

Mineral Springs School District No. 3

Howard County, Arkansas

Regulatory Basis Financial Statements And Other Reports

June 30, 2017



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HOWARD COUNTY, ARKANSAS
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Arkansas

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Senate Chair
Sen. Lance Eads
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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

Mineral Springs School District No. 3 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 Mineral Springs School District No. 3 (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2017, or the changes in financial position for the year then ended.

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, 2017, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe that scope or our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
July 20, 2018
EDSD16517

Arkansas

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



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

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Mineral Springs School District No. 3 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 Mineral Springs School District No. 3 (the "District"), as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated July 20, 2018. We have issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2017, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we 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

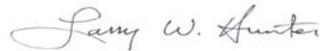
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and regulations, contracts, and grant agreements, noncompliance 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*.

We noted a certain matter that we reported to management of the District in a separate letter dated July 20, 2018.

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
July 20, 2018

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
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LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

Mineral Springs School District No. 3 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.

The District did not obtain a performance bond, as required by Ark. Code Ann. § 18-44-503, on a contract in the amount of \$55,461 for bus shop improvements.

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
July 20, 2018

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2017

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 3,192,836		\$ 3,547,540	\$ 25,752
Investments	2,273,933		16,000,000	
Accounts receivable	78,940	\$ 106,187	9,720	
Due from other funds	39,283			
TOTAL ASSETS	\$ 5,584,992	\$ 106,187	\$ 19,557,260	\$ 25,752
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 22,376	\$ 741	\$ 801,500	
Due student groups				\$ 25,502
Due to other funds		39,283		
Total Liabilities	22,376	40,024	801,500	25,502
Fund Balances:				
Restricted	126,663	66,163	16,600,990	250
Assigned	15,331		2,154,770	
Unassigned	5,420,622			
Total Fund Balances	5,562,616	66,163	18,755,760	250
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,584,992	\$ 106,187	\$ 19,557,260	\$ 25,752

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

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 6,308,105		
State assistance	890,709	\$ 1,879	
Federal assistance		825,753	
Activity revenues	50,166		
Meal sales		70,845	
Investment income	33,547		\$ 55,834
Other revenues	199,896		
TOTAL REVENUES	7,482,423	898,477	55,834
EXPENDITURES			
Regular programs	2,866,057	12,500	
Special education	239,892	82,248	
Career education programs	235,912		
Compensatory education programs	121,992	233,876	
Other instructional programs	55,398		
Student support services	195,331	50,116	
Instructional staff support services	264,332	41,641	
General administration support services	290,390	65,917	
School administration support services	317,846		
Central services support services	253,206		
Operation and maintenance of plant services	731,749		
Student transportation services	352,290	12,326	
Other support services	6,156		
Food services operations		403,326	
Community services operations		71	
Facilities acquisition and construction services			2,017,884
Non-programmed costs		17,799	
Activity expenditures	60,300		
Debt Service:			
Principal retirement	22,984		105,000
Interest and fiscal charges	2,972		361,610
Net debt issuance costs			373,305
TOTAL EXPENDITURES	6,016,807	919,820	2,857,799
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,465,616	(21,343)	(2,801,965)
OTHER FINANCING SOURCES (USES)			
Transfers in			2,741,127
Transfers out	(2,741,127)		
Proceeds from refunding and construction bond issue			19,030,000
Payment to refunding bond escrow agents			(1,061,027)
TOTAL OTHER FINANCING SOURCES (USES)	(2,741,127)		20,710,100

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit B

	Major		
	General	Special Revenue	Other Aggregate
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (1,275,511)	\$ (21,343)	\$ 17,908,135
FUND BALANCES - JULY 1	6,838,127	87,506	847,625
FUND BALANCES - JUNE 30	\$ 5,562,616	\$ 66,163	\$ 18,755,760

