

Magnet Cove School District No. 8

Hot Spring County, Arkansas

Regulatory Basis Financial Statements And Other Reports

June 30, 2020



MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2020

Independent Auditor's Report
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*

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet – Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds - Regulatory Basis	B
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis	C
Notes to Financial Statements	

SCHEDULES

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Selected Information for the Last Five Years – Regulatory Basis (Unaudited)	2

Arkansas

Sen. Ronald Caldwell
Senate Chair
Sen. Gary Stubblefield
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Nelda Speaks
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT**

INDEPENDENT AUDITOR'S REPORT

Magnet Cove School District No. 8 and School Board Members
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Magnet Cove School District No. 8 (the "District"), as of and for the year ended June 30, 2020, 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. 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, 2020, 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, 2020, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe that scope or our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
April 7, 2021
EDSD16020

Arkansas

Sen. Ronald Caldwell
Senate Chair
Sen. Gary Stubblefield
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Nelda Speaks
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Magnet Cove School District No. 8 and School Board Members
Legislative Joint Auditing Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund and the aggregate remaining fund information of the Magnet Cove School District No. 8 (the "District"), as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated April 7, 2021. 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, 2020, 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) as a basis for designing 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *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

A handwritten signature in cursive script, appearing to read "Roger A. Norman".

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

Little Rock, Arkansas
April 7, 2021

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2020

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 1,274,940	\$ 64,489	\$ 13,836,802	\$ 31,522
Accounts receivable	38,028	108,824		
Deposit with paying agent			35,202	
TOTAL ASSETS	\$ 1,312,968	\$ 173,313	\$ 13,872,004	\$ 31,522
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 41,495	\$ 44,446		
Due student groups				\$ 25,290
Total Liabilities	41,495	44,446		25,290
Fund Balances:				
Nonspendable			\$ 35,202	
Restricted	114,938	128,867	13,594,767	6,232
Assigned	35,831		242,035	
Unassigned	1,120,704			
Total Fund Balances	1,271,473	128,867	13,872,004	6,232
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,312,968	\$ 173,313	\$ 13,872,004	\$ 31,522

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

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,729,966		
State assistance	3,641,568	\$ 2,261	\$ 81,718
Federal assistance		796,758	
Activity revenues	146,125		
Meal sales		123,002	
Investment income	11,335		114,366
Other revenues	448,084	43,476	
TOTAL REVENUES	6,977,078	965,497	196,084
EXPENDITURES			
Regular programs	2,477,285		
Special education	423,427	46,853	
Career education programs	251,912		
Compensatory education programs	60,823	59,962	
Other instructional programs	248,360		
Student support services	324,478	112,155	
Instructional staff support services	241,503	106,170	
General administration support services	200,685	14,313	
School administration support services	438,880		
Central services support services	281,093	458	
Operation and maintenance of plant services	969,761	8,308	
Student transportation services	165,152		
Other support services	8,096		
Food services operations		508,441	
Facilities acquisition and construction services			403,917
Activity expenditures	134,601		
Debt Service:			
Principal retirement	87,125		125,000
Interest and fiscal charges	12,780		99,208
Net debt issuance costs			271,178
TOTAL EXPENDITURES	6,325,961	856,660	899,303
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	651,117	108,837	(703,219)
OTHER FINANCING SOURCES (USES)			
Transfers in			408,411
Transfers out	(408,411)		
Proceeds from refunding and construction bond issue			15,650,000
Payment to refunding bond escrow agents			(1,598,805)
TOTAL OTHER FINANCING SOURCES (USES)	(408,411)		14,459,606

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit B

	Major		
	General	Special Revenue	Other Aggregate
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 242,706	\$ 108,837	\$ 13,756,387
FUND BALANCES - JULY 1	1,028,767	20,030	115,617
FUND BALANCES - JUNE 30	\$ 1,271,473	\$ 128,867	\$ 13,872,004

