)
FUND BALANCES - JULY 1	474,400	23,770	2,143,359
FUND BALANCES - JUNE 30	\$ 479,667	\$ 9,836	\$ 2,097,462

The accompanying notes are an integral part of these financial statements.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

	General		Special Revenue		Variance Favorable (Unfavorable)
	Budget	Actual	Budget	Actual	
REVENUES					
Property taxes (including property tax relief trust distribution)	\$ 1,217,513	\$ 1,203,946			
State assistance	3,713,258	3,861,145	\$ 2,750	\$ 2,683	\$ (67)
Federal assistance	25,049	45,366	792,395	791,272	(1,123)
Activity revenues		119,808			
Meal sales			53,000	57,175	4,175
Investment income	5,350	13,939			
Other revenues	163,052	206,515		122	122
TOTAL REVENUES	5,124,222	5,450,719	848,145	851,252	3,107
EXPENDITURES					
Regular programs	2,161,168	2,216,530	33,800	48,478	(14,678)
Special education	171,779	198,623	120,759	122,672	(1,913)
Career education programs	189,689	224,155	7,745		7,745
Compensatory education programs	161,642	153,152	110,458	73,841	36,617
Other instructional programs	82,123	75,037			
Student support services	336,856	333,748			
Instructional staff support services	293,871	340,481	42,895	60,112	(17,217)
General administration support services	149,833	151,695	101,680	107,119	(5,439)
School administration support services	196,502	196,995			
Central services support services	142,427	143,075			
Operation and maintenance of plant services	672,194	647,930			
Student transportation services	237,248	394,691			
Other support services	37,500	33,728			
Food services operations	4,800	6,227			
Community services operations	47,394	43,547			
Facilities acquisition and construction services		20,711			
Non-programmed costs					
Activity expenditures					
Debt Service:					
Principal retirement		106,053			
Interest and fiscal charges		48,558			
Net debt issuance costs		9,908			
		4,741			
TOTAL EXPENDITURES	4,885,026	5,349,585	856,472	865,186	(8,714)

MAGAZINE SCHOOL DISTRICT NO. 15

LOGAN COUNTY, ARKANSAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit C

	General		Variance Favorable (Unfavorable)	Special Revenue		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 239,196	\$ 101,134	\$ (138,062)	\$ (8,327)	\$ (13,934)	\$ (5,607)
OTHER FINANCING SOURCES (USES)						
Transfers in	6,470,586	310,349	(6,160,237)	38,893		(38,893)
Transfers out	(6,728,308)	(594,073)	6,134,235	(30,739)		30,739
Proceeds from installment contract		187,857	187,857			
TOTAL OTHER FINANCING SOURCES (USES)	(257,722)	(95,867)	161,855	8,154		(8,154)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(18,526)	5,267	23,793	(173)	(13,934)	(13,761)
FUND BALANCES - JULY 1	756,602	474,400	(282,202)	17,470	23,770	6,300
FUND BALANCES - JUNE 30	\$ 738,076	\$ 479,667	\$ (258,409)	\$ 17,297	\$ 9,836	\$ (7,461)

The accompanying notes are an integral part of these financial statements.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Magazine School District (District). There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund - The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the District's food services operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Fund – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Fiduciary Fund types include the following:

Agency Funds – Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Measurement Focus and Basis of Accounting (Continued)

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, inclusion of the net pension liability in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to financial statements.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at acquisition value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Property Taxes

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year.

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2017 calendar year taxes collected by June 30, 2018 and 12 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2018 equaled or exceeded the 12 percent calculation.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. Property Taxes (Continued)

Amendment no. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. Fund Balance Classifications

1. Nonspendable fund balance – represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
2. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
3. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
4. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

I. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis. Additionally, the District routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Stabilization Arrangements

The District's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

K. Minimum Fund Balance Policies

The District's Board of Education has not formally adopted a minimum fund balance policy.

L. Fund Balance Classification Policies and Procedures

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The District's Board of Education has not adopted a formal policy addressing this authorization.

