

Nevada School District No. 1

Nevada County, Arkansas

**Regulatory Basis Financial Statements
And Other Reports**

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



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NEVADA COUNTY, ARKANSAS
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JUNE 30, 2014

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Arkansas

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Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Nevada School District No. 1 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 Nevada School District No. 1 (the "District"), as of and for the year ended June 30, 2014, 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 disclosure 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, 2014, or the changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2014, 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 purposes 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 May 14, 2015 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
May 14, 2015
EDSD26714

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
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

Nevada School District No. 1 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 Nevada School District No. 1 (the "District"), as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated May 14, 2015. We 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, 2014, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below in the Audit Findings section of this report, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below in the Audit Findings section of this report to be a material weakness.

Compliance and Other Matters

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

AUDIT FINDINGS

Material Weakness

Internal control is a process consisting of five interrelated components – *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial duties were not adequately segregated among employees. Specifically, non-payroll checks were prepared by the same employee responsible for the maintenance of the accounting records and such employee had unrestricted access to the District's signature stamp pertaining to the District's primary operating and activity accounts. The same employee who receipts monies collected, also deposits, posts, and reconciles the District's primary operating and activity accounts, without compensating controls. Non-payroll checks were prepared by the same employee responsible for the maintenance of accounting records and such employee had unrestricted access to the District's signature stamp pertaining to the District's food service account. The same person who receipts and collects monies collected in the food service area, prepares daily count records, and deposits monies collected, without compensating controls. The same person, who prepares payroll checks, maintains and reconciles payroll records, and is responsible for changes to payroll amounts, without compensating controls.

The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weaknesses. District management, due to cost/benefit implications, which hindered the District's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiencies in internal control. District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Management Response: We concur with the recommendation and will implement corrective procedures to the extent possible.

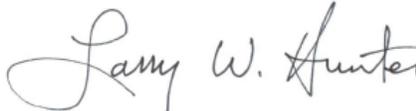
District's Response to Findings

The District's response to the finding identified in our audit is described above. The District's response was not subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 *Government 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
May 14, 2015

NEVADA SCHOOL DISTRICT NO. 1
 NEVADA COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2014

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 331,874	\$ 26,883		\$ 18,829
Accounts receivable		23,873		
Deposit with paying agent			\$ 11,045	
TOTAL ASSETS	\$ 331,874	\$ 50,756	\$ 11,045	\$ 18,829
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 8,291			
Due student groups				\$ 13,274
Total Liabilities	8,291			13,274
Fund Balances:				
Nonspendable			\$ 11,045	
Restricted	4,492	\$ 50,756		5,555
Assigned	2,420			
Unassigned	316,671			
Total Fund Balances	323,583	50,756	11,045	5,555
TOTAL LIABILITIES AND FUND BALANCES	\$ 331,874	\$ 50,756	\$ 11,045	\$ 18,829

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

NEVADA SCHOOL DISTRICT NO. 1
NEVADA COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,058,812		
State assistance	2,017,767	\$ 1,353	
Federal assistance		503,204	
Activity revenues	42,288		
Meal sales		54,995	
Investment income	779	63	
Other revenues	36,816		
TOTAL REVENUES	3,156,462	559,615	
EXPENDITURES			
Regular programs	1,460,072		
Special education	136,782	47,583	
Career education programs	175,260		
Compensatory education programs	18,716	92,182	
Other instructional programs	17,893		
Student support services	172,477	97,874	
Instructional staff support services	189,463	56,564	
General administration support services	174,466	27,406	
School administration support services	165,093		
Central services support services	19,028		
Operation and maintenance of plant services	357,273	2,732	
Student transportation services	289,008		
Other support services	13,366		
Food services operations		287,750	
Activity expenditures	44,156		
Debt Service:			
Principal retirement	77,481		\$ 50,000
Interest and fiscal charges	6,209		23,770
TOTAL EXPENDITURES	3,316,743	612,091	73,770
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(160,281)	(52,476)	(73,770)
OTHER FINANCING SOURCES (USES)			
Transfers in			72,845
Transfers out	(72,845)		
Proceeds from installment contract	76,547		
TOTAL OTHER FINANCING SOURCES (USES)	3,702		72,845
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(156,579)	(52,476)	(925)
FUND BALANCES - JULY 1	480,162	103,232	11,970
FUND BALANCES - JUNE 30	\$ 323,583	\$ 50,756	\$ 11,045