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

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 2,719,149	\$ 2,729,966	\$ 10,817			
State assistance	3,514,063	3,641,568	127,505	\$ 2,250	\$ 2,261	\$ 11
Federal assistance				626,169	796,758	170,589
Activity revenues		146,125	146,125			
Meal sales				178,100	123,002	(55,098)
Investment income	10,000	11,335	1,335			
Other revenues	471,075	448,084	(22,991)		43,476	43,476
TOTAL REVENUES	6,714,287	6,977,078	262,791	806,519	965,497	158,978
EXPENDITURES						
Regular programs	2,439,215	2,477,285	(38,070)			
Special education	392,342	423,427	(31,085)	45,181	46,853	(1,672)
Career education programs	261,539	251,912	9,627			
Compensatory education programs	67,526	60,823	6,703	61,716	59,962	1,754
Other instructional programs	258,329	248,360	9,969			
Student support services	405,393	324,478	80,915	138,224	112,155	26,069
Instructional staff support services	234,161	241,503	(7,342)	99,192	106,170	(6,978)
General administration support services	188,372	200,685	(12,313)	13,917	14,313	(396)
School administration support services	437,282	438,880	(1,598)			
Central services support services	279,750	281,093	(1,343)		458	(458)
Operation and maintenance of plant services	1,043,931	969,761	74,170	5,500	8,308	(2,808)
Student transportation services	280,282	165,152	115,130			
Other support services	12,675	8,096	4,579			
Food services operations				447,500	508,441	(60,941)
Community services operations				258		258
Non-programmed costs				2,373		2,373
Activity expenditures		134,601	(134,601)			
Debt Service:						
Principal retirement		87,125	(87,125)			
Interest and fiscal charges		12,780	(12,780)			
TOTAL EXPENDITURES	6,300,797	6,325,961	(25,164)	813,861	856,660	(42,799)

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 413,490	\$ 651,117	\$ 237,627	\$ (7,342)	\$ 108,837	\$ 116,179
OTHER FINANCING SOURCES (USES)						
Transfers in	9,016,012		(9,016,012)	43,498		(43,498)
Transfers out	(9,286,034)	(408,411)	8,877,623	(43,498)		43,498
TOTAL OTHER FINANCING SOURCES (USES)	(270,022)	(408,411)	(138,389)	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	143,468	242,706	99,238	(7,342)	108,837	116,179
FUND BALANCES - JULY 1	1,109,126	1,028,767	(80,359)	22,915	20,030	(2,885)
FUND BALANCES - JUNE 30	<u>\$ 1,252,594</u>	<u>\$ 1,271,473</u>	<u>\$ 18,879</u>	<u>\$ 15,573</u>	<u>\$ 128,867</u>	<u>\$ 113,294</u>

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

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Magnet Cove School District (District). There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund - The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund - The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the District's food services operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Fund – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Fiduciary Fund types include the following:

Agency Funds – Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at acquisition value when received. The District maintains a threshold level of \$1,500 for capitalizing equipment. Library holdings are not capitalized.

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

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.

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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 2019 calendar year taxes collected by June 30, 2020 and 4 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, 2020 equaled or exceeded the 4 percent calculation.

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

G. Fund Balance Classifications

1. 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.

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Stabilization Arrangements

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

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

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

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

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 13,965,857	\$ 13,977,717
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	1,241,896	1,674,680
Total Deposits	\$ 15,207,753	\$ 15,652,397

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2020 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 38,028	
Federal assistance		\$ 93,824
Other		15,000
Totals	\$ 38,028	\$ 108,824

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2020:

A. Construction Contract

Project Name	Completion Date	Contract Balance
New Elementary School Phase 1	August 17, 2020	\$ 480,667

B. Operating Lease (noncapital lease with initial noncancellable lease terms in excess of one year)

General description of lease and leasing arrangements:

Lease agreement for copiers dated July 5, 2017, for a term of 36 months with monthly payments of \$3,239 plus applicable taxes

1. Future minimum rental payments (aggregate) at June 30, 2020: \$3,498
2. If applicable, the basis on which contingent rental payments is determined:

The district will be assessed a fee of \$0.0047 per black copy in excess of 200,000 annually and \$0.05 per color copy monthly.

3. Future minimum rental payments for the succeeding year:

Year Ended June 30,	Amount
2021	\$ 3,498

Rental payments for the operating lease described above were approximately \$42,981 for the year ended June 30, 2020.

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

4: COMMITMENTS (Continued)

C. Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2020</u>	<u>Maturities To June 30, 2020</u>
<u>Bonds</u>					
11/1/15	2/1/37	1-3.25%	\$ 3,185,000	\$ 2,725,000	\$ 460,000
12/10/19	2/1/50	2-3%	15,650,000	15,650,000	
Total Bonds			<u>18,835,000</u>	<u>18,375,000</u>	<u>460,000</u>
<u>Direct Borrowings</u>					
1/19/18	1/19/22	4%	144,492	75,080	69,412
6/5/18	6/5/24	3.74%	184,481	127,444	57,037
9/1/18	9/1/20	5.25%	46,613	23,917	22,696
Total Direct Borrowings			<u>375,586</u>	<u>226,441</u>	<u>149,145</u>
Total Long-Term Debt			<u>\$ 19,210,586</u>	<u>\$ 18,601,441</u>	<u>\$ 609,145</u>

