

# **Nevada School District No. 1**

**Nevada County, Arkansas**

## **Regulatory Basis Financial Statements And Other Reports**

**June 30, 2012**

LEGISLATIVE JOINT AUDITING COMMITTEE

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NEVADA COUNTY, ARKANSAS  
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**Sen. Bryan B. King**  
Senate Chair  
**Rep. Kim Hammer**  
House Chair  
**Sen. Linda Chesterfield**  
Senate Vice Chair  
**Rep. John W. Walker**  
House Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

#### INDEPENDENT AUDITOR'S REPORT

Nevada School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

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, 2012, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2012, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May, 9, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 2) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information has 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.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is written in a cursive, flowing style.

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

Little Rock, Arkansas  
May 9, 2013  
EDSD26712

**Sen. Bryan B. King**  
Senate Chair  
**Rep. Kim Hammer**  
House Chair  
**Sen. Linda Chesterfield**  
Senate Vice Chair  
**Rep. John W. Walker**  
House Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF 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*

Nevada School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

We have audited 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, 2012, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated May 9, 2013. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices 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 financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. 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.

#### Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below in the Audit Findings section of this report, we identified a certain deficiency in internal control over financial reporting 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 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 of 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 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 accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: 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. 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 operations account. The same employee who receipts and receives monies collected in the food service area, prepares the daily count records and deposits monies collected, without compensating controls. The same employee, who prepares payroll checks, maintains and reconciles payroll records, and is responsible for changes to payroll amounts, without compensating controls.

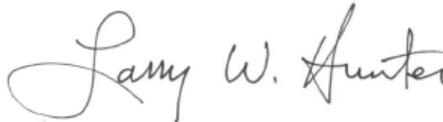
The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weaknesses. District management, due to cost/benefit 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.

The District's response to the finding identified in our audit is described above. We did not audit the District's response and, accordingly, we express no opinion on the response.

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
May 9, 2013

NEVADA SCHOOL DISTRICT NO. 1  
 NEVADA COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2012

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 440,056	\$ 12,953		\$ 23,603
Accounts receivable		37,868		
Property taxes receivable	1,128			
Deposit with paying agent			\$ 12,724	
<b>TOTAL ASSETS</b>	<b>\$ 441,184</b>	<b>\$ 50,821</b>	<b>\$ 12,724</b>	<b>\$ 23,603</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 4,562			\$ 122
Due student groups				17,142
<b>Total Liabilities</b>	<b>4,562</b>			<b>17,264</b>
<b>Fund Balances:</b>				
Nonspendable			\$ 12,724	
Restricted	25,795	\$ 50,821		6,339
Assigned	6,867			
Unassigned	403,960			
<b>Total Fund Balances</b>	<b>436,622</b>	<b>50,821</b>	<b>12,724</b>	<b>6,339</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 441,184</b>	<b>\$ 50,821</b>	<b>\$ 12,724</b>	<b>\$ 23,603</b>

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, 2012

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 1,030,544		
State assistance	2,147,227	\$ 1,290	
Federal assistance		499,116	
Activity revenues	105,394		
Meal sales		69,174	
Investment income	1,142	98	
Other revenues	51,922	20,058	
<b>TOTAL REVENUES</b>	<b>3,336,229</b>	<b>589,736</b>	
<b>EXPENDITURES</b>			
Regular programs	1,496,009	6,253	
Special education	111,593	49,721	
Workforce education programs	168,362		
Compensatory education programs	74,107	45,819	
Other instructional programs	38,064		
Student support services	93,334	120,315	
Instructional staff support services	120,887	52,651	
General administration support services	115,195	27,399	
School administration support services	153,525		
Central services support services	149,165	2,918	
Operation and maintenance of plant services	340,458	2,755	
Student transportation services	218,930		
Other support services	4,305		
Food services operations	1,543	244,104	
Activity expenditures	104,287		
Debt Service:			
Principal retirement	38,556		\$ 45,000
Interest and fiscal charges	7,134		26,782
<b>TOTAL EXPENDITURES</b>	<b>3,235,454</b>	<b>551,935</b>	<b>71,782</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>100,775</b>	<b>37,801</b>	<b>(71,782)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			71,028
Transfers out	(71,028)		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(71,028)</b>		<b>71,028</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>29,747</b>	<b>37,801</b>	<b>(754)</b>
<b>FUND BALANCES - JULY 1</b>	<b>406,875</b>	<b>13,020</b>	<b>13,478</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 436,622</b>	<b>\$ 50,821</b>	<b>\$ 12,724</b>