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

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 6,510,200	\$ 6,308,105	\$ (202,095)			
State assistance	618,463	890,709	272,246	\$ 1,500	\$ 1,879	\$ 379
Federal assistance	25		(25)	789,556	825,753	36,197
Activity revenues		50,166	50,166			
Meal sales				71,500	70,845	(655)
Investment income	24,270	33,547	9,277			
Other revenues	152,702	199,896	47,194			
TOTAL REVENUES	7,305,660	7,482,423	176,763	862,556	898,477	35,921
EXPENDITURES						
Regular programs	2,615,895	2,866,057	(250,162)	12,500	12,500	
Special education	244,000	239,892	4,108	86,621	82,248	4,373
Career education programs	234,086	235,912	(1,826)			
Compensatory education programs	138,358	121,992	16,366	202,545	233,876	(31,331)
Other instructional programs	66,930	55,398	11,532			
Student support services	194,196	195,331	(1,135)	85,844	50,116	35,728
Instructional staff support services	386,345	264,332	122,013	12,294	41,641	(29,347)
General administration support services	363,874	290,390	73,484	69,474	65,917	3,557
School administration support services	246,426	317,846	(71,420)			
Central services support services	298,164	253,206	44,958			
Operation and maintenance of plant services	728,547	731,749	(3,202)			
Student transportation services	427,123	352,290	74,833	15,000	12,326	2,674
Other support services	5,600	6,156	(556)			
Food services operations				364,826	403,326	(38,500)
Community services operations				1,500	71	1,429
Non-programmed costs				20,000	17,799	2,201
Activity expenditures		60,300	(60,300)			
Debt Service:						
Principal retirement	23,784	22,984	800			
Interest and fiscal charges	3,783	2,972	811			
TOTAL EXPENDITURES	5,977,111	6,016,807	(39,696)	870,604	919,820	(49,216)

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 1,328,549	\$ 1,465,616	\$ 137,067	\$ (8,048)	\$ (21,343)	\$ (13,295)
OTHER FINANCING SOURCES (USES)						
Transfers in	7,802,860		(7,802,860)	36,726		
Transfers out	(9,035,824)	(2,741,127)	6,294,697	(36,726)		
TOTAL OTHER FINANCING SOURCES (USES)	(1,232,964)	(2,741,127)	(1,508,163)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	95,585	(1,275,511)	(1,371,096)	(8,048)	(21,343)	(13,295)
FUND BALANCES - JULY 1	6,900,225	6,838,127	(62,098)	91,702	87,506	(4,196)
FUND BALANCES - JUNE 30	<u>\$ 6,995,810</u>	<u>\$ 5,562,616</u>	<u>\$ (1,433,194)</u>	<u>\$ 83,654</u>	<u>\$ 66,163</u>	<u>\$ (17,491)</u>

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

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Education, a seven 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 Mineral Springs 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.

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Property Taxes

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

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

F. Property Taxes (Continued)

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2016 calendar year taxes collected by June 30, 2017 and 16 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2017 equaled or exceeded the 16 percent calculation.

Amendment no. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Interfund Receivables and Payables

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

H. Fund Balance Classifications

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

I. Budget and Budgetary Accounting

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

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

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

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Stabilization Arrangements

The District's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

K. Minimum Fund Balance Policies

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

L. Fund Balance Classification Policies and Procedures

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

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

M. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 17,466,396	\$ 17,466,396
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	7,563,548	7,945,058
Total Deposits	\$ 25,029,944	\$ 25,411,454

The above total deposits do not include cash of \$10,117 which was held in the Little River and Sevier County Treasuries. The above total deposits include certificates of deposit of \$18,273,933 reported as investments and classified as nonparticipating contracts.

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

3: ACCOUNTS RECEIVABLE

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
State assistance	\$ 49,366		
Federal assistance		\$ 103,543	
Meal sales		2,644	
Investment income			\$ 9,720
Other	29,574		
Totals	\$ 78,940	\$ 106,187	\$ 9,720

4: COMMITMENTS

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
New K-12 School	December 1, 2018	\$ 17,688,374

B. Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2017	Maturities To June 30, 2017
3/18/10	3/18/18	3.75%	\$ 122,900	\$ 17,413	\$ 105,487
6/20/12	11/1/21	4.95%	62,000	31,000	31,000
4/15/13	6/1/33	1 - 2.75%	1,715,000	1,455,000	260,000
5/1/13	2/1/29	1 - 2.35%	435,000	355,000	80,000
12/6/16	6/1/47	3.00 - 3.50%	19,030,000	19,030,000	
Totals			\$ 21,364,900	\$ 20,888,413	\$ 476,487