Changes in Long-term Debt

	<u>Balance July 1, 2019</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2020</u>
Bonds payable	\$ 4,425,000	\$ 15,650,000	\$ 1,700,000	\$ 18,375,000
<u>Direct Borrowings</u>				
Postdated warrant	156,486		29,042	127,444
Capital lease	110,467		35,387	75,080
Installment contract	46,613		22,696	23,917
Total Direct Borrowings	<u>313,566</u>		<u>87,125</u>	<u>226,441</u>
Total Long-Term Debt	<u>\$ 4,738,566</u>	<u>\$ 15,650,000</u>	<u>\$ 1,787,125</u>	<u>\$ 18,601,441</u>

* Includes \$1,575,000 early retirement of debt – See Note 6.

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

4: COMMITMENTS (Continued)

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

Future Principal and Interest Payments

Year Ended June 30,	Bonds			Direct Borrowings		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 280,000	\$ 575,906	\$ 855,906	\$ 90,849	\$ 9,057	\$ 99,906
2022	430,000	508,205	938,205	69,531	5,171	74,702
2023	435,000	500,280	935,280	32,424	2,471	34,895
2024	445,000	491,930	936,930	33,637	1,258	34,895
2025	455,000	483,380	938,380			
2026-2030	2,405,000	2,272,487	4,677,487			
2031-2035	2,745,000	1,934,438	4,679,438			
2036-2040	3,190,000	1,492,530	4,682,530			
2041-2045	3,700,000	983,100	4,683,100			
2046-2050	4,290,000	393,750	4,683,750			
Totals	<u>\$ 18,375,000</u>	<u>\$ 9,636,006</u>	<u>\$ 28,011,006</u>	<u>\$ 226,441</u>	<u>\$ 17,957</u>	<u>\$ 244,398</u>

Capital Lease

Capital assets acquired through a capital lease consisted of the following at June 30, 2020:

Class of Property	Cost	Accumulated Depreciation	Net Value
School Buses	<u>\$ 184,300</u>	<u>\$ 59,514</u>	<u>\$ 124,786</u>

The present value of the net minimum lease payments is as follows at June 30, 2020:

Total Minimum Lease Payments	\$ 79,616
Less: Amount Representing Interest	<u>4,536</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 75,080</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 Division of Elementary and Secondary Education (DESE). Depending on the date of the bond issue, DESE 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.

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

5: ACCOUNTS PAYABLE

Accounts payable at June 30, 2020 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	\$ 41,495	\$ 44,446

6: DEBT REFUNDINGS

On December 10, 2019, the District issued refunding and construction bonds of \$15,650,000 with interest rates of 2 to 3 percent to refund \$915,000 of outstanding bonds dated March 1, 2009, and \$660,000 of outstanding bonds dated May 1, 2014. The interest rates of the bonds refunded were 2 to 3.6 percent and 1.25 to 3.875 percent, respectively. Net bond proceeds of \$929,080 and \$669,725 were remitted to the respective escrow agents to provide all future debt service payments for the bonds refunded. These bonds were called on January 10, 2020. The remaining proceeds of \$13,780,017 (after payment of \$271,178 net bond issuance costs) will be utilized for erecting and equipping school facilities, and making additions and improvements to existing facilities. The bond issue restructured and extended the District's debt obligations from fiscal year 2037 to fiscal year 2050.

7: INTERFUND TRANSFERS

The District transferred \$408,411 from the general fund to the other aggregate funds for debt related payments of \$259,411 and \$149,000 for future capital projects.

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.artrs.gov.

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6.25% 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 14.25% of covered salaries. The District's contributions to ATRS for the year ended June 30, 2020 were \$536,111, equal to the required contributions.

Net Pension Liability

The Division of Elementary and Secondary 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, 2019 (actuarial valuation date and measurement date) was \$5,114,696.

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 2,421
Interest	<u>10</u>
 TOTAL ADDITIONS	 <u>2,431</u>
DEDUCTIONS	
Scholarships	1,609
Other	<u>1,374</u>
 TOTAL DEDUCTIONS	 <u>2,983</u>
 CHANGE IN FUND BALANCE	 (552)
 FUND BALANCE - JULY 1	 <u>6,784</u>
 FUND BALANCE - JUNE 30	 <u><u>\$ 6,232</u></u>

10: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$18,835,000 issued from November 1, 2015 to December 10, 2019. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$28,011,006, payable through February 1, 2050. Principal and interest paid for the current year and total property taxes pledged for debt service were \$223,733 and \$1,301,562 respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 17.19 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 District carries commercial insurance for board liability and student accidents.

