

**MALVERN SCHOOL DISTRICT
Hot Spring County, Arkansas**

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2016

CONTENTS

| | <u>Page Number</u> |
|--|------------------------|
| Independent Auditors' Report | 1 - 3 |
| Regulatory Basis Financial Statements: | |
| Balance Sheet – Regulatory Basis | 4 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis | 5 - 6 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis | 7 |
| Notes to Financial Statements | 8 - 24 |
| Supplementary Information: | |
| Schedule of Capital Assets | 25 |
| Notes to Schedule of Capital Assets..... | 26 |
| Schedule of Billable Units – School Breakfast Program And National School Lunch Program | 27 |
| Schedule of Expenditures of Federal Awards | 28 |
| Notes to Schedules of Expenditures of Federal Awards | 29 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 30 - 31 |
| Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with Uniform Guidance | 32 - 34 |

CONTENTS (CONTINUED)

| | <u>Page Number</u> |
|---|------------------------|
| Schedule of Findings and Questioned Costs | 35 |
| Independent Auditors' Report on Compliance with Arkansas State Requirements | 36 |
| Schedule of Statutes Required by Arkansas Department of Education to be Addressed in Independent Auditors' Report on Compliance | 37 |

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

650 S. Shackleford Road • Suite 400 • P. O. Box 21675 • Little Rock, Arkansas 72221-1675
(501) 225-2133 • Fax (501) 223-2839

Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report

The Board of Education
Malvern School District
Hot Spring County, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the each major governmental fund and the aggregate remaining fund information of Malvern School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Malvern School 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 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.

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

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, the financial statements are prepared by Malvern School 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, to meet the requirements of the State of Arkansas.

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” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the respective financial position the governmental activities, each major fund, and the aggregate remaining fund information of Malvern School District, as of June 30, 2016, or changes in financial position thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of Malvern School District as of June 30, 2016, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, in accordance with the regulatory basis of accounting 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 Malvern School District's regulatory basis financial statements. The schedules of capital assets and billable units are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the regulatory basis financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2017, on our consideration of Malvern School 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Malvern School District's internal control over financial reporting and compliance.

Colb and Suskie, Ltd

Certified Public Accountants
March 30, 2017

MALVERN SCHOOL DISTRICT
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2016

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Other Governmental Funds</u> |
|--|-------------------------|-------------------------------------|---|
| ASSETS | | | |
| Cash | \$ 3,173,562 | \$ 61,958 | \$ 1,833,365 |
| Investments | - | - | - |
| Accounts Receivable | - | 263,203 | 30,353 |
| Deposit with Paying Agent | - | - | 382,519 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL ASSETS | <u>\$ 3,173,562</u> | <u>\$ 325,161</u> | <u>\$ 2,246,237</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts Payable & Accrued Liabilities | \$ 898 | \$ - | \$ 58,800 |
| Due to Student Groups | - | - | - |
| Due to Other Funds | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total Liabilities | <u>898</u> | <u>-</u> | <u>58,800</u> |
| Fund Balances: | | | |
| Unreserved | 3,172,664 | - | - |
| Reserved | - | 325,161 | 2,187,437 |
| | <hr/> | <hr/> | <hr/> |
| Total Fund Balances | <u>3,172,664</u> | <u>325,161</u> | <u>2,187,437</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 3,173,562</u> | <u>\$ 325,161</u> | <u>\$ 2,246,237</u> |

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

| Total Governmental <u>Funds</u> | Fiduciary Fund <u>Types</u> |
|---------------------------------------|-----------------------------------|
| \$ 5,068,885 | \$ 146,431 |
| - | 5,641 |
| 293,556 | - |
| 382,519 | - |
| \$ 5,744,960 | \$ 152,072 |
| | |
| \$ 59,698 | \$ - |
| - | 103,539 |
| - | - |
| 59,698 | 103,539 |
| | |
| 3,172,664 | - |
| 2,512,598 | 48,533 |
| 5,685,262 | 48,533 |
| | |
| \$ 5,744,960 | \$ 152,072 |

