

Magazine School District No. 15

Logan County, Arkansas

Regulatory Basis Financial Statements And Other Reports

June 30, 2017

LEGISLATIVE JOINT AUDITING COMMITTEE



MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
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JUNE 30, 2017

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Arkansas

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Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
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, 2017, 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, 2017, or the changes in financial position for the year then ended.

Opinion 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, 2017, 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 April 9, 2018 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
April 9, 2018
EDSD22417

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
House Vice Chair

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

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, 2017, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated April 9, 2018. 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, 2017, 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 receiving monies, preparation of payroll, maintenance of accounting records, and preparation of bank reconciliations, without compensating controls. The Superintendent's secretary also receives and deposits monies and prepares non-payroll checks, without compensating controls. Therefore, reasonable assurance cannot be provided about the achievement of the entity's objectives with regard to reliability of financial reporting.

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 components. 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. 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.

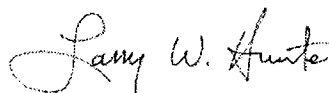
District's Response to Findings

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
April 9, 2018

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2017

Exhibit A

	Governmental Funds			
	Major			Fiduciary
	General	Special Revenue	Other Aggregate	Fund Types
ASSETS				
Cash	\$ 458,768		\$ 1,031,537	\$ 25,250
Investments			500,035	245,488
Accounts receivable	4,980	\$ 60,686		
Due from other funds	31,543			
Deposit with paying agent			615,285	
TOTAL ASSETS	<u>\$ 495,291</u>	<u>\$ 60,686</u>	<u>\$ 2,146,857</u>	<u>\$ 270,738</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 20,891	\$ 5,373	\$ 3,498	\$ 304
Due student groups				16,573
Due to other funds		31,543		
Total Liabilities	<u>20,891</u>	<u>36,916</u>	<u>3,498</u>	<u>16,877</u>
Fund Balances:				
Nonspendable				250,241
Restricted	35,354	23,770	929,081	3,620
Assigned	24,734		1,214,278	
Unassigned	414,312			
Total Fund Balances	<u>474,400</u>	<u>23,770</u>	<u>2,143,359</u>	<u>253,861</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 495,291</u>	<u>\$ 60,686</u>	<u>\$ 2,146,857</u>	<u>\$ 270,738</u>

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 -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,117,018		
State assistance	3,779,752	\$ 2,742	
Federal assistance	20,945	804,485	
Activity revenues	96,795		
Meal sales		53,047	
Investment income	5,347		\$ 22,790
Other revenues	196,515	91	
TOTAL REVENUES	5,216,372	860,365	22,790
EXPENDITURES			
Regular programs	2,121,704	64,022	
Special education	171,260	124,045	
Career education programs	149,132		
Compensatory education programs	150,191	79,967	
Other instructional programs	95,765		
Student support services	337,580	55,119	
Instructional staff support services	247,277	98,954	110,961
General administration support services	144,959		
School administration support services	194,702		
Central services support services	135,703		
Operation and maintenance of plant services	804,134		17,677
Student transportation services	227,516		
Other support services	37,366		
Food services operations	3,587	450,490	
Community services operations	39,564	7,536	
Facilities acquisition and construction services	3,600	15,550	1,015
Non-programmed costs		5,000	
Activity expenditures	95,074		
Debt Service:			
Principal retirement	46,649		55,000
Interest and fiscal charges	11,816		163,543
TOTAL EXPENDITURES	5,017,579	900,683	348,196
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	198,793	(40,318)	(325,406)
OTHER FINANCING SOURCES (USES)			
Transfers in	208,222		382,496
Transfers out	(382,496)		(208,222)
TOTAL OTHER FINANCING SOURCES (USES)	(174,274)		174,274
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	24,519	(40,318)	(151,132)
FUND BALANCES - JULY 1	449,881	64,088	2,294,491
FUND BALANCES - JUNE 30	\$ 474,400	\$ 23,770	\$ 2,143,359