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

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

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

11: RISK MANAGEMENT (Continued)

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

Settled claims have not exceeded coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

12: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Division of Elementary and Secondary Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$110,436 for the year ended June 30, 2020.

13: 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			\$ 35,202
Restricted for:			
Alternative learning environment	\$ 3,863		
Professional development	848		
Capital projects			13,594,767
Child nutrition programs		\$ 104,863	
Medical services		22,545	
Special education programs	107,281		
Title I programs		1,459	
Other purposes	2,946		
Total Restricted	<u>114,938</u>	<u>128,867</u>	<u>13,594,767</u>
Assigned to:			
Capital projects			242,035
Student activities	35,831		
Total Assigned	<u>35,831</u>		<u>242,035</u>
Unassigned	<u>1,120,704</u>		
Totals	<u>\$1,271,473</u>	<u>\$ 128,867</u>	<u>\$ 13,872,004</u>

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

14: RESPONSE TO COVID-19

On March 11, 2020, the Governor of Arkansas issued Executive Order 20-03 declaring an emergency and ordered the Arkansas Department of Health to take action to prevent the spread of coronavirus disease 2019 (COVID-19). A mandatory, two week, statewide closure for all schools was announced on March 15, 2020 by the Governor. On April 6, 2020, the Governor announced that on-site instruction for all Arkansas public schools would be discontinued until the 2020-2021 school year and school districts would continue alternative methods of instruction (AMI) through the remainder of the 2019-2020 school year.

15: SUBSEQUENT EVENTS

On October 9, 2020, the District signed a construction management contract for phase 2 and 3 of the construction of a new elementary school for a guaranteed maximum price of \$12,429,750.

On November 3, 2020, the District issued refunding bonds of \$2,825,000 to refund the November 1, 2015, bond issue.

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2020
(Unaudited)

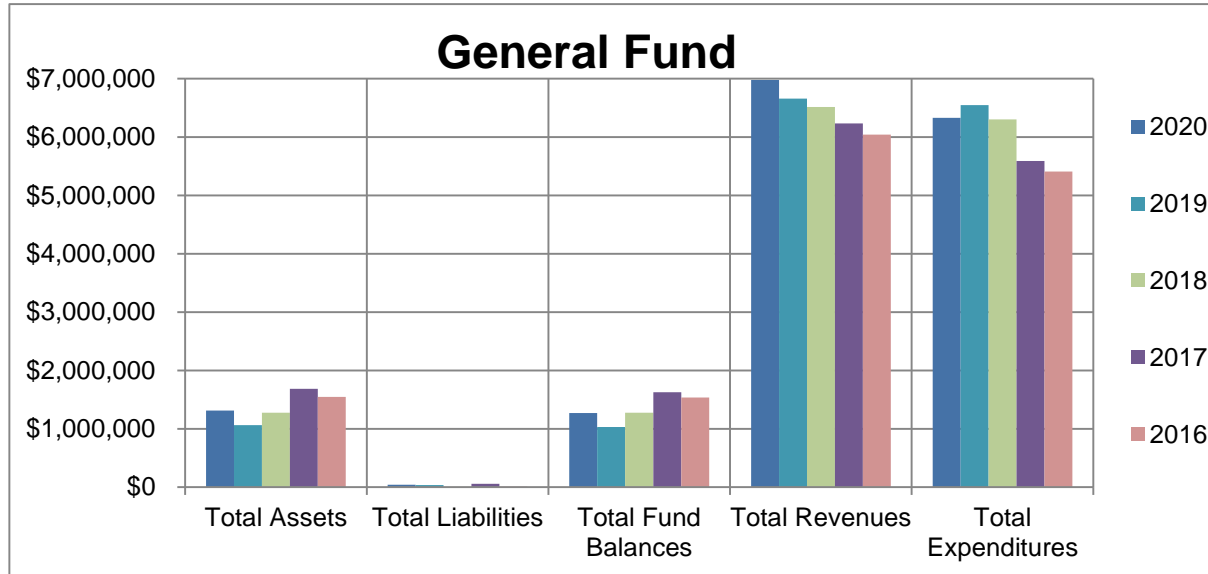
Schedule 1

	Balance June 30, 2020
Nondepreciable capital assets:	
Land	\$ 354,002
Construction in progress	402,586
Total nondepreciable capital assets	756,588
Depreciable capital assets:	
Buildings	9,468,308
Improvements/infrastructure	2,327,337
Equipment	1,872,816
Total depreciable capital assets	13,668,461
Less accumulated depreciation for:	
Buildings	4,313,941
Improvements/infrastructure	1,263,497
Equipment	1,452,843
Total accumulated depreciation	7,030,281
Total depreciable capital assets, net	6,638,180
Capital assets, net	\$ 7,394,768