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

NEVADA SCHOOL DISTRICT NO. 1
NEVADA 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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,084,000	\$ 1,058,812	\$ (25,188)			
State assistance	2,052,752	2,017,767	(34,985)		\$ 1,353	\$ 1,353
Federal assistance				\$ 496,726	503,204	6,478
Activity revenues	120,010	42,288	(77,722)			
Meal sales				150,000	54,995	(95,005)
Investment income	1,000	779	(221)	100	63	(37)
Other revenues	47,100	36,816	(10,284)			
TOTAL REVENUES	3,304,862	3,156,462	(148,400)	646,826	559,615	(87,211)
EXPENDITURES						
Regular programs	1,363,072	1,460,072	(97,000)			
Special education	133,806	136,782	(2,976)	50,399	47,583	2,816
Career education programs	167,804	175,260	(7,456)			
Compensatory education programs	16,666	18,716	(2,050)	59,274	92,182	(32,908)
Other instructional programs		17,893	(17,893)			
Student support services	166,819	172,477	(5,658)	71,566	97,874	(26,308)
Instructional staff support services	188,891	189,463	(572)	90,616	56,564	34,052
General administration support services	161,828	174,466	(12,638)	26,750	27,406	(656)
School administration support services	159,143	165,093	(5,950)			
Central services support services		19,028	(19,028)			
Operation and maintenance of plant services	434,333	357,273	77,060	3,500	2,732	768
Student transportation services	225,212	289,008	(63,796)			
Other support services	7,409	13,366	(5,957)			
Food services operations	900	900	900	360,855	287,750	73,105
Community services operations				196		196
Activity expenditures	100,162	44,156	56,006			
Debt Service:						
Principal retirement	138,122	77,481	60,641			
Interest and fiscal charges	5,800	6,209	(409)			
TOTAL EXPENDITURES	3,269,967	3,316,743	(46,776)	663,156	612,091	51,065

NEVADA SCHOOL DISTRICT NO. 1
NEVADA 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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 34,895	\$ (160,281)	\$ (195,176)	\$ (16,330)	\$ (52,476)	\$ (36,146)
OTHER FINANCING SOURCES (USES)						
Transfers in	4,090,553		(4,090,553)	26,921		(26,921)
Transfers out	(4,163,098)	(72,845)	4,090,253	(26,921)		26,921
Proceeds from installment contract	76,547	76,547				
TOTAL OTHER FINANCING SOURCES (USES)	4,002	3,702	(300)	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	38,897	(156,579)	(195,476)	(16,330)	(52,476)	(36,146)
FUND BALANCES - JULY 1	508,882	480,162	(28,720)	94,140	103,232	9,092
FUND BALANCES - JUNE 30	<u>\$ 547,779</u>	<u>\$ 323,583</u>	<u>\$ (224,196)</u>	<u>\$ 77,810</u>	<u>\$ 50,756</u>	<u>\$ (27,054)</u>

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

NEVADA SCHOOL DISTRICT NO. 1
NEVADA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 Nevada 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:

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.

NEVADA SCHOOL DISTRICT NO. 1
NEVADA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 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 the 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 fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

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

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

F. Property Taxes

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

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2013 calendar year taxes collected by June 30, 2014 and 28 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, 2014 equaled or exceeded the 28 percent calculation.

NEVADA SCHOOL DISTRICT NO. 1
NEVADA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

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

G. Fund Balance Classifications

1. 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.

H. Budget and Budgetary Accounting

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

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

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

I. Stabilization Arrangements

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

NEVADA SCHOOL DISTRICT NO. 1
NEVADA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

The 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 an expenditure is 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 balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	127,586	377,402
Total Deposits	\$ 377,586	\$ 627,402

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 were comprised of the following:

Description	Governmental Fund Major Special Revenue
Federal assistance	\$ 23,873

NEVADA SCHOOL DISTRICT NO. 1
NEVADA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2014:

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, 2014	Maturities To June 30, 2014
8/1/03	1/1/23	3 - 4.25%	\$ 980,000	\$ 525,000	\$ 455,000
11/20/09	12/15/14	4.7%	66,500	14,559	51,941
8/2/10	12/15/14	4.8%	67,625	14,392	53,233
7/9/12	12/15/16	3%	76,810	46,668	30,142
9/18/12	12/15/16	3%	24,215	14,599	9,616
10/2/13	12/5/17	3%	76,547	60,640	15,907
Totals			<u>\$ 1,291,697</u>	<u>\$ 675,858</u>	<u>\$ 615,839</u>

Changes in Long-term Debt

	Balance July 1, 2013	Issued	Retired	Balance June 30, 2014
Bonds payable	\$ 575,000		\$ 50,000	\$ 525,000
Installment contracts	151,792	\$ 76,547	77,481	150,858
Totals	<u>\$ 726,792</u>	<u>\$ 76,547</u>	<u>\$ 127,481</u>	<u>\$ 675,858</u>

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2015	\$ 113,294	\$ 26,522	\$ 139,816
2016	85,373	22,267	107,640
2017	91,356	19,230	110,586
2018	70,835	15,968	86,803
2019	60,000	13,238	73,238
2020-2023	255,000	27,747	282,747
Totals	<u>\$ 675,858</u>	<u>\$ 124,972</u>	<u>\$ 800,830</u>

Security for Debt Payments

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

NEVADA SCHOOL DISTRICT NO. 1
NEVADA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

5: ACCOUNTS PAYABLE

Accounts payable at June 30, 2014 were comprised of the following:

Description	Governmental Fund
	Major
	General
Vendor payables	\$ 8,291

6: INTERFUND TRANSFERS

The District transferred \$72,845 from the general fund to the other aggregate funds for debt related payments.