MALVERN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

| | General Fund | Special Revenue Fund | Other Governmental Funds | Total Governmental Funds |
|---------------------------------|-------------------|----------------------------|--------------------------------|--------------------------------|
| REVENUES: | | | | |
| Local Property Taxes | \$ 8,420,308 | \$ - | \$ - | \$ 8,420,308 |
| Federal Sources | - | 3,214,764 | 50,502 | 3,265,266 |
| State Sources | 10,602,807 | 7,853 | 78,524 | 10,689,184 |
| Food Services | - | 148,967 | - | 148,967 |
| Other Sources | 71,030 | - | 84,268 | 155,298 |
| Student Activities | 310,656 | - | - | 310,656 |
| Interest | 29,420 | - | 2,929 | 32,349 |
| Total Revenues | <u>19,434,221</u> | <u>3,371,584</u> | <u>216,223</u> | <u>23,022,028</u> |
| EXPENDITURES: | | | | |
| <u>Instruction</u> | | | | |
| Regular Instruction | 6,739,018 | 3,129 | (96,054) | 6,646,093 |
| Special Instruction | 690,282 | 494,983 | - | 1,185,265 |
| Vocational Instruction | 449,143 | - | - | 449,143 |
| Compensatory Instruction | 191,796 | 662,024 | - | 853,820 |
| Other Instruction | 1,275,850 | 65,781 | - | 1,341,631 |
| Total Instruction | <u>9,346,089</u> | <u>1,225,917</u> | <u>(96,054)</u> | <u>10,475,952</u> |
| <u>Support Services</u> | | | | |
| Student Support Services | 949,735 | 550,749 | - | 1,500,484 |
| Instructional Support Services | 1,416,017 | 175,604 | - | 1,591,621 |
| General Administration Services | 411,177 | 27,156 | 16,075 | 454,408 |
| School Administration Services | 938,058 | - | - | 938,058 |
| Business Support Services | 359,551 | 1,097 | 65,194 | 425,842 |
| Other Support Services | 94,659 | - | - | 94,659 |
| Operations and Maintenance | 2,018,613 | - | 40,544 | 2,059,157 |
| Pupil Transportation Services | 896,125 | 9,306 | - | 905,431 |
| Food Services | - | 1,327,546 | - | 1,327,546 |
| Community Services | - | 80 | - | 80 |
| Indirect | - | - | - | - |
| Debt Service - Principal | 115,941 | - | 435,000 | 550,941 |
| Debt Service - Interest | 3,345 | - | 653,432 | 656,777 |
| Activity Expenditures | 318,971 | - | - | 318,971 |
| Building Acquisition | 166,342 | - | 2,292,470 | 2,458,812 |
| Capital Outlay | 285,524 | 25,437 | 34,250 | 345,211 |
| Total Support Services | <u>7,974,058</u> | <u>2,116,975</u> | <u>3,536,965</u> | <u>13,627,998</u> |
| Total Expenditures | <u>17,320,147</u> | <u>3,342,892</u> | <u>3,440,911</u> | <u>24,103,950</u> |

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

MALVERN SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

| | General <u>Fund</u> | Special Revenue <u>Fund</u> | Other Governmental <u>Funds</u> | Total Governmental <u>Funds</u> |
|---|------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| Excess of Revenues Over (Under) Expenditures | \$ 2,114,074 | \$ 28,692 | \$ (3,224,688) | \$ (1,081,922) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds of Installment Contract | 226,000 | | | 226,000 |
| Compensation for Fixed Assets | 5,377 | - | - | 5,377 |
| Transfers In | - | 73,133 | 2,188,560 | 2,261,693 |
| Transfers Out | <u>(2,261,693)</u> | <u>-</u> | <u>-</u> | <u>(2,261,693)</u> |
| Total Other Financing Sources (Uses) | <u>(2,030,316)</u> | <u>73,133</u> | <u>2,188,560</u> | <u>231,377</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 83,758 | 101,825 | (1,036,128) | (850,545) |
| Fund Balances, Beginning of Year | <u>3,088,906</u> | <u>223,336</u> | <u>3,223,565</u> | <u>6,535,807</u> |
| Fund Balances, End of Year | <u>\$ 3,172,664</u> | <u>\$ 325,161</u> | <u>\$ 2,187,437</u> | <u>\$ 5,685,262</u> |

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

MALVERN SCHOOL DISTRICT
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, 2016

| | GENERAL FUND | | |
|--|--------------------|---------------------|---------------------|
| | Budget | Actual | Variance |
| Revenues: | | | |
| Property Taxes | \$ 7,894,859 | \$ 8,420,308 | \$ 525,449 |
| Federal Sources | - | - | - |
| State Sources | 10,434,221 | 10,602,807 | 168,586 |
| Other Local Sources | - | - | - |
| Intermediate Sources | - | - | - |
| Food Services | - | - | - |
| Other Sources | 53,000 | 71,030 | 18,030 |
| Student Activities | - | 310,656 | 310,656 |
| Interest | 25,000 | 29,420 | 4,420 |
| Total Revenues | <u>18,407,080</u> | <u>19,434,221</u> | <u>1,027,141</u> |
| Expenditures: | | | |
| Instruction: | | | |
| Regular Instruction | 7,534,674 | 6,739,018 | 795,656 |
| Special Instruction | 797,551 | 690,282 | 107,269 |
| Vocational Instruction | 477,556 | 449,143 | 28,413 |
| Compensatory Instruction | 198,487 | 191,796 | 6,691 |
| Other Instruction | 1,403,437 | 1,275,850 | 127,587 |
| Total Instruction | <u>10,411,705</u> | <u>9,346,089</u> | <u>1,065,616</u> |
| Support Services: | | | |
| Student Support Services | 1,052,604 | 949,735 | 102,869 |
| Instructional Staff Services | 1,853,560 | 1,416,017 | 437,543 |
| General Administration Services | 443,070 | 411,177 | 31,893 |
| School Administration Services | 967,578 | 938,058 | 29,520 |
| Business Support Services | 417,765 | 359,551 | 58,214 |
| Other Support Services | 121,562 | 94,659 | 26,903 |
| Operations & Maintenance | 2,293,275 | 2,018,613 | 274,662 |
| Pupil Transportation Services | 995,828 | 896,125 | 99,703 |
| Food Services | - | - | - |
| Community Services | - | - | - |
| Debt Service | 119,291 | 119,286 | 5 |
| Indirect Costs | - | - | - |
| Activity Expenditures | - | 318,971 | (318,971) |
| Building Acquisition | 70,000 | 166,342 | (96,342) |
| Capital Outlay | - | 285,524 | (285,524) |
| Total Support Services | <u>8,334,533</u> | <u>7,974,058</u> | <u>360,475</u> |
| Total Expenditures | <u>18,746,238</u> | <u>17,320,147</u> | <u>1,426,091</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(339,158)</u> | <u>2,114,074</u> | <u>2,453,232</u> |
| Other Financing Sources (Uses): | | | |
| Proceeds of Installment Contract | - | 226,000 | 226,000 |
| Compensation for Fixed Assets | - | 5,377 | 5,377 |
| Transfers In | - | - | - |
| Transfers Out | (1,366,485) | (2,261,693) | (895,208) |
| Total Other Financing Sources (Uses) | <u>(1,366,485)</u> | <u>(2,030,316)</u> | <u>(663,831)</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | <u>(1,705,643)</u> | <u>83,758</u> | <u>1,789,401</u> |
| Fund Balance - Beginning of Year | 2,668,583 | 3,088,906 | 420,323 |
| Fund Balance - End of Year | <u>\$ 962,940</u> | <u>\$ 3,172,664</u> | <u>\$ 2,209,724</u> |

