

Alpena School District No. 5

Boone County, Arkansas

Regulatory Basis Financial Statements And Other Reports

June 30, 2018



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BOONE COUNTY, ARKANSAS
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JUNE 30, 2018

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Arkansas

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Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



Rep. Richard Womack
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT**

INDEPENDENT AUDITOR'S REPORT

Alpena School District No. 5 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 Alpena School District No. 5 (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Unmodified Opinions on Regulatory Basis of Accounting

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

Other Matters

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe that scope or our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
June 14, 2019
EDSD02518

Arkansas

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



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

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

Alpena School District No. 5 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 Alpena School District No. 5 (the "District"), as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated June 14, 2019. We have issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2018, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

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

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

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

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*.

We noted a certain matter that we reported to management of the District in a separate letter dated June 14, 2019.

AUDIT FINDINGS

Significant Deficiency

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. Financial accounting duties pertaining to activity funds were not adequately segregated among employees. Specifically, the same employee was responsible for receipting, depositing monies collected, and the maintenance of account records for activity funds, without compensating controls.

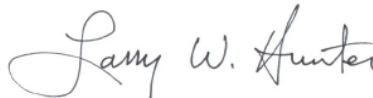
District management, due to cost/benefit implications which hindered the District's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiencies in internal control. The District's ability to initiate, authorize, record, process, and report activity fund 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 should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report activity fund 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.

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
June 14, 2019

Arkansas



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

Rep. Richard Womack
House Chair
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

Alpena School District No. 5 and School Board Members
Legislative Joint Auditing Committee

We would like to communicate the following item that came to our attention during this audit. The purpose of such comment is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations, and to improve internal control. This matter was discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

Review of District activity fund financial records indicated revenue of \$24,330 was not deposited during the period July 1, 2017 through March 13, 2019. The custodian of these funds, Administrative Assistant Stephanie Tanner, was charged with one count of theft of property, a Class C felony, on April 2, 2019, and resigned from District employment on April 29, 2019.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
June 14, 2019

ALPENA SCHOOL DISTRICT NO. 5
 BOONE COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2018

Exhibit A

	Governmental Funds			
	Major			
	General	Special Revenue	Other Aggregate	Fiduciary Fund Types
ASSETS				
Cash	\$ 974,463	\$ 14,793	\$ 895,002	\$ 20,007
Accounts receivable		47,523		
TOTAL ASSETS	\$ 974,463	\$ 62,316	\$ 895,002	\$ 20,007
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 13,236	\$ 10,252		
Due student groups				\$ 13,507
Total Liabilities	13,236	10,252		13,507
Fund Balances:				
Restricted	41,752	52,064	\$ 343	6,500
Committed			894,659	
Assigned	20,913			
Unassigned	898,562			
Total Fund Balances	961,227	52,064	895,002	6,500
TOTAL LIABILITIES AND FUND BALANCES	\$ 974,463	\$ 62,316	\$ 895,002	\$ 20,007

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

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,003,804		
State assistance	3,113,834	\$ 1,807	
Federal assistance		683,097	
Activity revenues	112,630		
Meal sales		38,698	
Investment income	19,400	644	\$ 55
Other revenues	7,610		
TOTAL REVENUES	4,257,278	724,246	55
EXPENDITURES			
Regular programs	1,638,345	14,747	
Special education	196,990	126,264	
Career education programs	182,927		
Compensatory education programs	20,350	155,169	
Other instructional programs	92,794		
Student support services	163,836	69,792	
Instructional staff support services	151,161	52,217	
General administration support services	143,115	29,237	
School administration support services	200,364		
Central services support services	120,453		
Operation and maintenance of plant services	391,686	208	9,500
Student transportation services	244,973		
Other support services	9,616		
Food services operations		261,152	
Community services operations		237	
Facilities acquisition and construction services			13,800
Non-programmed costs		555	
Activity expenditures	120,380		
Debt Service:			
Principal retirement	37,922		85,000
Interest and fiscal charges	6,032		30,710
TOTAL EXPENDITURES	3,720,944	709,578	139,010
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	536,334	14,668	(138,955)
OTHER FINANCING SOURCES (USES)			
Transfers in			500,398
Transfers out	(500,398)		
TOTAL OTHER FINANCING SOURCES (USES)	(500,398)		500,398
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	35,936	14,668	361,443
FUND BALANCES - JULY 1	925,291	37,396	533,559
FUND BALANCES - JUNE 30	\$ 961,227	\$ 52,064	\$ 895,002