The District's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the District's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The District does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balances when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

M. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 995,933	\$ 995,933
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	995,017	1,409,400
Total Deposits	<u>\$ 1,990,950</u>	<u>\$ 2,405,333</u>

The above total deposits include certificates of deposit of \$745,933 reported as investments and classified as nonparticipating contracts.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 were comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types
	Major		
	General	Special Revenue	
Federal assistance	\$ 3,164	\$ 105,716	
Activity fund accounts			\$ 312
Other	12,720		
Totals	\$ 15,884	\$ 105,716	\$ 312

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2018:

Long-term Debt Issued and Outstanding

The District is presently paying on the following long-term debt:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2018	Maturities To June 30, 2018
4/1/12	6/1/33	1 - 3.05%	\$ 1,000,000	\$ 825,000	\$ 175,000
12/22/09	12/22/25	2.52%	1,535,000	1,535,000	
9/1/15	6/1/38	1 - 3.25%	4,060,000	3,885,000	175,000
7/12/10	7/12/20	5%	80,025	20,117	59,908
12/14/10	12/14/20	5%	86,995	25,972	61,023
2/21/15	8/21/24	3.95%	89,245	61,957	27,288
5/24/16	5/24/23	3.19%	163,717	120,580	43,137
3/20/18	3/20/25	3.49%	187,857	187,857	
Totals			\$ 7,202,839	\$ 6,661,483	\$ 541,356

Changes in Long-term Debt

	Balance July 1, 2017	Issued	Retired	Balance June 30, 2018
Bonds payable	\$ 6,430,000		\$ 185,000	\$ 6,245,000
Installment contracts	277,184	\$ 187,857	48,558	416,483
Totals	\$ 6,707,184	\$ 187,857	\$ 233,558	\$ 6,661,483

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4: COMMITMENTS (Continued)

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2019	\$ 264,670	\$ 174,039	\$ 438,709
2020	267,582	168,762	436,344
2021	260,480	163,170	423,650
2022	261,241	157,816	419,057
2023	268,371	152,150	420,521
2024-2028	2,769,139	579,807	3,348,946
2029-2033	1,400,000	315,916	1,715,916
2034-2038	1,170,000	115,350	1,285,350
Totals	<u>\$ 6,661,483</u>	<u>\$ 1,827,010</u>	<u>\$ 8,488,493</u>

Qualified School Construction Bonds

On December 22, 2009, the District obtained funding of \$1,535,000 from Qualified School Construction Bonds, a debt financial arrangement authorized by the American Recovery and Reinvestment Act of 2009. The District will deposit a specified amount annually into a sinking fund for 16 years. This amount plus interest earned will be used to retire the debt when due.

Security for Debt Payments

Ark. Code Ann. § 6-20-1204 specifies procedures to be followed if a school district is delinquent in a payment to the paying agent for bonded debt. As additional security, any delinquent payment for bonded debt will be satisfied by the Arkansas Department of Education (ADE). Depending on the date of the bond issue, ADE will recover the full amount of any delinquency payment through the withholding of a school district's state funding or a direct payment from the school district. There were no delinquent bond payments incurred by the District during the audit period.

5: ACCOUNTS PAYABLE

Accounts payable at June 30, 2018 were comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types
	Major		
	General	Special Revenue	
Vendor payables	\$ 30,306	\$ 55	\$ 4,182

6: INTERFUND TRANSFERS

The District transferred \$594,073 from the general fund to other aggregate funds for debt related payments of \$453,373 and future capital expenditures of \$140,700. In addition, the District transferred \$310,349 of bond refunding savings, previously restricted for capital expenditures, from the other aggregate funds to the general fund to supplement operating expenditures. The bond refunding savings was no longer restricted for capital expenditures due to the amendment of the applicable state law.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

7: RETIREMENT PLANS

Arkansas Teacher Retirement System

Plan Description

The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies, except certain non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201, by calling 1-800-666-2877, or by visiting the ATRS website at www.artrs.gov.

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries. The District's contributions to ATRS for the year ended June 30, 2018 were \$474,853, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2017 (actuarial valuation date and measurement date) was \$4,670,591.

Arkansas Public Employees Retirement System

Plan Description

The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain non-teaching school employees. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201, by calling 1-800-682-7377, or by visiting the APERS website at www.apers.org.

Funding Policy

APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the year ended June 30, 2018 were \$704, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2017 (actuarial valuation date and measurement date) was \$6,882.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 3,650
Interest	<u>3,273</u>
 TOTAL ADDITIONS	 <u>6,923</u>
DEDUCTIONS	
Scholarships	10,000
Academic projects	<u>736</u>
 TOTAL DEDUCTIONS	 <u>10,736</u>
 CHANGE IN FUND BALANCE	 (3,813)
 FUND BALANCE - JULY 1	 <u>253,861</u>
 FUND BALANCE - JUNE 30	 <u><u>\$ 250,048</u></u>

9: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$6,595,000 issued from December 22, 2009 to September 1, 2015. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$8,023,826, payable through June 1, 2038. Principal and interest paid for the current year and total property taxes pledged for debt service were \$346,773 and \$432,186, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 80.24 percent.

