

Bay School District No. 21

Craighead County, Arkansas

Regulatory Basis Financial Statements And Other Reports

June 30, 2018



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CRAIGHEAD COUNTY, ARKANSAS
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Arkansas

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Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



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

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

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT**

INDEPENDENT AUDITOR'S REPORT

Bay School District No. 21 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 Bay School District No. 21 (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 20, 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 20, 2019
EDSD07618

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

Bay School District No. 21 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 Bay School District No. 21 (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 20, 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 consider 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 there is a reasonable possibility that a material misstatement of the District's regulatory basis financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

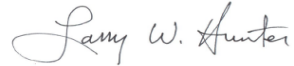
Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 20, 2019

BAY SCHOOL DISTRICT NO. 21
 CRAIGHEAD COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2018

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 1,056,924	\$ 4,276	\$ 70,929	\$ 25,576
Accounts receivable		25,796		1,068
Due from other funds	21,047			
Deposit with paying agent	13,761			
TOTAL ASSETS	\$ 1,091,732	\$ 30,072	\$ 70,929	\$ 26,644
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 33,736	\$ 1,623		
Due student groups				\$ 26,644
Due to other funds		21,047		
Total Liabilities	33,736	22,670		26,644
Fund Balances:				
Nonspendable	13,761			
Restricted	124,078	7,402	\$ 60,929	
Assigned	34,314		10,000	
Unassigned	885,843			
Total Fund Balances	1,057,996	7,402	70,929	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,091,732	\$ 30,072	\$ 70,929	\$ 26,644

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

BAY SCHOOL DISTRICT NO. 21
 CRAIGHEAD 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)	\$ 1,504,538		
State assistance	3,351,945	\$ 1,992	
Federal assistance		548,354	
Activity revenues	113,198		
Meal sales		91,456	
Investment income	3,879		
Other revenues	26,963		
TOTAL REVENUES	5,000,523	641,802	
EXPENDITURES			
Regular programs	1,712,232	3,417	
Special education	306,248	99,291	
Career education programs	178,840		
Compensatory education programs	83,875	129,197	
Other instructional programs	190,493		
Student support services	164,208	25,959	
Instructional staff support services	218,771	40,884	
General administration support services	217,062	4,081	
School administration support services	388,603		
Central services support services	224,618		
Operation and maintenance of plant services	533,075		
Student transportation services	133,013		
Other support services	74,260		
Food services operations		388,822	
Community services operations		10	
Facilities acquisition and construction services	14,968		\$ 400
Non-programmed costs		11,014	
Activity expenditures	111,945		
Debt Service:			
Principal retirement	20,595		110,000
Interest and fiscal charges	6,561		98,281
TOTAL EXPENDITURES	4,579,367	702,675	208,681
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	421,156	(60,873)	(208,681)
OTHER FINANCING SOURCES (USES)			
Transfers in		61,156	218,281
Transfers out	(279,437)		
Refund to grantor		(26)	
TOTAL OTHER FINANCING SOURCES (USES)	(279,437)	61,130	218,281
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	141,719	257	9,600
FUND BALANCES - JULY 1	916,277	7,145	61,329
FUND BALANCES - JUNE 30	\$ 1,057,996	\$ 7,402	\$ 70,929