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

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS

Exhibit C

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, 2017

	General			Variance Favorable (Unfavorable)		Special Revenue			Variance Favorable (Unfavorable)
	Budget	Actual				Budget	Actual		
REVENUES									
Property taxes (including property tax relief trust distribution)	\$ 1,226,856	\$ 1,117,018	\$	(109,838)					
State assistance	3,598,899	3,779,752		180,853	\$ 2,700	\$ 2,742	\$ 804,485	\$ 42	
Federal assistance	31,983	20,945		(11,038)	784,997			19,488	
Activity revenues		96,795		96,795					
Meal sales					51,250		53,047	1,797	
Investment income	5,000	5,347		347					
Other revenues	158,773	196,515		37,742			91	91	
TOTAL REVENUES	5,021,511	5,216,372		194,861	838,947		860,365	21,418	
EXPENDITURES									
Regular programs	2,013,695	2,121,704		(108,009)	73,089		64,022	9,067	
Special education	172,136	171,260		876	129,225		124,045	5,180	
Career education programs	121,612	149,132		(27,520)					
Compensatory education programs	181,476	150,191		31,285	106,994		79,967	27,027	
Other instructional programs	100,037	95,765		4,272					
Student support services	349,557	337,580		11,977	49,435		55,119	(5,684)	
Instructional staff support services	246,706	247,277		(571)	65,687		98,954	(33,267)	
General administration support services	145,863	144,959		904					
School administration support services	176,672	194,702		(18,030)					
Central services support services	139,215	135,703		3,512					
Operation and maintenance of plant services	827,228	804,134		23,094					
Student transportation services	218,662	227,516		(8,854)					
Other support services	28,290	37,366		(9,076)					
Food services operations		3,587		(3,587)	447,022		450,490	(3,468)	
Community services operations	35,446	39,564		(4,118)	8,558		7,536	1,022	
Facilities acquisition and construction services		3,600		(3,600)	15,550		15,550		
Non-programmed costs					5,000		5,000		
Activity expenditures									
Debt Service:		95,074		(95,074)					
Principal retirement	46,649	46,649							
Interest and fiscal charges	11,816	11,816							
TOTAL EXPENDITURES	4,815,060	5,017,579		(202,519)	900,560		900,683	(123)	

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS

Exhibit C

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, 2017

	General		Variance Favorable (Unfavorable)	Special Revenue		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 206,451	\$ 198,793	\$ (7,658)	\$ (61,613)	\$ (40,318)	\$ 21,295
OTHER FINANCING SOURCES (USES)						
Transfers in	6,234,730	208,222	(6,026,508)	31,257		(31,257)
Transfers out	(6,462,484)	(382,496)	6,079,988	(27,012)		27,012
TOTAL OTHER FINANCING SOURCES (USES)	(227,754)	(174,274)	53,480	4,245		(4,245)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(21,303)	24,519	45,822	(57,368)	(40,318)	17,050
FUND BALANCES - JULY 1	764,116	449,881	(314,235)	64,790	64,088	(702)
FUND BALANCES - JUNE 30	\$ 742,813	\$ 474,400	\$ (268,413)	\$ 7,422	\$ 23,770	\$ 16,348

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, 2017

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, 2017

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 2016 calendar year taxes collected by June 30, 2017 and 16 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, 2017 equaled or exceeded the 16 percent calculation.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

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)	\$ 750,035	\$ 750,035
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	1,511,043	1,922,730
Total Deposits	<u>\$ 2,261,078</u>	<u>\$ 2,672,765</u>

The above total deposits include certificates of deposit of \$745,523 reported as investments and classified as nonparticipating contracts.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
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JUNE 30, 2017

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Federal assistance		\$ 60,686
Other	\$ 4,980	
Totals	<u>\$ 4,980</u>	<u>\$ 60,686</u>

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2017:

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, 2017	Maturities To June 30, 2017
4/1/12	6/1/33	1 - 3.05%	\$ 1,000,000	\$ 860,000	\$ 140,000
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	4,035,000	25,000
7/12/10	7/12/20	5%	80,025	29,055	50,970
12/14/10	12/14/20	5%	86,995	35,488	51,507
2/21/15	8/21/24	3.95%	89,245	70,151	19,094
5/24/16	5/24/23	3.19%	163,717	142,490	21,227
Totals			<u>\$ 7,014,982</u>	<u>\$ 6,707,184</u>	<u>\$ 307,798</u>

Changes in Long-term Debt

	Balance July 1, 2016	Issued	Retired	Balance June 30, 2017
Bonds payable	\$ 6,485,000		\$ 55,000	\$ 6,430,000
Installment contracts	323,833		46,649	277,184
Totals	<u>\$ 6,808,833</u>	<u>\$ 0</u>	<u>\$ 101,649</u>	<u>\$ 6,707,184</u>

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

4: COMMITMENTS (Continued)

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2018	\$ 233,557	\$ 171,682	\$ 405,239
2019	240,537	167,692	408,229
2020	242,599	163,264	405,863
2021	234,618	158,552	393,170
2022	234,468	154,108	388,576
2023-2027	2,696,405	640,708	3,337,113
2028-2032	1,360,000	355,469	1,715,469
2033-2037	1,220,000	153,749	1,373,749
2038	245,000	7,963	252,963
Totals	<u>\$ 6,707,184</u>	<u>\$ 1,973,187</u>	<u>\$ 8,680,371</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 AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017 were comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types
	Major		Other Aggregate	
	General	Special Revenue		
Vendor payables	\$ 11,561	\$ 5,373	\$ 3,498	\$ 304
Due to grantors	9,330			
Totals	\$ 20,891	\$ 5,373	\$ 3,498	\$ 304

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6: INTERFUND TRANSFERS

The District transferred \$382,496 from the general fund to the other aggregate funds for debt related payments of \$278,580 and debt refunding savings of \$103,916 required to be utilized for capital expenditures. The District also transferred \$208,222, previously assigned for capital projects, from the other aggregate funds to the general fund for operating purposes.

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, 2017 were \$461,026, 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, 2016 (actuarial valuation date and measurement date) was \$4,728,016.

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, 2017 were \$696 equal to the required contributions.

MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

7: RETIREMENT PLANS (Continued)

Arkansas Public Employees Retirement System (Continued)

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, 2016 (actuarial valuation date and measurement date) was \$6,179.

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 5,460
Interest	<u>2,049</u>
 TOTAL ADDITIONS	 <u>7,509</u>
DEDUCTIONS	
Scholarships	<u>11,847</u>
 CHANGE IN FUND BALANCE	 (4,338)
 FUND BALANCE - JULY 1	 <u>258,199</u>
 FUND BALANCE - JUNE 30	 <u><u>\$ 253,861</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 \$8,370,600, payable through June 1, 2038. Principal and interest paid for the current year and total property taxes pledged for debt service were \$217,442 and \$400,981, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 54.23 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.

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LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

10: RISK MANAGEMENT (Continued)

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.

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 \$134,149 for the year ended June 30, 2017.

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

Description	Governmental Funds		
	Major		Other
	General	Special Revenue	
			Aggregate
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 11,824		
Educational programs -			
national school lunch state			
categorical funding	6,674		
Capital projects			\$ 313,796
Child nutrition programs		\$ 2,186	
Debt service			615,285
Medical services		20,854	
Other purposes	16,856	730	
Total Restricted	<u>35,354</u>	<u>23,770</u>	<u>929,081</u>
Assigned to:			
Capital projects			1,214,278
Student activities	24,734		
Total Assigned	<u>24,734</u>		<u>1,214,278</u>
Unassigned	<u>414,312</u>		
Totals	<u>\$ 474,400</u>	<u>\$ 23,770</u>	<u>\$2,143,359</u>

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LOGAN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 was \$250,241. Certificates of deposit totaling \$245,488 comprised the major portion of the balance.