MAGNET COVE SCHOOL DISTRICT NO. 8
HOT SPRING COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020
(Unaudited)

Schedule 2

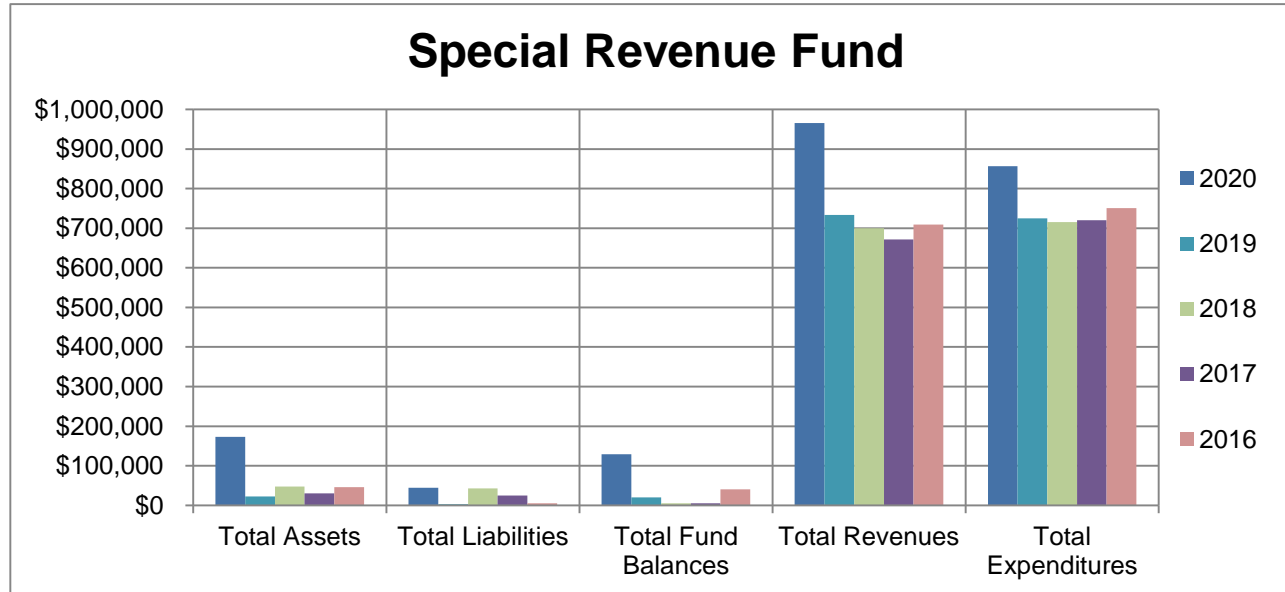
General Fund	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets	\$ 1,312,968	\$ 1,063,358	\$ 1,273,663	\$ 1,681,602	\$ 1,543,506
Total Liabilities	41,495	34,591	986	56,657	9,801
Total Fund Balances	1,271,473	1,028,767	1,272,677	1,624,945	1,533,705
Total Revenues	6,977,078	6,659,248	6,511,938	6,230,005	6,039,032
Total Expenditures	6,325,961	6,548,311	6,301,938	5,588,108	5,405,126
Total Other Financing Sources (Uses)	(408,411)	(354,847)	(562,268)	(550,657)	(483,951)



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

SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020
(Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets	\$ 173,313	\$ 22,915	\$ 47,932	\$ 30,643	\$ 46,161
Total Liabilities	44,446	2,885	42,610	25,308	5,223
Total Fund Balances	128,867	20,030	5,322	5,335	40,938
Total Revenues	965,497	733,784	700,098	671,949	709,148
Total Expenditures	856,660	724,907	715,131	719,972	751,003
Total Other Financing Sources (Uses)		5,831	15,020	12,420	



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

SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020
(Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets	\$ 13,872,004	\$ 115,617	\$ 861,031	\$ 538,900	\$ 495,864
Total Liabilities			4,137		220
Total Fund Balances	13,872,004	115,617	856,894	538,900	495,644
Total Revenues	196,084			6	80,132
Total Expenditures	899,303	1,136,906	558,227	494,987	620,002
Total Other Financing Sources (Uses)	14,459,606	395,629	876,221	538,237	598,301