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

SPECIAL REVENUE FUND

| <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---------------------|-------------------|-------------------|
| \$ - | \$ - | \$ - |
| 3,198,906 | 3,214,764 | 15,858 |
| 7,000 | 7,853 | 853 |
| - | - | - |
| - | - | - |
| 146,500 | 148,967 | 2,467 |
| - | - | - |
| - | - | - |
| - | - | - |
| <u>3,352,406</u> | <u>3,371,584</u> | <u>19,178</u> |
| 6,586 | 3,129 | 3,457 |
| 596,869 | 494,983 | 101,886 |
| - | - | - |
| 686,549 | 662,024 | 24,525 |
| 65,130 | 65,781 | (651) |
| <u>1,355,134</u> | <u>1,225,917</u> | <u>129,217</u> |
| 584,567 | 550,749 | 33,818 |
| 328,788 | 175,604 | 153,184 |
| 27,231 | 27,156 | 75 |
| - | - | - |
| 15,000 | 1,097 | 13,903 |
| - | - | - |
| - | - | - |
| 9,032 | 9,306 | (274) |
| 1,304,675 | 1,327,546 | (22,871) |
| 8,000 | 80 | 7,920 |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | 25,437 | (25,437) |
| <u>2,277,293</u> | <u>2,116,975</u> | <u>160,318</u> |
| <u>3,632,427</u> | <u>3,342,892</u> | <u>289,535</u> |
| <u>(280,021)</u> | <u>28,692</u> | <u>308,713</u> |
| - | - | - |
| 39,500 | 73,133 | 33,633 |
| - | - | - |
| <u>39,500</u> | <u>73,133</u> | <u>33,633</u> |
| (240,521) | 101,825 | 342,346 |
| 6,900 | 223,336 | 216,436 |
| <u>\$ (233,621)</u> | <u>\$ 325,161</u> | <u>\$ 558,782</u> |

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a group of seven (7) permanent members, is the level of government which has governing responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Malvern School District (the District). The Board receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the Board of Education is not included in any other governmental "reporting entity," since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

Only the accounts of the Malvern School District are included in these statements, and there are no component units that are or should be included in the District's reporting entity.

B. Basis of Presentation

(1) Regulatory Basis of Presentation

The financial statements are prepared in accordance with a regulatory basis of accounting. This basis of accounting is prescribed by Arkansas Code Annotated 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, at 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 the 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.

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

(1) Regulatory Basis of Presentation (Continued)

The regulatory basis of accounting differs from the accounting principles generally accepted in the United States of America (GAAP). GAAP requires that basic financial statements, in addition to presenting entity-wide financial statements, incorporate the following: Management's Discussion and Analysis, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, capital assets, other non-financial assets and long-term liabilities, specific procedures for the identification of major governmental funds and applicable note disclosures. The prescribed regulatory basis does not require these statements and concepts, nor does it generally adhere to or address pronouncements of the Governmental Accounting Standards Board (GASB).

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 financial sources and uses.

C. Fund Accounting

Fund accounting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they are to be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds as prescribed under the regulatory basis:

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Continued)

(1) General Fund

The General Fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Arkansas.

(2) Special Revenue Fund

The Special Revenue Fund is used to account for specific revenue sources which are designated by law or contractual agreement for specified functions or activities and are legally required to be accounted for in separate funds.

(3) Other Governmental Funds

Other governmental funds consist of (a) the Debt Service Fund, which is used for accumulation of resources for payment of principal, interest and related costs on general long-term debt; and (b) the Capital Projects Fund, which is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

(4) Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is made up of agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurements of results of operations. The District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Regulatory Basis of Accounting / Measurement Focus

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. The regulatory basis financial statements are prepared using a current financial resources measurement focus and the modified accrual basis of accounting, with some exception. With the exception of property taxes, revenues are recognized when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities.

With the exception of property taxes, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. State and federal grants and interest associated with the current fiscal period are all considered to be susceptible to accrual.

(1) Revenue-Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from the non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, grants, and student fees.

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Regulatory Basis of Accounting / Measurement Focus (Continued)

(2) Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, there is no deferred revenue.

(3) Expenses/Expenditures

Expenditures are recorded when the liability is incurred, except for claims, compensated absences, and interest on long-term debt, which are not recorded until paid. Proceeds from issuance of long-term debt are recognized when received and payment of long-term debt principal is reported as an expenditure when paid.

E. Investments

The District's investments consist of certificates of deposit reported at historical cost, which approximates fair value, and corporate bonds, which are recorded at fair value.

F. Property Taxes

Property taxes are levied in November based on property assessments made between January 1st, and May 31st, and are an enforceable lien on January 1st for real property and June 1st for personal property. The taxes are payable between January and October 15th of the following year and are considered delinquent after October 15th.

