

# **Magnet Cove School District No. 8**

**Hot Spring County, Arkansas**

## **Regulatory Basis Financial Statements And Other Reports**

**June 30, 2017**



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HOT SPRING COUNTY, ARKANSAS  
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# 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

### INDEPENDENT AUDITOR'S REPORT

Magnet Cove School District No. 8 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 Magnet Cove School District No. 8 (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 12, 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 12, 2018  
EDSD16017

# 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

Magnet Cove School District No. 8 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 Magnet Cove School District No. 8 (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 12, 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 timely basis. The District has not segregated financial accounting duties to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting. Specifically, key weaknesses include the following: the same employees prepared the bank reconciliations, maintained accounting records, receipted and posted revenues, and processed and posted non-payroll and payroll checks. The District Treasurer can input new employees, prepare and process payroll, sign and distribute checks, and reconcile payroll and accounts payable reports.

An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained. 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 above internal control component. 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.

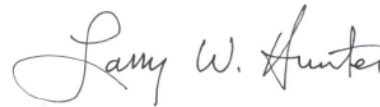
### **District's Response to Findings**

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 12, 2018

MAGNET COVE SCHOOL DISTRICT NO. 8  
HOT SPRING COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2017

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 1,656,306		\$ 538,900	\$ 45,329
Accounts receivable	3,000	\$ 30,643		
Due from other funds	22,296			
<b>TOTAL ASSETS</b>	<b>\$ 1,681,602</b>	<b>\$ 30,643</b>	<b>\$ 538,900</b>	<b>\$ 45,329</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 56,657	\$ 3,012		
Due student groups				\$ 30,789
Due to other funds		22,296		
<b>Total Liabilities</b>	<b>56,657</b>	<b>25,308</b>		<b>30,789</b>
<b>Fund Balances:</b>				
Restricted	84,580	8,191	\$ 80,088	14,540
Assigned	48,421		458,812	
Unassigned	1,491,944	(2,856)		
<b>Total Fund Balances</b>	<b>1,624,945</b>	<b>5,335</b>	<b>538,900</b>	<b>14,540</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,681,602</b>	<b>\$ 30,643</b>	<b>\$ 538,900</b>	<b>\$ 45,329</b>

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

MAGNET COVE SCHOOL DISTRICT NO. 8  
HOT SPRING 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 Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 2,559,524		
State assistance	3,069,878	\$ 2,012	
Federal assistance		541,236	
Activity revenues	191,168		
Meal sales		128,701	
Investment income	8,174		
Other revenues	401,261		\$ 6
<b>TOTAL REVENUES</b>	<b>6,230,005</b>	<b>671,949</b>	<b>6</b>
<b>EXPENDITURES</b>			
Regular programs	2,285,098	2,433	
Special education	214,890	91,867	
Career education programs	262,792		
Compensatory education programs	57,675	51,963	
Other instructional programs	194,201		
Student support services	266,839	121,539	
Instructional staff support services	248,601	86,787	
General administration support services	159,048	12,120	
School administration support services	369,191		
Central services support services	208,871		
Operation and maintenance of plant services	851,486		
Student transportation services	209,788		
Other support services	10,581		
Food services operations		353,263	
Facilities acquisition and construction services	19,565		56,750
Activity expenditures	190,769		
Debt Service:			
Principal retirement	35,057		285,000
Interest and fiscal charges	3,656		153,237
<b>TOTAL EXPENDITURES</b>	<b>5,588,108</b>	<b>719,972</b>	<b>494,987</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>641,897</b>	<b>(48,023)</b>	<b>(494,981)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in		12,420	538,237
Transfers out	(550,657)		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(550,657)</b>	<b>12,420</b>	<b>538,237</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>91,240</b>	<b>(35,603)</b>	<b>43,256</b>
<b>FUND BALANCES - JULY 1</b>	<b>1,533,705</b>	<b>40,938</b>	<b>495,644</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 1,624,945</b>	<b>\$ 5,335</b>	<b>\$ 538,900</b>