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

BAY SCHOOL DISTRICT NO. 21
CRAIGHEAD 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)	\$ 1,514,015	\$ 1,504,538	\$ (9,477)			
State assistance	3,245,814	3,351,945	106,131	\$ 2,000	\$ 1,992	\$ (8)
Federal assistance				563,608	548,354	(15,254)
Activity revenues		113,198	113,198			
Meal sales				90,221	91,456	1,235
Investment income	3,044	3,879	835			
Other revenues	63,817	26,963	(36,854)			
TOTAL REVENUES	4,826,690	5,000,523	173,833	655,829	641,802	(14,027)
EXPENDITURES						
Regular programs	1,749,099	1,712,232	36,867	28,603	3,417	25,186
Special education	333,956	306,248	27,708	108,772	99,291	9,481
Career education programs	197,188	178,840	18,348			
Compensatory education programs	71,133	83,875	(12,742)	139,805	129,197	10,608
Other instructional programs	196,563	190,493	6,070			
Student support services	170,919	164,208	6,711	23,765	25,959	(2,194)
Instructional staff support services	229,228	218,771	10,457	17,518	40,884	(23,366)
General administration support services	205,018	217,062	(12,044)	4,481	4,081	400
School administration support services	393,353	388,603	4,750			
Central services support services	197,838	224,618	(26,780)			
Operation and maintenance of plant services	610,368	533,075	77,293			
Student transportation services	137,622	133,013	4,609			
Other support services	64,000	74,260	(10,260)			
Food services operations				400,446	388,822	11,624
Community services operations				500	10	490
Facilities acquisition and construction services		14,968	(14,968)			
Non-programmed costs				11,431	11,014	417
Activity expenditures		111,945	(111,945)			
Debt Service:						
Principal retirement	18,413	20,595	(2,182)			
Interest and fiscal charges	5,176	6,561	(1,385)			
TOTAL EXPENDITURES	4,579,874	4,579,367	507	735,321	702,675	32,646

BAY SCHOOL DISTRICT NO. 21
 CRAIGHEAD 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	\$ 246,816	\$ 421,156	\$ 174,340	\$ (79,492)	\$ (60,873)	\$ 18,619
OTHER FINANCING SOURCES (USES)						
Transfers in	6,652,406		(6,652,406)	109,443	61,156	(48,287)
Transfers out	(6,932,338)	(279,437)	6,652,901	(25,895)		25,895
Refund to grantor					(26)	(26)
TOTAL OTHER FINANCING SOURCES (USES)	(279,932)	(279,437)	495	83,548	61,130	(22,418)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(33,116)	141,719	174,835	4,056	257	(3,799)
FUND BALANCES - JULY 1	998,543	916,277	(82,266)	1,891	7,145	5,254
FUND BALANCES - JUNE 30	\$ 965,427	\$ 1,057,996	\$ 92,569	\$ 5,947	\$ 7,402	\$ 1,455

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

BAY SCHOOL DISTRICT NO. 21
CRAIGHEAD 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 Bay 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).

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.

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.

BAY SCHOOL DISTRICT NO. 21
CRAIGHEAD 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 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	10-25
Buildings	20-50
Equipment	5-20

F. Property Taxes

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

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

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.

BAY SCHOOL DISTRICT NO. 21
CRAIGHEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Interfund Receivables and Payables

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

H. Fund Balance Classifications

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

I. Budget and Budgetary Accounting

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

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

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

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.

BAY SCHOOL DISTRICT NO. 21
 CRAIGHEAD COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance Classification Policies and Procedures

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

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

M. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 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	907,347	1,010,574
Total Deposits	\$ 1,157,347	\$ 1,260,574

The above total deposits do not include cash on hand of \$358.

BAY SCHOOL DISTRICT NO. 21
CRAIGHEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

3: ACCOUNTS RECEIVABLE

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

Description	<u>Governmental Fund</u>	Fiduciary Fund Types
	Major Special Revenue	
Federal assistance	\$ 25,747	
Activity fund accounts		\$ 1,068
Other	49	
Totals	<u>\$ 25,796</u>	<u>\$ 1,068</u>

4: COMMITMENTS

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

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

General description of leases and leasing arrangements:

On March 28, 2017, the District executed a 48 month operating lease for copiers. The arrangement stipulated monthly payments of \$1,196 plus tax.

On May 23, 2017, the District executed a 3 year operating lease for a bus. The arrangement stipulated yearly payments of \$13,761.

On June 19, 2018, the District executed a 3 year operating lease for a bus. The arrangement stipulated yearly payments of \$13,325. In addition, annual mileage, per bus, is limited to 15,000 per year with \$0.35 per mile overage charged.

1. Future minimum rental payments (aggregate) at June 30, 2018: \$93,640

2. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2019	\$ 41,438
2020	41,438
2021	<u>10,764</u>
Total	<u>\$ 93,640</u>

Rental payments for the operating leases described above were approximately \$41,438 for the year ended June 30, 2018.