Property taxes shall be accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE). Arkansas law defines revenue receipts of a school district as actual proceeds of local taxes collected during the current fiscal year.

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. Arkansas Code Annotated § 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 report purposes, URT revenues are considered property taxes.

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- G. Prepaid Items
Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.
- H. Capital Assets
Capital asset purchases are recorded as expenditures at the time of purchase and depreciation is not recognized. Information on capital assets and related depreciation is reported in the schedule of capital assets. For this schedule, capital assets are capitalized at historical cost or estimated historical cost.
- I. Accrued Liabilities and Long-term Obligations
In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the governmental funds. However, compensated absences, interest, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.
- J. Fund Balance Reserves
The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Reserved fund balances represent that portion of the fund balance which is not appropriable for expenditure, or is legally segregated for a specific future use.
- K. Fund Designations
Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the District's intentions and is subject to change. Designations are reported as part of unreserved fund balance. Designations represent amounts set-aside for budget stabilization which exceeds the statutory required amount.

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

M. Estimates

The preparation of the financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Budget and Budgetary Accounting

The District is required by Arkansas State Law to prepare an annual budget approved by the School Board and submitted to the Arkansas Department of Education by September 15 of the current fiscal year. The annual budget is prepared on the regulatory basis of accounting. The District does not prepare and submit amended budgets during the fiscal year to the Department of Education.

NOTE 2: CASH AND INVESTMENTS

Arkansas statutes allow each local district the right to determine the depositories in which to deposit district funds and the amounts and type of investments in which to invest District funds, provided however, that investments are limited specifically to bonds or notes of the United States of America, general obligation bonds of the State of Arkansas or bank certificates of deposit. At June 30, 2016, the District's cash consisted of demand deposits at 4 local depository banks.

MALVERN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law. Arkansas law requires collateralization of all deposits with federal depository insurance (FDIC); a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bonds or other obligations; the bonds of the State of Arkansas, or by bonds of a political subdivision thereof which has never defaulted on any of its obligations, in an amount at least equal to the amount of such deposit or by a bond executed by a surety company authorized to do business in the State of Arkansas.

The carrying amount of total deposits, amount of the total bank balances and the custodial credit risk at June 30, 2016 are summarized as follows:

| | <u>Carrying Value</u> | <u>Bank Balance</u> |
|-------------------------------------|-----------------------|---------------------|
| Inured (FDIC) and Collateralized | \$ 5,217,442 | \$ 5,512,619 |
| Uninsured, Uncollateralized | - | - |
| TOTAL | <u>\$ 5,217,442</u> | <u>\$ 5,512,619</u> |

The above total deposits include a certificate of deposit in the amount of \$2,126 reported as an investment.

The carrying value of the above-mentioned cash deposits at June 30, 2016 is included in the accompanying financial statements as follows:

| | |
|-----------------------------|---------------------|
| Cash - Governmental Funds | \$ 5,068,885 |
| Cash - Fiduciary Fund Types | <u>148,557</u> |
| | <u>\$ 5,217,442</u> |

MALVERN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016

NOTE 3: INVESTMENTS

At June 30, 2016, the District's investments of the private-purpose trust funds consisted of the following mutual funds reported at market value:

| <u>Type of Investment</u> | <u>Fair Value</u> |
|-------------------------------|-------------------|
| T. Rowe Price High Yield Fund | \$ <u>3,515</u> |
| Total | \$ <u>3,515</u> |

In addition to the above listed investment, the District has a certificate of deposit in the amount of \$2,126 as referenced in Note 2.

The District does not have a formal investment policy that would limit its investment choices or address any related risks. Any risks associated with the investment listed would be immaterial. The District's total investments of \$5,641 pertain to fiduciary fund types.

NOTE 4: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$293,556 at June 30, 2016 was comprised of the following:

| <u>Description</u> | <u>Governmental Fund Major Special Revenue</u> | <u>Building Fund</u> | <u>Total</u> |
|--------------------|--|--------------------------|-------------------|
| Federal Assistance | \$ 263,203 | \$ - | \$ 263,203 |
| State Assistance | - | 30,353 | 30,353 |
| Total | <u>\$ 263,203</u> | <u>\$ 30,353</u> | <u>\$ 293,556</u> |

NOTE 5: BONDED AND NON-BONDED DEBT

The long-term debt is payable from future income of the District. In order to liquidate the principal and interest on the bonded debt, the District has pledged 12.65 mills of the total 37.65 mill levy of the District.

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 5: BONDED AND NON-BONDED DEBT (CONTINUED)

The changes in long-term debt for the year ended June 30, 2016 are as follows:

| | Balance June 30, <u>2015</u> | <u>Issued</u> | <u>Retired</u> | Balance June 30, <u>2016</u> | Due Within <u>One Year</u> |
|-----------------------|------------------------------------|-------------------|-------------------|------------------------------------|----------------------------------|
| Bonds Payable | \$ 17,915,000 | \$ - | \$ 435,000 | \$ 17,480,000 | \$ 435,000 |
| Post-Dated Warrants | 185,456 | - | - | 185,456 | - |
| Installment Contracts | <u>246,598</u> | <u>226,000</u> | <u>115,941</u> | <u>356,657</u> | <u>85,647</u> |
| Total | <u>\$ 18,347,054</u> | <u>\$ 226,000</u> | <u>\$ 550,941</u> | <u>\$ 18,022,113</u> | <u>\$ 520,647</u> |