10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Districts carries commercial insurance for board liability and student accidents.

The District participates in the Arkansas School Boards Association – Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$300,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

10: RISK MANAGEMENT (Continued)

The District participates in the Arkansas Public School Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member districts, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

Settled claims have not exceeded coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

11: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$124,904 for the year ended June 30, 2018.

12: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Educational programs -			
national school lunch state			
categorical funding	\$ 17,232		
Child nutrition programs		\$ 68	
Debt service			\$ 774,029
Medical services		9,459	
Other purposes	70,515	309	
Total Restricted	<u>87,747</u>	<u>9,836</u>	<u>774,029</u>
Assigned to:			
Capital projects			1,323,433
Student activities	38,489		
Total Assigned	<u>38,489</u>		<u>1,323,433</u>
Unassigned	<u>353,431</u>		
Totals	<u>\$ 479,667</u>	<u>\$ 9,836</u>	<u>\$ 2,097,462</u>

13: ENDOWMENTS

The District is the recipient of various endowment gifts. The donors have stipulated the principal is to remain intact and only the investment earnings shall be used for the specified purposes identified in the gift documents. The nonspendable portion of the endowment gifts as of June 30, 2018 was \$237,500. The portion available for specified purposes as of June 30, 2018 was \$12,278. Certificates of deposit totaling \$245,761 comprised the major portion of the balance.

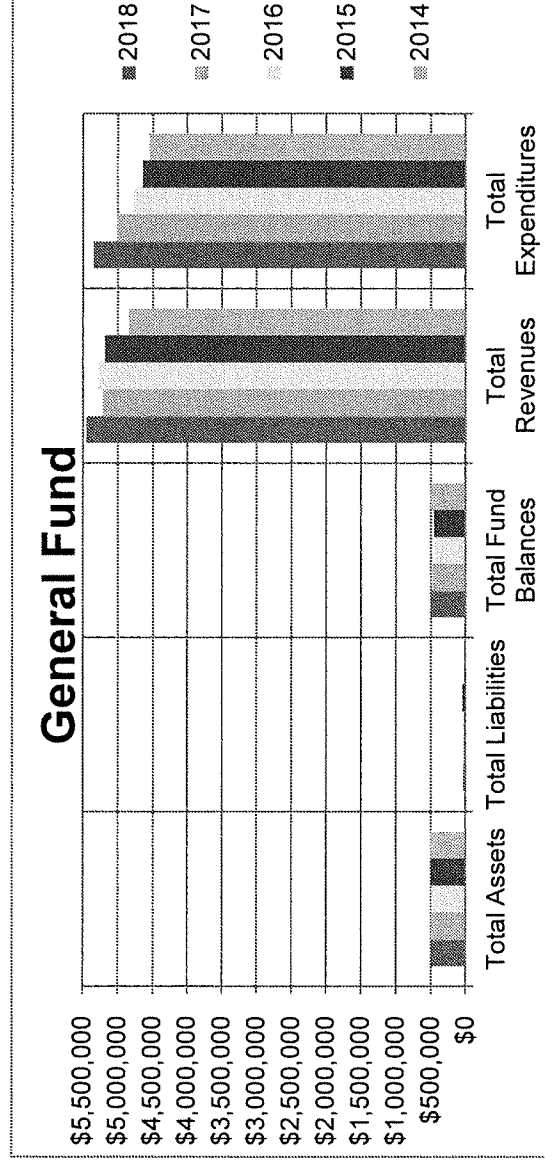
MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2018
(Unaudited)

Schedule 1

	Balance June 30, 2018
<i>Nondepreciable capital assets:</i>	
Land	<u>\$ 165,860</u>
<i>Depreciable capital assets:</i>	
Buildings	10,262,430
Improvements/infrastructure	760,364
Equipment	2,042,912
Total depreciable capital assets	<u>13,065,706</u>
Less accumulated depreciation for:	
Buildings	3,060,067
Improvements/infrastructure	547,649
Equipment	1,517,120
Total accumulated depreciation	<u>5,124,836</u>
Total depreciable capital assets, net	<u>7,940,870</u>
Capital assets, net	<u><u>\$ 8,106,730</u></u>