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

4: COMMITMENTS (Continued)

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

Changes in Long-term Debt

	Balance July 1, 2016	Issued	Retired	Balance June 30, 2017
Bonds payable	\$ 2,970,000	\$ 19,030,000	\$ 1,160,000	\$ 20,840,000
Certificates of indebtedness	37,200		6,200	31,000
Postdated warrants	34,197		16,784	17,413
Totals	\$ 3,041,397	\$ 19,030,000	\$ 1,182,984 *	\$ 20,888,413

* Includes \$1,055,000 early retirement of debt – See Note 6.

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2018	\$ 543,613	\$ 659,177	\$ 1,202,790
2019	541,200	644,517	1,185,717
2020	546,200	629,899	1,176,099
2021	556,200	614,490	1,170,690
2022	566,200	598,783	1,164,983
2023-2027	3,005,000	2,748,529	5,753,529
2028-2032	3,335,000	2,291,949	5,626,949
2033-2037	3,355,000	1,786,087	5,141,087
2038-2042	3,850,000	1,207,331	5,057,331
2043 - 2047	4,590,000	493,325	5,083,325
Totals	\$ 20,888,413	\$ 11,674,087	\$ 32,562,500

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.

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

5: ACCOUNTS PAYABLE

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Vendor payables	\$ 22,376	\$ 741	\$ 801,500

6: DEBT REFUNDINGS

On December 6, 2016, the District issued refunding and construction bonds of \$19,030,000 with interest rates of 3.0 to 3.5 percent to advance refund \$170,000 of outstanding bonds dated August 1, 2006 with interest rates of 3.6 to 4.2 percent and \$885,000 of outstanding bonds dated June 15, 2011 with interest rates of 1.55 to 3.95 percent. Net bond proceeds of \$1,061,027 were remitted to escrow agents to provide all future debt service payments for the bonds refunded. The 2006 and 2011 bonds were called for redemption on January 10, 2017. The remaining bond proceeds of \$17,595,668 (after payment of net bond issuance cost of \$373,305) was received by the District and recorded in the capital projects fund to be utilized for construction. This bond issue restructured and extended the debt obligation of the District from fiscal year 2033 to fiscal year 2047.

7: INTERFUND TRANSFERS

The District transferred \$2,741,127 from the general fund to the other aggregate funds for debt related payments of \$466,610, \$2,267,773 for future capital expenditures, and debt refunding savings of \$6,744 required to be utilized for capital expenditures.

8: 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.arts.gov.

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries. The District's contributions to ATRS for the year ended June 30, 2017 were \$554,249, equal to the required contributions.

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
 HOWARD COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017

8: RETIREMENT PLAN (Continued)

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2016 (actuarial valuation date and measurement date) was \$5,473,983.

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ <u>250</u>
DEDUCTIONS	
Scholarships	<u>1,350</u>
CHANGE IN FUND BALANCE	(1,100)
FUND BALANCE - JULY 1	<u>1,350</u>
FUND BALANCE - JUNE 30	<u><u>\$ 250</u></u>

10: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$21,180,000 issued from April 15, 2013 through December 6, 2016 . The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$32,509,590, payable through June 1, 2047. Principal and interest paid for the current year and total property taxes pledged for debt service were \$465,550 and \$1,669,793, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 27.88 percent.

11: RISK MANAGEMENT

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

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

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

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 mobile equipment.

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

11: RISK MANAGEMENT (Continued)

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

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.

12: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$126,160 for the year ended June 30, 2017.