Details of this long-term debt are as follows:

| <u>Date of Issue</u> | <u>Date of Final Maturities</u> | <u>Rate of Interest</u> | <u>Amount Authorized and Issued</u> | <u>Maturities to June 30, 2016</u> | <u>Debt Outstanding June 30, 2016</u> |
|------------------------------|---|-----------------------------|---|--|---|
| <u>Bonds Payable</u> | | | | | |
| 04/28/2011 | 04/01/2026 | 5% | \$ 925,000 | \$ - | \$ 925,000 |
| 04/15/2011 | 04/01/2041 | 1.5 - 4.55% | 3,135,000 | 350,000 | 2,785,000 |
| 08/15/2012 | 04/01/2041 | 1.15 - 3% | 1,045,000 | 110,000 | 935,000 |
| 12/01/2013 | 02/01/2043 | 1 - 4.5% | 8,240,000 | 330,000 | 7,910,000 |
| 01/01/2014 | 02/01/2043 | 1.375 - 4.55% | 2,960,000 | 55,000 | 2,905,000 |
| 11/01/2014 | 02/01/2029 | 1 - 2.6% | <u>2,325,000</u> | <u>305,000</u> | <u>2,020,000</u> |
| Total Bonds Payable | | | <u>18,630,000</u> | <u>1,150,000</u> | <u>17,480,000</u> |
| <u>Post-Dated Warrants</u> | | | | | |
| 09/06/2011 | 09/06/2021 | 4.37% | <u>185,456</u> | <u>-</u> | <u>185,456</u> |
| Total Post-Dated Warrants | | | <u>185,456</u> | <u>-</u> | <u>185,456</u> |
| <u>Installment Contracts</u> | | | | | |
| 08/30/2012 | 08/31/2015 | 1.85% | 150,093 | 150,093 | - |
| 03/29/2016 | 09/09/2019 | 1.90% | <u>421,632</u> | <u>64,975</u> | <u>356,657</u> |
| Total Installment Contracts | | | <u>571,725</u> | <u>215,068</u> | <u>356,657</u> |
| Total Long-Term Debt | | | <u>\$ 19,387,181</u> | <u>\$ 1,365,068</u> | <u>\$ 18,022,113</u> |

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 5: BONDED AND NON-BONDED DEBT (CONTINUED)

Total principal and interest payments for the years subsequent to June 30, 2016 are as follows:

| | <u>Principal</u> | | <u>Interest</u> | | <u>Total</u> |
|-------------|----------------------|-----------|-------------------|-----------|-------------------|
| 2017 | \$ 520,647 | \$ | 652,132 | \$ | 1,172,779 |
| 2018 | 532,293 | | 645,067 | | 1,177,360 |
| 2019 | 543,951 | | 636,415 | | 1,180,366 |
| 2020 | 559,766 | | 626,935 | | 1,186,701 |
| 2021 | 470,000 | | 615,692 | | 1,085,692 |
| 2022 - 2026 | 3,670,456 | | 2,860,672 | | 6,531,128 |
| 2027 - 2031 | 3,205,000 | | 2,163,538 | | 5,368,538 |
| 2032 - 2036 | 3,250,000 | | 1,557,814 | | 4,807,814 |
| 2037 - 2041 | 3,985,000 | | 822,415 | | 4,807,415 |
| 2042 - 2043 | 1,285,000 | | 87,582 | | 1,372,582 |
| | <u>\$ 18,022,113</u> | <u>\$</u> | <u>10,668,262</u> | <u>\$</u> | <u>28,690,375</u> |

Qualified School Construction Bonds

On April 28, 2011, the District obtained funding of \$925,000 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 15 years. This amount plus interest earned will be used to retire the debt when due.

On September 6, 2011, the District obtained funding of \$185,456 from Qualified School District 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 10 years. This amount plus interest earned will be used to retire the debt when due.

Installment Contracts

The District renegotiated an existing loan for \$226,000 in additional funding to finance buses and a van for a total amount of \$356,657. The loan has annual payments of \$92,442 which includes interest at an annual rate of 1.90% with a maturity date of September 1, 2019.

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 5: BONDED AND NON-BONDED DEBT (CONTINUED)

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.

NOTE 6: RETIREMENT PLANS

A. Arkansas Teacher Retirement System

(1) Plan Description

The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution 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. The report can be obtained by writing to ATRS, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 6: RETIREMENT PLANS (CONTINUED)

A. Arkansas Teacher Retirement System (CONTINUED)

(2) Funding Policy

ATRS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salaries. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14% of covered salaries. The employer contribution was paid by the Arkansas Department of Education from the public school fund, except for those employees paid from federal funding. Employer contributions for those employees were paid by the District. Beginning July 1, 1993, the employer contribution for nonfederally funded members became the lesser of the result of multiplying the applicable percent of active member payroll for the fiscal year by the total covered reported salaries of the previous fiscal year, including any prior year reported salaries, or the amount appropriated by the Arkansas General Assembly. The amount appropriated is limited to the amount funded. The Department of Education determines the amount funded.

The District's contribution to ATRS during the year ended June 30, 2016 was approximately \$1,600,157, which is equal to 100% of the established rate. Contributions made during the years ended June 30, 2015 and 2014 were approximately \$1,620,550 and \$1,566,086, respectively.

(3) Net Pension Liability

The Arkansas Department of Education has stipulated that under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board (GASB) Statement No. 68 are 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, 2015 (actuarial valuation date and measurement date) was \$12,937,313.