BAY SCHOOL DISTRICT NO. 21
CRAIGHEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4: COMMITMENTS (Continued)

B. Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2018</u>	<u>Maturities To June 30, 2018</u>
9/1/16	6/1/41	1 - 2.75%	\$ 4,730,000	\$ 4,615,000	\$ 115,000
2/12/13	2/12/23	3.04%	100,000	53,768	46,232
10/22/15	10/22/25	3.94%	97,435	76,563	20,872
12/1/15	12/1/19	11.50%	12,739	5,368	7,371
Totals			<u>\$ 4,940,174</u>	<u>\$ 4,750,699</u>	<u>\$ 189,475</u>

Changes in Long-term Debt

	<u>Balance July 1, 2017</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2018</u>
Bonds payable	\$ 4,725,000		\$ 110,000	\$ 4,615,000
Capital leases	148,745 *		18,413	130,332
Installment contracts	7,549		2,182	5,367
Totals	<u>\$ 4,881,294</u>	<u>\$ 0</u>	<u>\$ 130,595</u>	<u>\$ 4,750,699</u>

*Beginning balance of capital leases was restated \$78,905 for an operating lease previously reported as a capital lease in error.

Future Principal and Interest Payments

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 181,562	\$ 102,030	\$ 283,592
2020	187,592	99,399	286,991
2021	190,424	96,136	286,560
2022	191,146	93,203	284,349
2023	196,892	90,247	287,139
2024-2028	933,083	403,693	1,336,776
2029-2033	1,005,000	314,183	1,319,183
2034-2038	1,115,000	191,996	1,306,996
2039-2041	750,000	41,680	791,680
Totals	<u>\$ 4,750,699</u>	<u>\$ 1,432,567</u>	<u>\$ 6,183,266</u>

BAY SCHOOL DISTRICT NO. 21
CRAIGHEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4: COMMITMENTS (Continued)

B. Long-term Debt Issued and Outstanding (Continued)

Capital Leases

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

Class of Property	Cost	Accumulated Depreciation	Net Value
School bus	\$ 97,435	\$ 31,463	\$ 65,972
Land	100,000		100,000
Total	<u>\$ 197,435</u>	<u>\$ 31,463</u>	<u>\$ 165,972</u>

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

Total Minimum Lease Payments	\$ 158,414
Less: Amount Representing Interest	<u>28,082</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 130,332</u>

C. Memorandum of Understanding

As a result of a provider failing to include the required codes on claims for school-based therapy, the District is required to pay the state match on the claims and has agreed to repay the state match to the Arkansas Department of Education in four annual installments totaling \$160,912 in accordance with a Memorandum of Understanding dated April 1, 2016. During the fiscal year, the District submitted the third installment in the amount of \$40,228. The final payment of \$40,288 is due on June 30, 2019.

Security for Debt Payments

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

5: ACCOUNTS PAYABLE

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

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	<u>\$ 33,736</u>	<u>\$ 1,623</u>

BAY SCHOOL DISTRICT NO. 21
CRAIGHEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

6: INTERFUND TRANSFERS

The District transferred \$61,156 from the general fund to the special revenue fund to supplement its food service operations. Additionally, the District transferred \$218,281 from the general fund to the other aggregate funds for debt related payments of \$208,281 and to supplement future capital projects by \$10,000.

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 \$442,591, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2017 (actuarial valuation date and measurement date) was \$4,552,847.

8: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$4,730,000 issued from September 1, 2016. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$6,028,953, payable through June 1, 2041. Principal and interest paid for the current year and total property taxes pledged for debt service were \$207,815 and \$602,537, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 34.49 percent.

9: 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 student accident coverage.

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.

BAY SCHOOL DISTRICT NO. 21
CRAIGHEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

9: RISK MANAGEMENT (Continued)

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, vehicles, and other mobile equipment.

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.

10: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$101,106 for the year ended June 30, 2018.