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



MAGNET COVE SCHOOL DISTRICT NO. 8  
HOT SPRING COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 2,551,368	\$ 2,559,524	\$ 8,156			
State assistance	2,899,659	3,069,878	170,219	\$ 1,960	\$ 2,012	\$ 52
Federal assistance				582,886	541,236	(41,650)
Activity revenues		191,168	191,168			
Meal sales				159,964	128,701	(31,263)
Investment income		8,174	8,174			
Other revenues	366,500	401,261	34,761			
<b>TOTAL REVENUES</b>	<b>5,817,527</b>	<b>6,230,005</b>	<b>412,478</b>	<b>744,810</b>	<b>671,949</b>	<b>(72,861)</b>
<b>EXPENDITURES</b>						
Regular programs	2,233,183	2,285,098	(51,915)	2,433	2,433	
Special education	220,899	214,890	6,009	126,680	91,867	34,813
Career education programs	265,809	262,792	3,017			
Compensatory education programs	52,132	57,675	(5,543)	47,185	51,963	(4,778)
Other instructional programs	196,707	194,201	2,506			
Student support services	271,238	266,839	4,399	113,860	121,539	(7,679)
Instructional staff support services	276,660	248,601	28,059	103,085	86,787	16,298
General administration support services	168,069	159,048	9,021	10,658	12,120	(1,462)
School administration support services	382,770	369,191	13,579			
Central services support services	282,826	208,871	73,955			
Operation and maintenance of plant services	796,062	851,486	(55,424)			
Student transportation services	268,463	209,788	58,675			
Other support services	15,000	10,581	4,419			
Food services operations				336,615	353,263	(16,648)
Community services operations				500		500
Facilities acquisition and construction services	14,250	19,565	(5,315)	5,000		5,000
Activity expenditures		190,769	(190,769)			
Debt Service:						
Principal retirement		35,057	(35,057)			
Interest and fiscal charges		3,656	(3,656)			
<b>TOTAL EXPENDITURES</b>	<b>5,444,068</b>	<b>5,588,108</b>	<b>(144,040)</b>	<b>746,016</b>	<b>719,972</b>	<b>26,044</b>

MAGNET COVE SCHOOL DISTRICT NO. 8  
HOT SPRING COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 373,459	\$ 641,897	\$ 268,438	\$ (1,206)	\$ (48,023)	\$ (46,817)
OTHER FINANCING SOURCES (USES)						
Transfers in	2,621,367		(2,621,367)		12,420	12,420
Transfers out	(3,059,728)	(550,657)	2,509,071			
TOTAL OTHER FINANCING SOURCES (USES)	(438,361)	(550,657)	(112,296)		12,420	12,420
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(64,902)	91,240	156,142	(1,206)	(35,603)	(34,397)
FUND BALANCES - JULY 1	1,497,784	1,533,705	35,921	28,735	40,938	12,203
FUND BALANCES - JUNE 30	<u>\$ 1,432,882</u>	<u>\$ 1,624,945</u>	<u>\$ 192,063</u>	<u>\$ 27,529</u>	<u>\$ 5,335</u>	<u>\$ (22,194)</u>

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

MAGNET COVE SCHOOL DISTRICT NO 8  
HOT SPRINGS 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 Magnet Cove 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.

MAGNET COVE SCHOOL DISTRICT NO 8  
HOT SPRINGS 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 \$1,500 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.

MAGNET COVE SCHOOL DISTRICT NO 8  
HOT SPRINGS COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

F. Property Taxes (Continued)

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.

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. 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.
2. 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.
3. 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.

MAGNET COVE SCHOOL DISTRICT NO 8  
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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:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 343,749	\$ 350,569
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	<u>1,896,786</u>	<u>2,013,607</u>
Total Deposits	<u>\$ 2,240,535</u>	<u>\$ 2,364,176</u>

MAGNET COVE SCHOOL DISTRICT NO 8  
HOT SPRINGS COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**3: ACCOUNTS RECEIVABLE**

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

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 3,000	
Federal assistance		\$ 30,643
Totals	<u>\$ 3,000</u>	<u>\$ 30,643</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
5/1/14	2/1/37	1.25 - 3.875%	\$ 790,000	\$ 710,000	\$ 80,000
3/1/09	2/1/23	2 - 3.6%	1,650,000	1,325,000	325,000
11/1/15	2/1/37	1 - 3.25%	3,185,000	3,115,000	70,000
9/10/15	9/10/17	5.09%	110,610	36,840	73,770
Totals			<u>\$ 5,735,610</u>	<u>\$ 5,186,840</u>	<u>\$ 548,770</u>