MALVERN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 6: RETIREMENT PLANS (CONTINUED)

B. Arkansas Public Employees Retirement System

(1) 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 Arkansas public school employees hired before July 1, 1989. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution 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. That report may be obtained by writing to APERS, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

(2) Funding Policy

APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salaries. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to APERS for the years ended June 30, 2016, 2015, and 2014 were \$469, \$480, and \$902, respectively, equal to the required contributions for each year.

(3) Net Pension Liability

The Arkansas Department of Education has stipulated that under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board (GASB) Statement No. 68 are 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, 2015 (actuarial valuation date and measurement date) was \$2,876.

MALVERN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016

NOTE 7: INTERFUND TRANSFERS

Interfund transfers consist primarily of transfers from the General Fund to the Debt Service Fund for the payment of scheduled debt service expenditures. Interfund transfers for the year ended June 30, 2016, are summarized as follows:

| <u>Transfer From</u> | <u>Transfer To</u> | | <u>Total</u> |
|----------------------|-------------------------------------|---|---------------------|
| | <u>Special Revenue Fund</u> | <u>Other Governmental Funds</u> | |
| General Fund | <u>\$ 2,188,560</u> | <u>\$ 73,133</u> | <u>\$ 2,261,693</u> |

NOTE 8: TRUST AND AGENCY FUND

The Trust and Agency fund consist of receipts and expenditures as follows for the year ended June 30, 2016:

| | <u>Balance June 30, 2015</u> | <u>Receipts</u> | <u>Disbursements</u> | <u>Balance June 30, 2016</u> |
|--------------|--------------------------------------|-------------------|----------------------|--------------------------------------|
| Agency | \$ 110,793 | \$ 222,940 | \$ 230,194 | \$ 103,539 |
| Trust | <u>50,993</u> | <u>5,986</u> | <u>8,446</u> | <u>48,533</u> |
| TOTAL | <u>\$ 161,786</u> | <u>\$ 228,926</u> | <u>\$ 238,640</u> | <u>\$ 152,072</u> |

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 10: 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 \$362,213 for the year ended June 30, 2016.

MALVERN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016

NOTE 11: COMMITMENTS

The District was contractually obligated for the following at June 30, 2016:

Operating Leases (noncapital leases with initial noncancellable lease terms in excess of one year)

The District has the following technology leases with one vendor:

| <u>Equipment</u> | <u>Monthly Amount</u> | <u>Term of Lease</u> | <u>Lease Commencement</u> |
|----------------------------|---------------------------|--------------------------|-------------------------------|
| 4 copiers and 118 printers | \$ 4,697 | 63 months | 9/2014 |
| Copiers | \$ 3,045 | 60 months | 3/2016 |
| Color Copiers | \$ 395 | 56 months | 5/2014 |
| Printers | \$ 220 | 60 months | 2/2014 |

1. Future minimum rental payments in the aggregate at June 30, 2016: \$389,729.
2. Future minimum rental payments for the succeeding years:

| <u>Year Ended June 30,</u> | <u>Amount</u> |
|----------------------------|-------------------|
| 2017 | \$ 100,284 |
| 2018 | 100,284 |
| 2019 | 97,034 |
| 2020 | 64,722 |
| 2021 | <u>27,405</u> |
| Total | <u>\$ 389,729</u> |

Rental payments for the operating lease described above were approximately \$85,155 for the year ended June 30, 2016.

MALVERN SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016

NOTE 11: COMMITMENTS (CONTINUED)

Operating Leases (noncapital leases with initial noncancellable lease terms in excess of one year) (Continued)

On July 1, 2014, the District executed an operating lease for 260 computers. The agreement stipulated monthly payments of \$3,411 plus sales tax for 36 months.

1. Future minimum rental payments (aggregate) at June 30, 2016: \$40,932
2. Future minimum rental payments for the succeeding years:

| <u>Year Ended June 30,</u> | <u>Amount</u> |
|----------------------------|------------------|
| 2017 | \$ 40,932 |
| 2018 | - |
| 2019 | - |
| 2020 | - |
| 2021 | - |
| Total | <u>\$ 40,932</u> |

Rental payments for the operating lease described above were approximately \$45,802 for the year ended June 30, 2016.

NOTE 12: SUBSEQUENT EVENTS

The District issued refunding bonds in the amount of \$2,930,000 on July 7, 2016. The funds from this bond issue will be used to retire the April 15, 2011 bonds.

A Construction contract in the amount of \$110,250 for demolition of the Malvern Junior High was approved subsequent to June 30, 2016.

Malvern School District did not have any recognized or nonrecognized subsequent events occur after June 30, 2016, the date of the balance sheet. Subsequent events and transactions have been evaluated for potential recognition or disclosure through March 30, 2017, the date the financial statements were available to be issued.