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

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 972,970	\$ 1,003,804	\$ 30,834			
State assistance	3,030,268	3,113,834	83,566	\$ 1,690	\$ 1,807	\$ 117
Federal assistance				679,808	683,097	3,289
Activity revenues	145,838	112,630	(33,208)			
Meal sales				33,395	38,698	5,303
Investment income	13,600	19,400	5,800	400	644	244
Other revenues	14,030	7,610	(6,420)			
TOTAL REVENUES	4,176,706	4,257,278	80,572	715,293	724,246	8,953
EXPENDITURES						
Regular programs	1,669,170	1,638,345	30,825	17,166	14,747	2,419
Special education	214,330	196,990	17,340	131,686	126,264	5,422
Career education programs	185,027	182,927	2,100			
Compensatory education programs	27,753	20,350	7,403	161,111	155,169	5,942
Other instructional programs	106,198	92,794	13,404			
Student support services	186,773	163,836	22,937	2,000	69,792	(67,792)
Instructional staff support services	181,527	151,161	30,366	109,356	52,217	57,139
General administration support services	138,135	143,115	(4,980)	23,605	29,237	(5,632)
School administration support services	201,699	200,364	1,335			
Central services support services	145,698	120,453	25,245			
Operation and maintenance of plant services	426,774	391,686	35,088	500	208	292
Student transportation services	262,784	244,973	17,811			
Other support services	15,325	9,616	5,709			
Food services operations				270,063	261,152	8,911
Community services operations				2,200	237	1,963
Facilities acquisition and construction services	450		450			
Non-programmed costs					555	(555)
Activity expenditures	143,088	120,380	22,708			
Debt Service:						
Principal retirement	37,778	37,922	(144)			
Interest and fiscal charges	6,177	6,032	145			
TOTAL EXPENDITURES	3,948,686	3,720,944	227,742	717,687	709,578	8,109

ALPENA SCHOOL DISTRICT NO. 5
 BOONE COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2018

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 228,020	\$ 536,334	\$ 308,314	\$ (2,394)	\$ 14,668	\$ 17,062
OTHER FINANCING SOURCES (USES)						
Transfers in	5,306,000		(5,306,000)	18,767		(18,767)
Transfers out	(5,421,723)	(500,398)	4,921,325	(18,767)		18,767
TOTAL OTHER FINANCING SOURCES (USES)	(115,723)	(500,398)	(384,675)	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	112,297	35,936	(76,361)	(2,394)	14,668	17,062
FUND BALANCES - JULY 1	990,316	925,291	(65,025)	31,709	37,396	5,687
FUND BALANCES - JUNE 30	<u>\$ 1,102,613</u>	<u>\$ 961,227</u>	<u>\$ (141,386)</u>	<u>\$ 29,315</u>	<u>\$ 52,064</u>	<u>\$ 22,749</u>

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

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Alpena 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.

ALPENA SCHOOL DISTRICT NO. 5
 BOONE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

Asset Class	Estimated Useful Life in Years
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.

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 2017 calendar year taxes collected by June 30, 2018 and 12 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2018 equaled or exceeded the 12 percent calculation.

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. 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. Committed fund balance – represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Education.
3. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
4. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

H. 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.

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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.

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

The District's highest level of decision-making authority is its Board of Education. The establishment of amounts classified as committed fund balances and subsequent modifications to such balances are the result of formal action taken by the District's Board of Education through a resolution or adoption of board policy.

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.

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	1,654,165	2,022,802
Total Deposits	\$ 1,904,165	\$ 2,272,802

The above total deposits do not include cash on hand of \$100.

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

3: ACCOUNTS RECEIVABLE

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

Description	Governmental Fund Major Special Revenue
Federal assistance	\$ 47,523

4: COMMITMENTS

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

Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2018	Maturities To June 30, 2018
11/1/03	6/1/20	1.15 - 4.4%	\$ 690,000	\$ 110,000	\$ 580,000
10/1/11	6/1/35	4.23%	935,000	720,000	215,000
8/23/11	8/23/21	4.50%	128,125	51,449	76,676
5/15/14	5/20/19	2.75%	200,065	103,744	96,321
Totals			\$ 1,953,190	\$ 985,193	\$ 967,997

Changes in Long-term Debt

	Balance July 1, 2017	Issued	Retired	Balance June 30, 2018
Bonds payable	\$ 915,000		\$ 85,000	\$ 830,000
Capital leases	64,735		13,286	51,449
Installment contracts	128,380		24,636	103,744
Totals	\$ 1,108,115	\$ 0	\$ 122,922	\$ 985,193

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4: COMMITMENTS (Continued)

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2019	\$ 207,635	\$ 31,619	\$ 239,254
2020	104,524	25,399	129,923
2021	50,185	21,530	71,715
2022	47,849	20,052	67,901
2023	40,000	18,875	58,875
2024-2028	190,000	79,463	269,463
2029-2033	235,000	46,882	281,882
2034-2035	110,000	6,187	116,187
Totals	<u>\$ 985,193</u>	<u>\$ 250,007</u>	<u>\$ 1,235,200</u>

Capital Leases

Capital assets acquired through capital leases consisted of the following at June 30, 2018:

Class of Property	Cost	Accumulated Depreciation	Net Value
Transportation/Maintenance facility	<u>\$ 189,188</u>	<u>\$ 23,333</u>	<u>\$ 165,855</u>

The present value of the net minimum lease payments is as follows at June 30, 2018:

Total Minimum Lease Payments	\$ 56,182
Less: Amount Representing Interest	<u>4,733</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 51,449</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.