BAY SCHOOL DISTRICT NO. 21
CRAIGHEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Nonspendable:			
Deposit with paying agent	\$ 13,761		
Restricted for:			
Educational programs - national school lunch state categorical funding	281		
English-language learners	338		
Professional development	6,550		
Capital projects			\$ 60,929
Medical services		\$ 6,319	
Special education programs	42,437		
Other purposes	74,472	1,083	
Total Restricted	<u>124,078</u>	<u>7,402</u>	<u>60,929</u>
Assigned to:			
Capital projects			10,000
Student activities	34,314		
Total Assigned	<u>34,314</u>		<u>10,000</u>
Unassigned	<u>885,843</u>		
Totals	<u>\$1,057,996</u>	<u>\$ 7,402</u>	<u>\$ 70,929</u>

12: SUBSEQUENT EVENT

On July 19, 2018, the District executed an installment contract of \$146,322 for a lighting project.

BAY SCHOOL DISTRICT NO. 21
 CRAIGHEAD COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Unaudited)

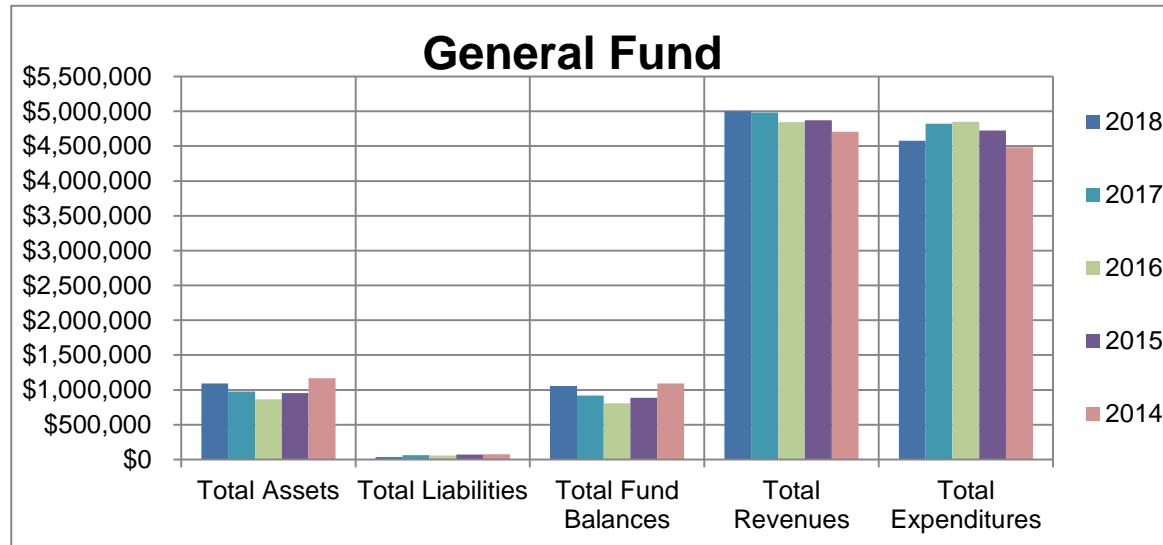
Schedule 1

	Balance June 30, 2018
<i>Nondepreciable capital assets:</i>	
Land	\$ 100,755
<i>Depreciable capital assets:</i>	
Buildings	9,478,756
Improvements/infrastructure	722,935
Equipment	1,148,268
Total depreciable capital assets	11,349,959
Less accumulated depreciation for:	
Buildings	2,393,746
Improvements/infrastructure	353,653
Equipment	833,669
Total accumulated depreciation	3,581,068
Total depreciable capital assets, net	7,768,891
Capital assets, net	\$ 7,869,646

BAY SCHOOL DISTRICT NO. 21
 CRAIGHEAD COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Unaudited)