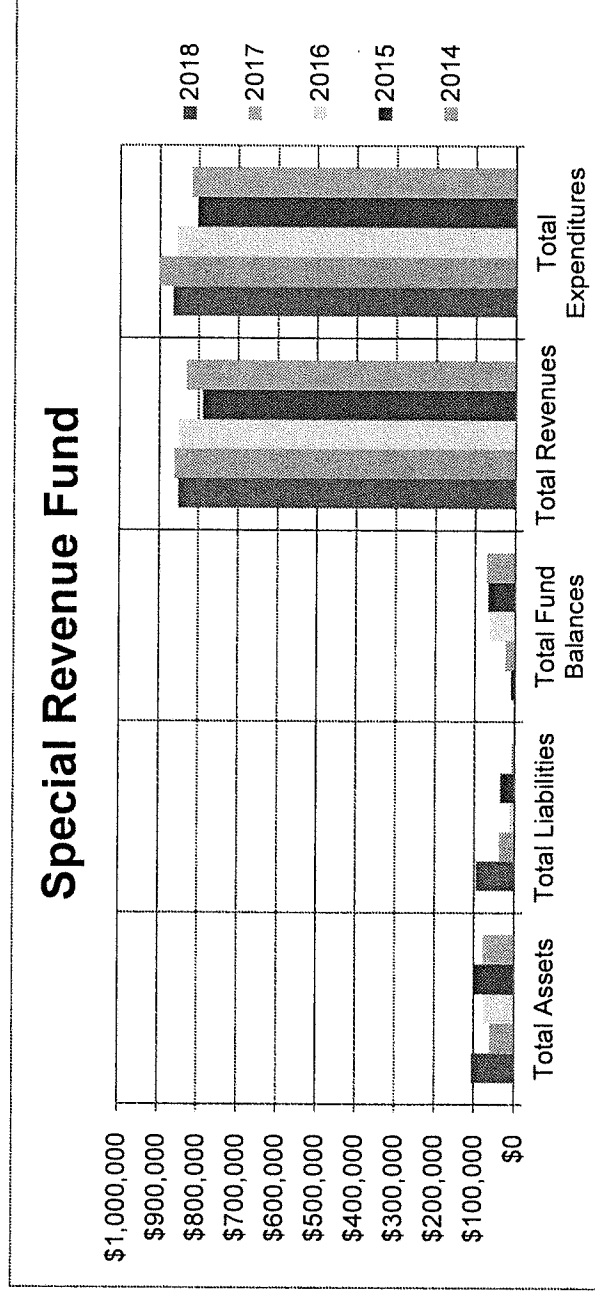
MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018
(Unaudited)

	Year Ended June 30,				
	2018	2017	2016	2015	2014
General Fund					
Total Assets	\$ 509,973	\$ 495,291	\$ 486,475	\$ 496,248	\$ 515,148
Total Liabilities	30,306	20,891	36,594	40,399	14,042
Total Fund Balances	479,667	474,400	449,881	455,849	501,106
Total Revenues	5,450,719	5,216,372	5,276,338	5,190,905	4,836,842
Total Expenditures	5,349,585	5,017,579	4,775,345	4,639,305	4,543,666
Total Other Financing Sources (Uses)	(95,867)	(174,274)	(506,961)	(596,857)	(263,723)



MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018
(Unaudited)

	Year Ended June 30,				
	2018	2017	2016	2015	2014
Special Revenue Fund					
Total Assets	\$ 105,716	\$ 60,686	\$ 75,900	\$ 102,202	\$ 77,598
Total Liabilities	95,880	36,916	11,812	34,396	7,089
Total Fund Balances	9,836	23,770	64,088	67,806	70,509
Total Revenues	851,252	860,365	852,083	789,488	830,534
Total Expenditures	865,186	900,683	855,801	803,354	818,054
Total Other Financing Sources (Uses)				11,163	14,106



MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018
(Unaudited)

	Year Ended June 30,				
	2018	2017	2016	2015	2014
Other Aggregate Funds					
Total Assets	\$ 2,097,462	\$ 2,146,857	\$ 2,294,491	\$ 1,771,334	\$ 1,410,372
Total Liabilities		3,498			
Total Fund Balances	2,097,462	2,143,359	2,294,491	1,771,334	1,410,372
Total Revenues	58,587	22,790	56,197	4,283	8,116
Total Expenditures	388,208	348,196	206,862	315,010	233,865
Total Other Financing Sources (Uses)	283,724	174,274	673,822	671,689	249,640