MALVERN SCHOOL DISTRICT
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2016

| | Balance | | | | Balance |
|-----------------------------------|----------------------|---------------------|--------------------|----------------|----------------------|
| | <u>June 30, 2015</u> | <u>Additions</u> | <u>Retirements</u> | <u>Other</u> | <u>June 30, 2016</u> |
| Land | \$ 741,392 | \$ 37,724 | \$ - | \$ - | \$ 779,116 |
| Construction in Progress | 7,022,225 | 2,396,207 | - | (9,418,432) | - |
| Buildings | 23,631,569 | - | - | 8,878,280 | 32,509,849 |
| Site Improvements | 1,786,735 | - | - | 66,939 | 1,853,674 |
| Equipment | <u>3,504,440</u> | <u>355,981</u> | <u>202,417</u> | <u>473,213</u> | <u>4,131,217</u> |
| | 36,686,361 | 2,789,912 | 202,417 | - | 39,273,856 |
| Less: Accumulated Depreciation | <u>9,712,793</u> | <u>855,794</u> | <u>202,417</u> | <u>-</u> | <u>10,366,170</u> |
| | <u>\$ 26,973,568</u> | <u>\$ 1,934,118</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 28,907,686</u> |

See independent auditors' report on supplementary schedules.

MALVERN SCHOOL DISTRICT
 NOTES TO SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1: CAPITAL ASSETS

Capital assets generally result from expenditures in the governmental funds. These assets are not reported in the fund financial statement balance sheet – regulatory basis.

Capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the assets or materially extend an asset’s life are not capitalized. Interest incurred during construction is not capitalized.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Capital assets not being depreciated include land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Since surplus assets are sold for immaterial amounts when declared as no longer needed for public school purposes, no salvage value is taken into consideration for depreciation purposes. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The District has established capitalization thresholds and estimated useful lives as follows:

| <u>Description</u> | <u>Capitalization Threshold</u> | <u>Estimated Useful Lives in Years</u> |
|-----------------------------|-------------------------------------|--|
| Improvements/Infrastructure | All | 20 |
| Buildings | All | 50 |
| Vehicles | \$2,500 | 5-20 |
| Equipment | \$2,500 | 5-20 |

MALVERN SCHOOL DISTRICT
SCHEDULE OF BILLABLE UNITS
SCHOOL BREAKFAST PROGRAM AND
NATIONAL SCHOOL LUNCH PROGRAM
FOR THE YEAR ENDED JUNE 30, 2016

| <u>Description</u> | <u>Number of Units</u> | <u>Rate</u> | <u>Revenue</u> |
|---|----------------------------|-------------|--------------------------|
| Meals Rendered in Accordance with U.S. Department of Agriculture Child Nutrition Program: | | | |
| Breakfast | | | |
| Paid | 9,640 | \$ 0.29 | \$ 2,796 |
| Free - Severe | 103,168 | \$ 1.99 | 205,304 |
| Reduced - Severe | <u>8,403</u> | \$ 1.69 | <u>14,201</u> |
| Total Breakfast | <u>121,211</u> | | <u>222,301</u> |
| Lunch | | | |
| Paid | 27,698 | \$ 0.31 | 8,586 |
| Free | 193,217 | \$ 3.09 | 597,041 |
| Reduced Price | <u>18,847</u> | \$ 2.69 | <u>50,698</u> |
| Total Lunch | <u>239,762</u> | | <u>656,325</u> |
| Total | <u><u>360,973</u></u> | | 878,626 |
| Performance Based Reimbursement (1) | | 0.06 | <u>14,386</u> |
| Total Revenue | | | <u><u>\$ 893,012</u></u> |

(1) Performance Based Reimbursement is based on total lunch units at \$0.06.

See independent auditors' report on supplementary schedules.

MALVERN SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2016

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Total Disbursements/ Expenditures |
|---|---------------------------|---|
| <u>U.S. Department of Education:</u> | | |
| Passed-Through the Arkansas Department of Education: | | |
| Title I, Part A | 84.010 | \$ 816,351 |
| Special Education, IDEA, Part B | 84.027 | 537,487 |
| Improving Tacher Quality | 84.367 | 128,109 |
| Rural Education, Title VI | 84.358B | 44,266 |
| Total U.S. Department of Education | | 1,526,213 |
| <u>U.S Department of Agriculture</u> | | |
| Passed-Through the Arkansas Department of Education: | | |
| School Breakfast Program | 10.553 | 222,301 |
| National School Lunch Program | 10.555 | 670,711 |
| | | 893,012 |
| Passed-Through the State Department of Human Services | | |
| National School Lunch Program (Commodities) | 10.555 | 90,985 |
| Total Child Nutrition Cluster | | 983,997 |
| <u>U.S. Department of Health and Human Services:</u> | | |
| Passed-through Arkansas Department of Education: | | |
| Safe and Healthy Shoools | 93.079 | 8,388 |
| <u>U.S. Department of Defense:</u> | | |
| Direct Program: ROTC | 12.AR060012 | 65,782 |
| TOTAL | | \$ 2,584,380 |

See independent auditors' report on supplementary schedules.

MALVERN SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is a summary of the activity of the District's federal awards program and is presented in accordance with the requirements of Uniform Guidance, "Audits of States, Local Governments, and Nonprofit Organizations."

The District did not elect to use the 10% de minimis cost rate as permitted by OMB Uniform Guidance.

NOTE 2: NUTRITION CLUSTER

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. For the year ended June 30, 2016 the District received \$90,985 in food commodities.

NOTE 3: MEDICAID

During the year ended June 30, 2016, the District received Medicaid funding of \$443,461 from the State Department of Human Services as well as \$50,840 of ARMAC Medicaid Administrative Claiming funds. Such payments are not considered federal awards expended, therefore are not included in the Schedule of Expenditures of Federal Awards.