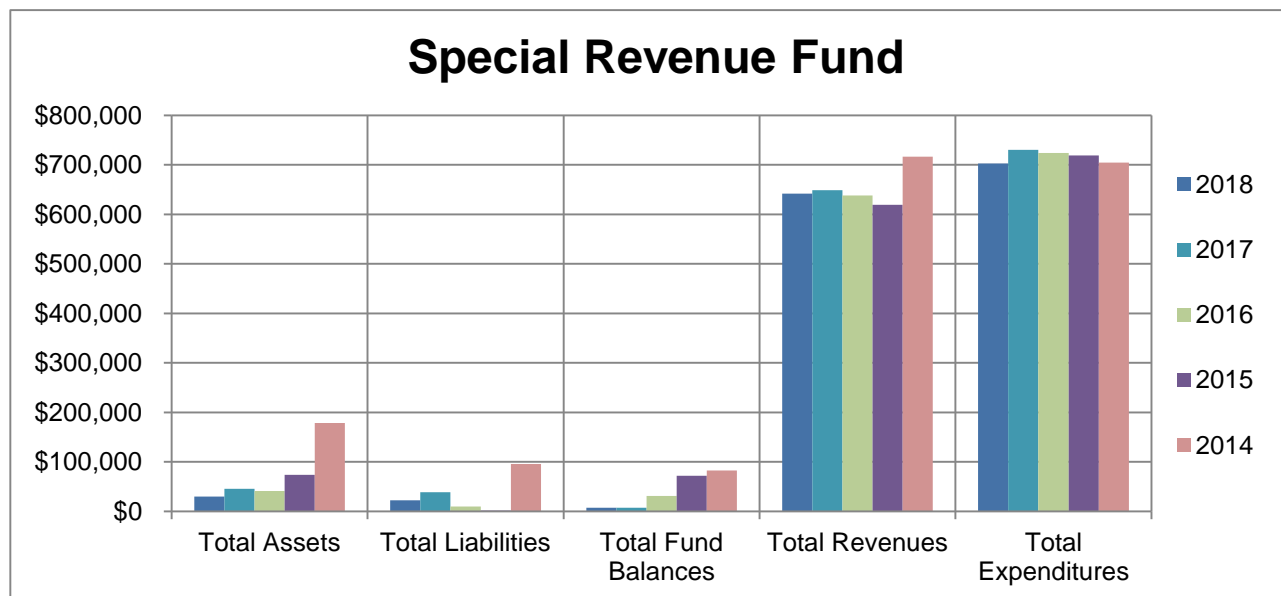
Schedule 2

<u>General Fund</u>	Year Ended June 30,				
	2018	2017	2016	2015	2014
Total Assets	\$ 1,091,732	\$ 976,621	\$ 864,616	\$ 956,030	\$ 1,168,108
Total Liabilities	33,736	60,344	57,940	70,084	76,008
Total Fund Balances	1,057,996	916,277	806,676	885,946	1,092,100
Total Revenues	5,000,523	4,982,276	4,845,745	4,870,918	4,704,998
Total Expenditures	4,579,367	4,822,054	4,850,915	4,723,347	4,483,451
Total Other Financing Sources (Uses)	(279,437)	(50,621)	(74,100)	(353,725)	(295,988)



BAY SCHOOL DISTRICT NO. 21
 CRAIGHEAD 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	\$ 30,072	\$ 45,906	\$ 41,470	\$ 73,994	\$ 178,549
Total Liabilities	22,670	38,761	9,951	1,863	95,699
Total Fund Balances	7,402	7,145	31,519	72,131	82,850
Total Revenues	641,802	648,732	638,408	619,584	716,885
Total Expenditures	702,675	730,578	724,113	718,864	704,531
Total Other Financing Sources (Uses)	61,130	57,472	45,093	88,561	38,496



BAY SCHOOL DISTRICT NO. 21
 CRAIGHEAD COUNTY, ARKANSAS
 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	\$ 70,929	\$ 61,329	\$ 155,772	\$ 185,299	\$ 83,760
Total Liabilities					
Total Fund Balances	70,929	61,329	155,772	185,299	83,760
Total Revenues					
Total Expenditures	208,681	277,847	294,371	168,018	318,597
Total Other Financing Sources (Uses)	218,281	183,404	264,844	269,557	257,492