Changes in Long-term Debt

	Balance July 1, 2016	Issued	Retired	Balance June 30, 2017
Bonds payable	\$ 5,435,000		\$ 285,000	\$ 5,150,000
Installment contracts	71,897		35,057	36,840
Totals	<u>\$ 5,506,897</u>	<u>\$ 0</u>	<u>\$ 320,057</u>	<u>\$ 5,186,840</u>

MAGNET COVE SCHOOL DISTRICT NO 8  
HOT SPRINGS COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**4: COMMITMENTS (Continued)**

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2018	\$ 396,840	\$ 144,413	\$ 541,253
2019	365,000	134,571	499,571
2020	375,000	125,699	500,699
2021	385,000	116,126	501,126
2022	395,000	105,776	500,776
2023-2027	1,120,000	405,197	1,525,197
2028-2032	990,000	280,706	1,270,706
2033-2037	1,160,000	117,514	1,277,514
Totals	<u>\$ 5,186,840</u>	<u>\$ 1,430,002</u>	<u>\$ 6,616,842</u>

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	
	Major	
	General	Special Revenue
Vendor payables	\$ 11,431	\$ 3,012
Due to grantors	45,226	
Totals	<u>\$ 56,657</u>	<u>\$ 3,012</u>

**6: INTERFUND TRANSFERS**

The District transferred \$538,237 from the general fund to the other aggregate funds for debt related payments of \$438,237 and to supplement future capital projects of \$100,000. Additionally, \$12,420 was transferred from the general fund to the special revenue fund to supplement the District's food services operations.



MAGNET COVE SCHOOL DISTRICT NO 8  
HOT SPRINGS COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**7: RETIREMENT PLAN**

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](http://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 \$468,892, 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 \$4,904,707.

**8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS**

The L.S. and Ernestine O. Robert Magnet Cove Educational Assistance Fund was established June 11, 2008 by the Ernestine O. Robert Estate to provide financial assistance to deserving students for educational or extracurricular endeavors during the period of attendance in any grade, class, or school approved endeavor and to provide postgraduate assistance for academic or vocational training. Funds granted can be utilized for any purpose the committee elects which furthers a student's potential to advance within the Magnet Cove School District or at the postgraduate academic or vocational level. Funds may accumulate if not required in a given period.

The Kenneth Hammons Memorial Scholarship was established November 6, 2006 by the Kenneth Hammons Estate. One \$250 scholarship is awarded each year to a senior demonstrating good citizenship selected by a committee acting for the Magnet Cove School Board.

The Sykes Enterprises, Inc., Scholarship was established February 23, 2012. An annual scholarship award of \$250 (\$2,500 total) per month shall be issued August through May of every year. The scholarship may be awarded in denominations set forth by the District and may be awarded to students selected by the Magnet Cove Scholarship Committee.

MAGNET COVE SCHOOL DISTRICT NO 8  
HOT SPRINGS COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS (Continued)**

ADDITIONS		
Donations	\$	1,985
DEDUCTIONS		
Scholarships		2,190
CHANGE IN FUND BALANCE		(205)
FUND BALANCE - JULY 1		14,745
FUND BALANCE - JUNE 30	\$	14,540

**9: DEFICIT FUND BALANCE**

The deficit unassigned fund balance of \$2,856 in the special revenue fund reported in the table at Note 13 pertains to the child nutrition program. The temporary deficit was caused by the recognition of minor accounts payable at year-end.

**10: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$ 5,625,000 issued from March 1, 2009 to November 1, 2015. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$6,578,128, payable through February 1, 2037. Principal and interest paid for the current year and total property taxes pledged for debt service were \$436,161 and \$926,341, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 47.08 percent.

**11: RISK MANAGEMENT**

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

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

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

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

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.

MAGNET COVE SCHOOL DISTRICT NO 8  
HOT SPRINGS COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**12: 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 \$105,657 for the year ended June 30, 2017.