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

5: ACCOUNTS PAYABLE

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

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	\$ 13,236	\$ 10,252

6: INTERFUND TRANSFERS

The District transferred \$500,398 from the general fund to the other aggregate funds for debt related payments of \$115,710 and future capital projects of \$384,688.

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.

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries. The District's contributions to ATRS for the year ended June 30, 2018 were \$369,594, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2017 (actuarial valuation date and measurement date) was \$3,791,819.

ALPENA SCHOOL DISTRICT NO. 5
 BOONE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

DEDUCTIONS	
Scholarships	\$ 500
CHANGE IN FUND BALANCE	(500)
FUND BALANCE - JULY 1	7,000
FUND BALANCE - JUNE 30	\$ 6,500

9: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$1,625,000 issued from November 1, 2003 through October 1, 2011. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$1,072,893, payable through June 1, 2035. Principal and interest paid for the current year and total property taxes pledged for debt service were \$114,859 and \$239,001, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 48.06 percent.

10: RISK MANAGEMENT

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

The Districts carries commercial insurance for board liability and business trip accidental death and dismemberment coverages.

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.

Additionally, the District participates in the Arkansas School Boards Association – Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating, and settling claims that have been filed against member districts. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

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.

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.

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

11: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$91,369 for the year ended June 30, 2018.

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 839		
Educational programs - national school lunch state categorical funding	28,511		
English-language learners	6,999		
Capital projects			\$ 288
Child nutrition programs		\$ 47,986	
Debt service			55
Medical services		3,712	
Special education programs	482		
Other purposes	4,921	366	
Total Restricted	<u>41,752</u>	<u>52,064</u>	<u>343</u>
Committed to:			
Capital projects			<u>894,659</u>
Assigned to:			
Student activities	<u>20,913</u>		
Unassigned	<u>898,562</u>		
Totals	<u>\$ 961,227</u>	<u>\$ 52,064</u>	<u>\$ 895,002</u>

ALPENA SCHOOL DISTRICT NO. 5
 BOONE COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Unaudited)

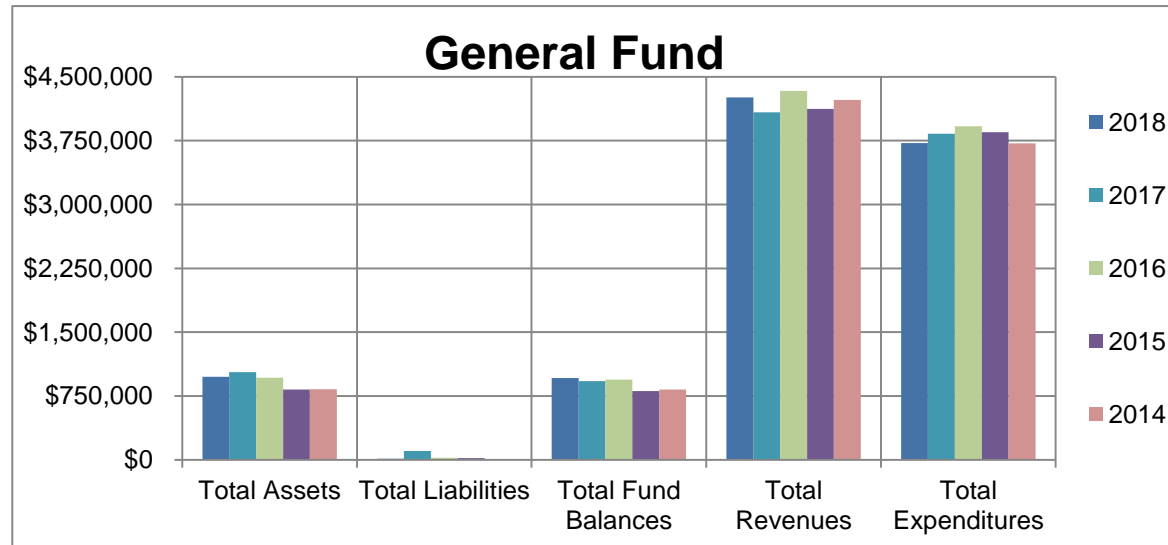
Schedule 1

	Balance June 30, 2018
<i>Nondepreciable capital assets:</i>	
Land	\$ 144,825
<i>Depreciable capital assets:</i>	
Buildings	4,343,021
Improvements/infrastructure	362,226
Equipment	1,760,732
Total depreciable capital assets	6,465,979
Less accumulated depreciation for:	
Buildings	1,832,750
Improvements/infrastructure	75,393
Equipment	1,280,249
Total accumulated depreciation	3,188,392
Total depreciable capital assets, net	3,277,587
Capital assets, net	\$ 3,422,412