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 all Arkansas public school employees, 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 or by calling 1-800-666-2877.

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 maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2014, 2013, and 2012 were \$327,997, \$330,122, and \$338,046, respectively, equal to the required contributions for each year.

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

The District's private-purpose trust funds consist of donations from patrons. A committee awards scholarships to selected high school graduates annually.

ADDITIONS	
Donations	\$ 901
DEDUCTIONS	
Scholarships	878
Other	336
TOTAL DEDUCTIONS	1,214
CHANGE IN FUND BALANCE	(313)
FUND BALANCE - JULY 1	5,868
FUND BALANCE - JUNE 30	\$ 5,555

NEVADA SCHOOL DISTRICT NO. 1
NEVADA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

9: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$ 980,000 issued August 1, 2003. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$640,273 payable through January 1, 2023. Principal and interest paid for the current year and total property taxes pledged for debt service were \$73,340 and \$298,171, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 24.60 percent.

10: RISK MANAGEMENT

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

The District carries commercial insurance for student accidents. Settled claims have not exceeded this commercial 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.

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

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The District participates in the Arkansas Public School Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member districts, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

11: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$78,558 for the year ended June 30, 2014.

NEVADA SCHOOL DISTRICT NO. 1
NEVADA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

12: 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			\$ 11,045
Restricted for:			
Alternative learning environment	\$ 894		
Professional development	2,043		
Child nutrition programs		\$ 10,355	
Medical services		32,740	
Special education programs	325	5,594	
Other purposes	1,230	2,067	
Total Restricted	<u>4,492</u>	<u>50,756</u>	
Assigned to:			
Student activities	<u>2,420</u>		
Unassigned	<u>316,671</u>		
Totals	<u>\$ 323,583</u>	<u>\$ 50,756</u>	<u>\$ 11,045</u>

13: SUBSEQUENT EVENTS

Effective July 1, 2014, the portion of the Stephens School District located in Nevada County was consolidated with the District. This action was in accordance with the order of involuntary administrative consolidation of the Stephens School District with three adjacent school districts, approved by the State Board of Education on April 10, 2014. The other two school districts were Camden Fairview and Magnolia.

NEVADA SCHOOL DISTRICT NO. 1
 NEVADA COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Unaudited)

Schedule 1

	Balance June 30, 2014
<i>Nondepreciable capital assets:</i>	
Land	\$ 51,297
<i>Depreciable capital assets:</i>	
Buildings	4,234,984
Improvements/infrastructure	175,478
Equipment	1,250,886
Total depreciable capital assets	5,661,348
Less accumulated depreciation for:	
Buildings	2,267,722
Improvements/infrastructure	135,254
Equipment	914,100
Total accumulated depreciation	3,317,076
Total depreciable capital assets, net	2,344,272
Capital assets, net	\$ 2,395,569

NEVADA SCHOOL DISTRICT NO. 1
 NEVADA COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Unaudited)

Schedule 2

General Fund	Year Ended June 30,				
	2014	2013	2012	2011	2010
Total Assets	\$ 331,874	\$ 483,470	\$ 441,184	\$ 408,180	\$ 375,049
Total Liabilities	8,291	3,308	4,562	1,305	2,154
Total Fund Balances	323,583	480,162	436,622	406,875	372,895
Total Revenues	3,156,462	3,282,290	3,336,229	3,269,373	3,361,661
Total Expenditures	3,316,743	3,270,254	3,235,454	3,230,561	3,325,525
Total Other Financing Sources (Uses)	3,702	31,504	(71,028)	(4,832)	(2,229)
Special Revenue Fund					
Total Assets	50,756	103,232	50,821	30,504	36,416
Total Liabilities				17,484	31,273
Total Fund Balances	50,756	103,232	50,821	13,020	5,143
Total Revenues	559,615	576,518	589,736	737,851	950,360
Total Expenditures	612,091	524,107	551,935	729,974	974,241
Total Other Financing Sources (Uses)					
Other Aggregate Funds					
Total Assets	11,045	11,970	12,724	13,478	14,153
Total Liabilities					
Total Fund Balances	11,045	11,970	12,724	13,478	14,153
Total Revenues					
Total Expenditures	73,770	70,275	71,782	73,132	69,329
Total Other Financing Sources (Uses)	72,845	69,521	71,028	72,457	68,729