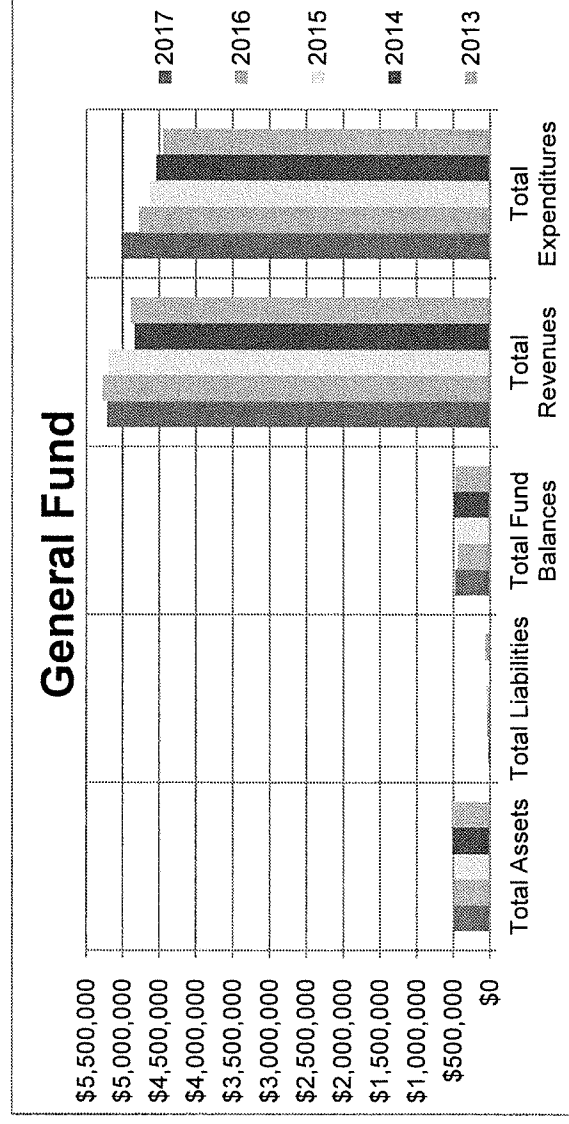
MAGAZINE SCHOOL DISTRICT NO. 15
LOGAN COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(Unaudited)

Schedule 1

	Balance June 30, 2017
<i>Nondepreciable capital assets:</i>	
Land	\$ 165,860
<i>Depreciable capital assets:</i>	
Buildings	10,204,909
Improvements/infrastructure	748,045
Equipment	1,902,601
Total depreciable capital assets	12,855,555
Less accumulated depreciation for:	
Buildings	2,847,331
Improvements/infrastructure	510,783
Equipment	1,508,221
Total accumulated depreciation	4,866,335
Total depreciable capital assets, net	7,989,220
Capital assets, net	\$ 8,155,080

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LOGAN COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2017
(Unaudited)

<u>General Fund</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 495,291	\$ 486,475	\$ 496,248	\$ 515,148	\$ 531,892
Total Liabilities	20,891	36,594	40,399	14,042	60,239
Total Fund Balances	474,400	449,881	455,849	501,106	471,653
Total Revenues	5,216,372	5,276,338	5,190,905	4,836,842	4,887,713
Total Expenditures	5,017,579	4,775,345	4,639,305	4,543,666	4,445,673
Total Other Financing Sources (Uses)	(174,274)	(506,961)	(596,857)	(263,723)	(434,690)



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, 2017
(Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 60,686	\$ 75,900	\$ 102,202	\$ 77,598	\$ 94,921
Total Liabilities	36,916	11,812	34,396	7,089	50,998
Total Fund Balances	23,770	64,088	67,806	70,509	43,923
Total Revenues	860,365	852,083	789,488	830,534	785,853
Total Expenditures	900,683	855,801	803,354	818,054	795,742
Total Other Financing Sources (Uses)			11,163	14,106	15,945