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

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 7,544		
Educational programs - national school lunch state categorical funding	3,394		
English-language learners	6,223		
Professional development	16,867		
Capital projects			\$ 16,600,990
Child nutrition programs		\$ 25,015	
Medical services		41,106	
Special education programs	19,667		
Other purposes	72,968	42	
Total Restricted	<u>126,663</u>	<u>66,163</u>	<u>16,600,990</u>
Assigned to:			
Capital projects			2,154,770
Student activities	15,331		
Total Assigned	<u>15,331</u>		<u>2,154,770</u>
Unassigned	<u>5,420,622</u>		
Totals	<u>\$5,562,616</u>	<u>\$ 66,163</u>	<u>\$ 18,755,760</u>

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(Unaudited)

Schedule 1

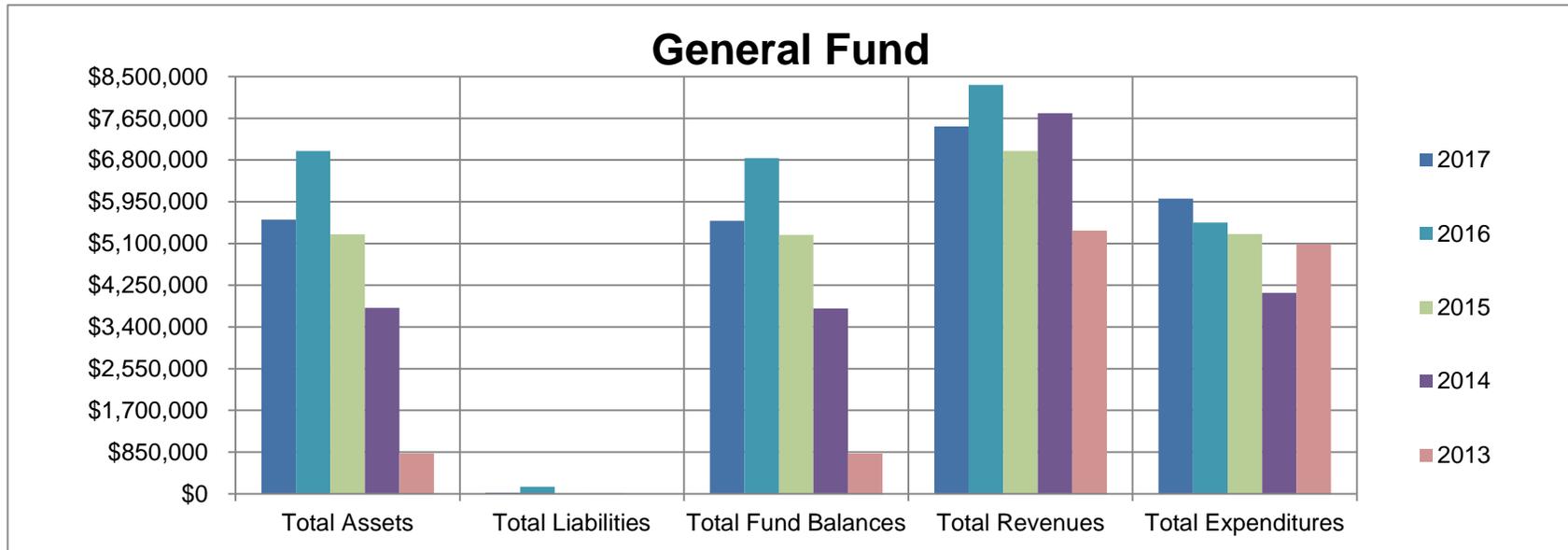
	Balance June 30, 2017
<i>Nondepreciable capital assets:</i>	
Land	\$ 375,853
Construction in progress	2,207,119
Total nondepreciable capital assets	2,582,972
 <i>Depreciable capital assets:</i>	
Buildings	5,098,373
Improvements/infrastructure	1,660,929
Equipment	1,782,675
Total depreciable capital assets	8,541,977
 Less accumulated depreciation for:	
Buildings	3,531,439
Improvements/infrastructure	555,529
Equipment	1,121,746
Total accumulated depreciation	5,208,714
 Total depreciable capital assets, net	3,333,263
 Capital assets, net	\$ 5,916,235

MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS

Schedule 2

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

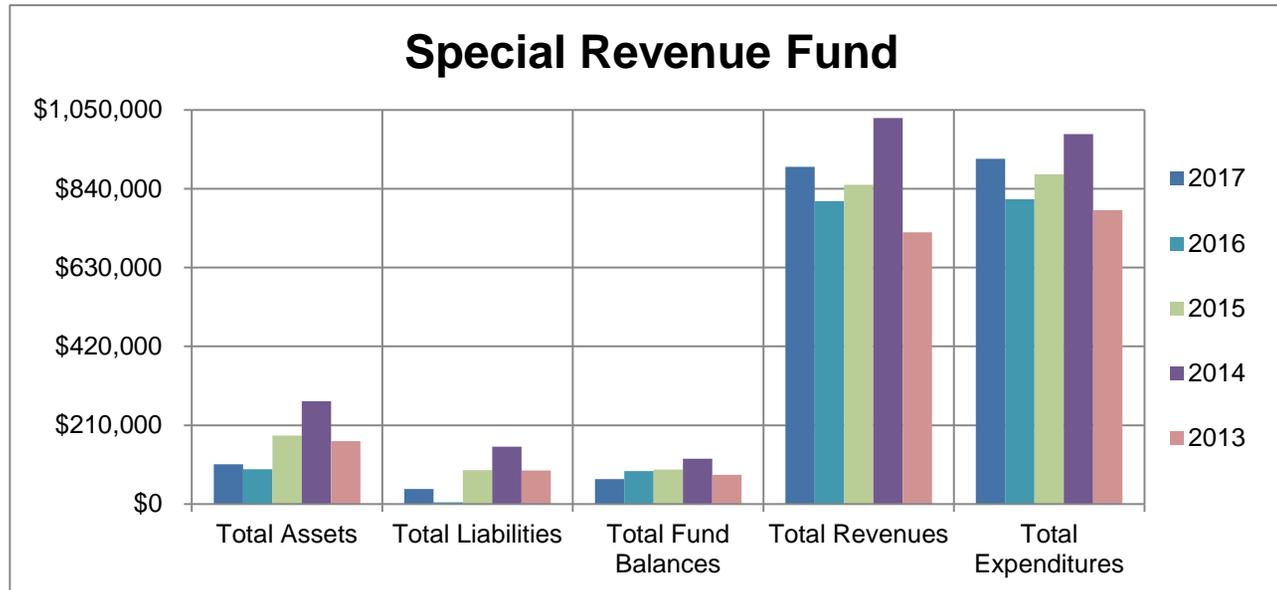
<u>General Fund</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 5,584,992	\$ 6,986,933	\$ 5,287,673	\$ 3,790,757	\$ 828,480
Total Liabilities	22,376	148,806	13,641	11,204	7,595
Total Fund Balances	5,562,616	6,838,127	5,274,032	3,779,553	820,885
Total Revenues	7,482,423	8,330,003	6,986,553	7,752,492	5,362,525
Total Expenditures	6,016,807	5,528,537	5,294,033	4,095,075	5,088,749
Total Other Financing Sources (Uses)	(2,741,127)	(1,237,371)	(198,041)	(698,749)	(216,933)



MINERAL SPRINGS SCHOOL DISTRICT NO. 3
HOWARD COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2017
(Unaudited)

Schedule 2

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 106,187	\$ 92,551	\$ 182,450	\$ 273,620	\$ 167,431
Total Liabilities	40,024	5,045	90,157	152,868	89,475
Total Fund Balances	66,163	87,506	92,293	120,752	77,956
Total Revenues	898,477	807,095	850,586	1,028,184	724,297
Total Expenditures	919,820	811,882	879,045	985,388	782,923
Total Other Financing Sources (Uses)					



MINERAL SPRINGS SCHOOL DISTRICT NO. 3
 HOWARD COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2017
 (Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 19,557,260	\$ 945,806	\$ 364,755	\$ 622,617	\$ 95,029
Total Liabilities	801,500	98,181		12,000	
Total Fund Balances	18,755,760	847,625	364,755	610,617	95,029
Total Revenues	55,834			100	100
Total Expenditures	2,857,799	744,438	443,903	183,261	148,662
Total Other Financing Sources (Uses)	20,710,100	1,227,308	198,041	698,749	223,672