**13: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE**

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 1,636		
Educational programs - national school lunch state categorical funding	10,730		
Professional development	3,714		
Capital projects			\$ 80,088
Title I		\$ 3,913	
Medical services		4,278	
Special education programs	18,427		
Other purposes	50,073		
Total Restricted	<u>84,580</u>	<u>8,191</u>	<u>80,088</u>
Assigned to:			
Capital projects			458,812
Student activities	48,421		
Total Assigned	<u>48,421</u>		<u>458,812</u>
Unassigned	<u>1,491,944</u>	<u>(2,856)</u>	
Totals	<u>\$ 1,624,945</u>	<u>\$ 5,335</u>	<u>\$ 538,900</u>

MAGNET COVE SCHOOL DISTRICT NO. 8  
HOT SPRING COUNTY, ARKANSAS  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Unaudited)

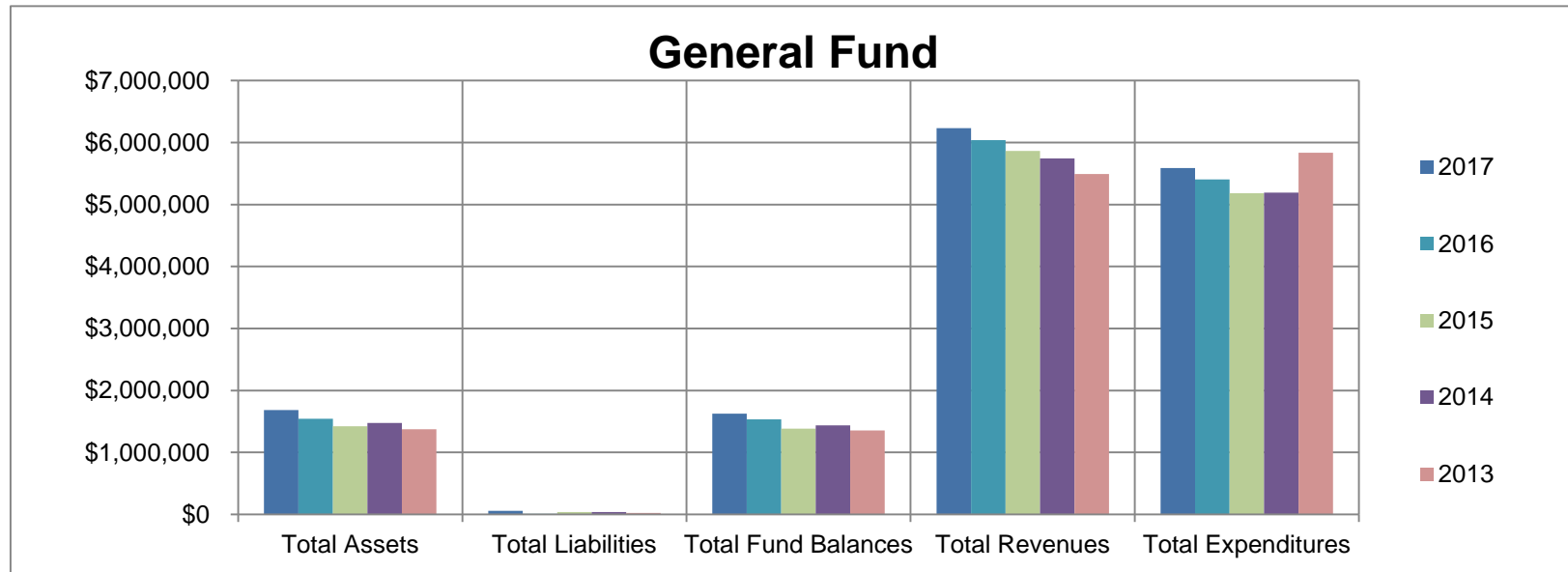
Schedule 1

	Balance June 30, 2017
<i>Nondepreciable capital assets:</i>	
Land	\$ 202,642
<i>Depreciable capital assets:</i>	
Buildings	9,468,308
Improvements/infrastructure	1,917,841
Equipment	1,545,237
Total depreciable capital assets	12,931,386
Less accumulated depreciation for:	
Buildings	3,757,524
Improvements/infrastructure	1,002,902
Equipment	1,289,935
Total accumulated depreciation	6,050,361
Total depreciable capital assets, net	6,881,025
Capital assets, net	\$ 7,083,667

MAGNET COVE SCHOOL DISTRICT NO. 8  
HOT SPRING COUNTY, ARKANSAS  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Unaudited)