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

650 S. Shackelford Road • Suite 400 • P. O. Box 21675 • Little Rock, Arkansas 72221-1675
(501) 225-2133 • Fax (501) 223-2839

Michael L. Cobb

Anne Suskie Pinyan

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

The Board of Education
Malvern School District
Hot Spring County, Arkansas

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 Standard* issued by the Comptroller General of the United States, the financial statements of each major governmental fund, and the aggregate remaining fund information of Malvern School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Malvern School District's regulatory basis financial statements, and have issued our report thereon dated March 30, 2017. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas 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 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, 2016 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 financial statements, we considered Malvern School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Malvern School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Malvern School 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Certified Public Accountants
March 30, 2017

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

650 S. Shackelford Road • Suite 400 • P. O. Box 21675 • Little Rock, Arkansas 72221-1675
(501) 225-2133 • Fax (501) 223-2839

Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance required by the Uniform Guidance.

The Board of Education
Malvern School District
Hot Spring County, Arkansas

Report on Compliance for Each Major Federal Program

We have audited Malvern School District's compliance with the types of compliance requirements described in the *OMB Supplement* that could have a direct and material effect on each of Malvern School District's major federal programs for the year ended June 30, 2016. Malvern School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Malvern School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

The Board of Education
Malvern School District
Page Three

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

Cobb and Suskie, Ltd.

Certified Public Accountants
March 30, 2017

MALVERN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Section I: SUMMARY OF AUDITORS' RESULTS

1. Type of Report Issued, Financial Statements
The independent auditors' report expresses an adverse opinion on the GAAP basis of accounting and an unqualified opinion on the regulatory basis financial statements.
2. Significant Deficiencies, Financial Statements
No significant deficiencies were disclosed during the audit of the basic financial statements.
3. Material Noncompliance, Financial Statements
No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant Deficiencies, Major Programs
No significant deficiencies were disclosed during the audit of the major federal award programs.
5. Type of Report Issued, Compliance
The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. Audit Findings Under Section 510(a)
As reported below, there were no audit findings relative to the major federal award programs.
7. Major Programs
Child Nutrition Cluster, CFDA Numbers 10.553 and 10.555
8. Threshold between Type A and Type B Programs
The threshold for distinguishing Type A and B programs was \$750,000.
9. Type of Auditee
Malvern School District No. 1 qualifies as a low-risk auditee as that term is defined by OMB Uniform Guidance.

Section II: FINANCIAL STATEMENT FINDINGS

1. Significant Deficiencies
None
2. Significant Deficiencies – Prior Year
None

Section III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. Significant Deficiencies
None
2. Significant Deficiencies – Prior Year
None

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

650 S. Shackleford Road • Suite 400 • P. O. Box 21675 • Little Rock, Arkansas 72221-1675
(501) 225-2133 • Fax (501) 223-2839

Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report on Compliance
With Arkansas State Requirements

The Board of Education
Malvern School District
Hot Spring County, Arkansas

We have examined management's assertions that Malvern School District substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2016. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, Malvern School District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2016.

This report is intended solely for the information and use of the School Board, and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Cobb and Suskie, Ltd

Certified Public Accountants
March 30, 2017

MALVERN SCHOOL DISTRICT
 SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
 TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
 FOR THE YEAR ENDED JUNE 30, 2016

| <u>DESCRIPTION</u> | <u>STATUTES</u> |
|--|--|
| Bidding and Purchasing Commodities | 6-21-301 – 6-21-305 |
| Ethical Guidelines and Prohibitions | 6-13-628, 6-24-101 et seq. |
| Collateralization & Investment of Funds | 6-20-222; 19-1-504 |
| Deposit of Funds | 19-8-104; 19-8-106 |
| District Finances | 6-20-402 |
| • Bonded & Non-bonded Debt, District School Bonds | 6-20-1201 – 6-20-1208, 6-20-1210 |
| • Petty Cash | 6-20-409 |
| • Changes in Pullback (no deferrals – declining accrual percentages) | 6-20-401 |
| • Investment of Funds | 19-1-504 |
| Management of Schools | |
| • Board of Directors | 6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-617 – 6-13-620; 6-24-101 et seq. |
| • District Treasurer | 6-13-701 |
| ○ Warrants/checks | 6-17-918; 6-17-919; 6-20-403 |
| Management Letter for Audit | 14-75-101 - 14-75-104 |
| Nonrecurring Salary Payments | 6-20-412 |
| Revolving Loan Fund | 6-19-114; 6-20-801 et seq. |
| Salary Laws – Classified | 6-17-2201 et seq.; 6-17-2301 et seq. |
| Salary Increases 5% or more (Certified & Classified) | 6-13-635 |
| School Elections | 6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118 |
| Teacher and Employees | |
| • Personnel Policies | 6-17-201 et seq.; 6-17-2301 |
| • Employment and Assignment | 6-17-301 et seq. |
| • Teacher's License Requirement | 6-17-401 et seq. |
| • Contracts | 6-17-801 et seq. |
| • Certification Requirements | 6-17-309; 6-17-401 |
| • Fair Dismissal Act | 6-17-1501 et seq.; 6-17-1701 et seq. |
| • Sick Leave Policies | 6-17-1201 et seq.; 6-17-1301 et seq. |
| Teacher Salaries and Foundation Funding Aid | 6-17-803; 6-17-907; 6-17-908; 6-17-911 – 6-17-913; 6-17-918; 6-17-919 |
| Trust Funds (Education Excellence) | 6-5-307 |
| Use of Contractors, Improvement Contracts | 22-9-201 – 22-9-205 |
| Use of DM&O Millage | 26-80-110 |
| On Behalf Payments | The amount of funds paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees. |