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS

SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018
(Unaudited)

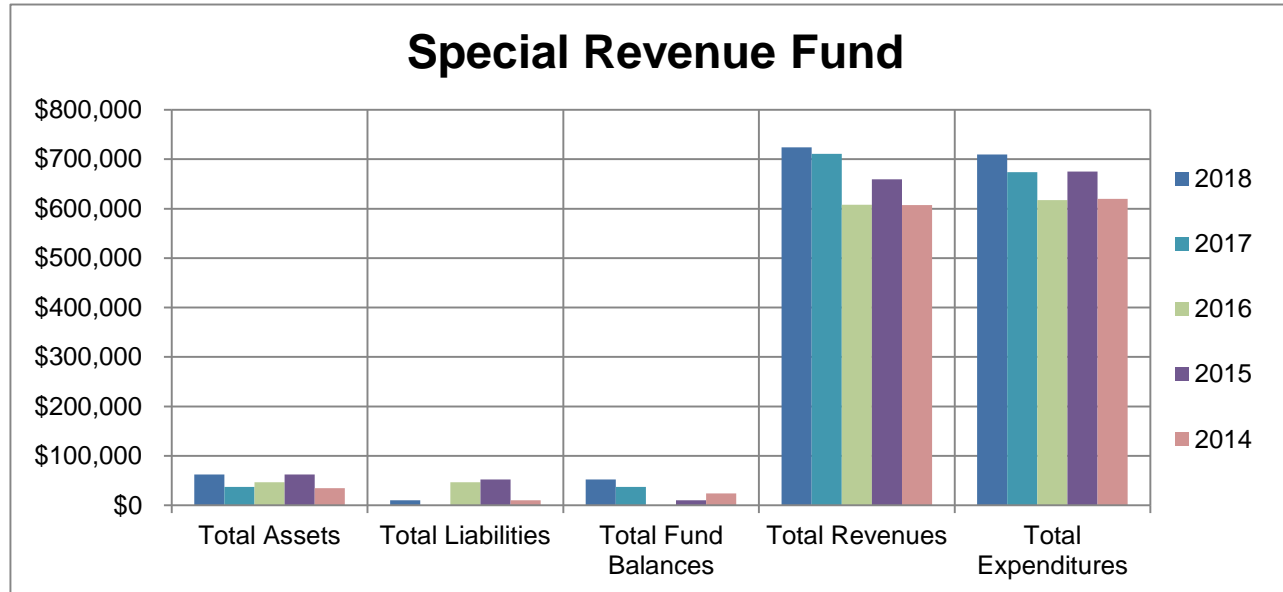
<u>General Fund</u>	Year Ended June 30,				
	2018	2017	2016	2015	2014
Total Assets	\$ 974,463	\$ 1,030,073	\$ 966,566	\$ 825,514	\$ 830,115
Total Liabilities	13,236	104,782	23,936	18,977	2,164
Total Fund Balances	961,227	925,291	942,630	806,537	827,951
Total Revenues	4,257,278	4,082,542	4,334,950	4,124,156	4,230,140
Total Expenditures	3,720,944	3,830,610	3,919,917	3,848,181	3,720,049
Total Other Financing Sources (Uses)	(500,398)	(269,271)	(278,940)	(297,389)	(264,225)



ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS

SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018
(Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2018	2017	2016	2015	2014
Total Assets	\$ 62,316	\$ 37,396	\$ 46,835	\$ 62,526	\$ 34,352
Total Liabilities	10,252		46,279	52,278	10,337
Total Fund Balances	52,064	37,396	556	10,248	24,015
Total Revenues	724,246	710,895	607,894	659,291	607,244
Total Expenditures	709,578	674,055	617,586	674,923	619,892
Total Other Financing Sources (Uses)				1,865	



ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS

Schedule 2

SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018
(Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2018	2017	2016	2015	2014
Total Assets	\$ 895,002	\$ 533,559	\$ 595,821	\$ 536,925	\$ 354,386
Total Liabilities					
Total Fund Balances	895,002	533,559	595,821	536,925	354,386
Total Revenues	55				
Total Expenditures	139,010	331,533	220,044	112,985	115,047
Total Other Financing Sources (Uses)	500,398	269,271	278,940	295,524	464,290