Schedule 2

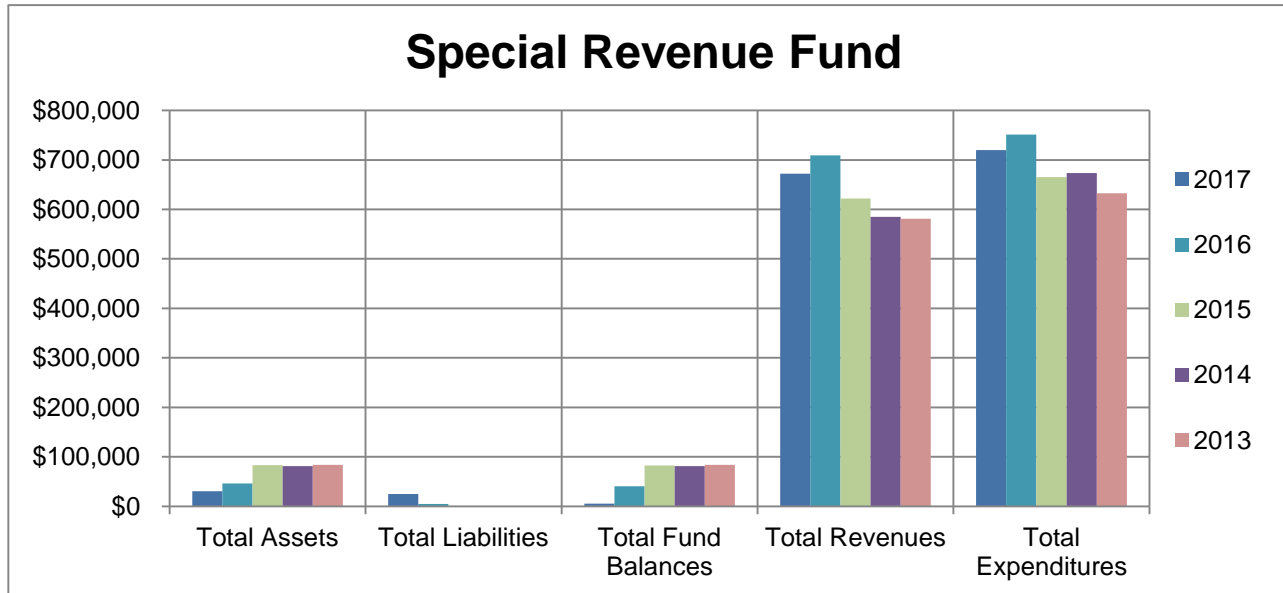
<b>General Fund</b>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 1,681,602	\$ 1,543,506	\$ 1,423,923	\$ 1,473,517	\$ 1,375,337
Total Liabilities	56,657	9,801	40,173	37,915	21,892
Total Fund Balances	1,624,945	1,533,705	1,383,750	1,435,602	1,353,445
Total Revenues	6,230,005	6,039,032	5,862,791	5,745,183	5,490,875
Total Expenditures	5,588,108	5,405,126	5,180,100	5,191,090	5,835,389
Total Other Financing Sources (Uses)	(550,657)	(483,951)	(734,543)	(471,936)	(552,356)



MAGNET COVE SCHOOL DISTRICT NO. 8  
HOT SPRING 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	\$ 30,643	\$ 46,161	\$ 83,405	\$ 81,532	\$ 83,690
Total Liabilities	25,308	5,223	612		
Total Fund Balances	5,335	40,938	82,793	81,532	83,690
Total Revenues	671,949	709,148	621,797	584,955	581,434
Total Expenditures	719,972	751,003	664,964	673,265	632,664
Total Other Financing Sources (Uses)	12,420		44,428	86,152	90,637



MAGNET COVE SCHOOL DISTRICT NO. 8  
HOT SPRING COUNTY, ARKANSAS

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

<b>Other Aggregate Funds</b>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 538,900	\$ 495,864	\$ 460,875	\$ 783,867	\$ 122,086
Total Liabilities		220	23,662		
Total Fund Balances	538,900	495,644	437,213	783,867	122,086
Total Revenues	6	80,132	98		314,821
Total Expenditures	494,987	620,002	1,036,867	531,928	768,457
Total Other Financing Sources (Uses)	538,237	598,301	690,115	1,193,709	461,719