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 981,500	\$ 1,030,544	\$ 49,044			
State assistance	2,080,480	2,147,227	66,747	\$ 1,300	\$ 1,290	\$ (10)
Federal assistance				462,839	499,116	36,277
Activity revenues	82,500	105,394	22,894			
Meal sales				148,889	69,174	(79,715)
Investment income	1,100	1,142	42	65	98	33
Other revenues	64,100	51,922	(12,178)		20,058	20,058
<b>TOTAL REVENUES</b>	<b>3,209,680</b>	<b>3,336,229</b>	<b>126,549</b>	<b>613,093</b>	<b>589,736</b>	<b>(23,357)</b>
<b>EXPENDITURES</b>						
Regular programs	1,434,246	1,496,009	(61,763)	4,328	6,253	(1,925)
Special education	111,900	111,593	307	59,177	49,721	9,456
Workforce education programs	166,088	168,362	(2,274)			
Compensatory education programs	76,111	74,107	2,004	50,003	45,819	4,184
Other instructional programs	69,063	38,064	30,999			
Student support services	99,034	93,334	5,700	111,744	120,315	(8,571)
Instructional staff support services	123,962	120,887	3,075	50,931	52,651	(1,720)
General administration support services	119,104	115,195	3,909	27,205	27,399	(194)
School administration support services	145,237	153,525	(8,288)			
Central services support services	138,612	149,165	(10,553)	2,924	2,918	6
Operation and maintenance of plant services	276,737	340,458	(63,721)	4,460	2,755	1,705
Student transportation services	235,011	218,930	16,081			
Other support services	1,800	4,305	(2,505)			
Food services operations		1,543	(1,543)	304,298	244,104	60,194
Community services operations				342		342
Activity expenditures	82,158	104,287	(22,129)			
Debt Service:						
Principal retirement	38,556	38,556				
Interest and fiscal charges	7,134	7,134				
<b>TOTAL EXPENDITURES</b>	<b>3,124,753</b>	<b>3,235,454</b>	<b>(110,701)</b>	<b>615,412</b>	<b>551,935</b>	<b>63,477</b>

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 84,927	\$ 100,775	\$ 15,848	\$ (2,319)	\$ 37,801	\$ 40,120
OTHER FINANCING SOURCES (USES)						
Transfers in	1,671,680		(1,671,680)			
Transfers out	(1,735,135)	(71,028)	1,664,107			
TOTAL OTHER FINANCING SOURCES (USES)	(63,455)	(71,028)	(7,573)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	21,472	29,747	8,275	(2,319)	37,801	40,120
FUND BALANCES - JULY 1	416,919	406,875	(10,044)	11,033	13,020	1,987
FUND BALANCES - JUNE 30	\$ 438,391	\$ 436,622	\$ (1,769)	\$ 8,714	\$ 50,821	\$ 42,107

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, 2012

**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.

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.

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

C. Measurement Focus and Basis of Accounting (Continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to 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 2011 calendar year taxes collected by June 30, 2012 and 36 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected to accrue property taxes.

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.

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

G. Fund Balance Classifications (Continued)

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.

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.

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.

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

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	222,324	448,613
Total Deposits	\$ 472,324	\$ 698,613

The above total deposits do not include cash of \$4,288 which was held in the Nevada County Treasury.

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$37,868 at June 30, 2012 was comprised of the following:

	Governmental Fund
Description	Major Special Revenue
Federal assistance	\$ 37,868

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2012:

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, 2012	Maturities To June 30, 2012
8/1/03	1/1/23	3 - 4.25%	\$ 980,000	\$ 620,000	\$ 360,000
2/2/09	12/15/13	4.75%	67,075	28,551	38,524
11/20/09	12/15/14	4.7%	66,500	41,852	24,648
8/2/10	12/15/14	4.8%	67,625	41,242	26,383
Totals			\$ 1,181,200	\$ 731,645	\$ 449,555

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**4: COMMITMENTS (Continued)**

Changes in Long-term Debt

	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012
Bonds payable	\$ 665,000		\$ 45,000	\$ 620,000
Installment contracts	150,201		38,556	111,645
<b>Totals</b>	<b>\$ 815,201</b>	<b>\$ 0</b>	<b>\$ 83,556</b>	<b>\$ 731,645</b>

Total long-term debt principal and interest payments are as follows:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 85,388	\$ 30,150	\$ 115,538
2014	92,306	26,725	119,031
2015	78,951	22,865	101,816
2016	50,000	19,640	69,640
2017	55,000	17,665	72,665
2018-2022	300,000	53,502	353,502
2023	70,000	2,975	72,975
<b>Totals</b>	<b>\$ 731,645</b>	<b>\$ 173,522</b>	<b>\$ 905,167</b>

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$4,684 at June 30, 2012 was comprised of the following:

Description	Governmental Fund	Fiduciary Fund Types	Total
	Major General		
Vendor payables	\$ 4,562	\$ 122	\$ 4,684

**6: INTERFUND TRANSFERS**

The District transferred \$71,028 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 nonteachers hired before July 1, 1989. 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.

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**7: RETIREMENT PLAN (Continued)**

Arkansas Teacher Retirement System (Continued)

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, 2012, 2011, and 2010 were \$338,046, \$354,333, and \$347,868, 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	\$ 1,017
	<hr/>
DEDUCTIONS	
Scholarships	389
	<hr/>
CHANGE IN FUND BALANCE	628
FUND BALANCE - JULY 1	<hr/> 5,711
FUND BALANCE - JUNE 30	<hr/> <u>\$ 6,339</u>

**9: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$980,000 issued on August 1, 2003. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$783,460, payable through January 1, 2023. Principal and interest paid for the current year and total property taxes pledged for debt service were \$71,355 and \$290,211, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 24.59 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.

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**10: RISK MANAGEMENT (Continued)**

The District participates in the Public School Property and Vehicle 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 \$57,896 for the year ended June 30, 2012.

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

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Fund Balances:				
Nonspendable:				
Deposit with paying agent			\$ 12,724	\$ 12,724
Restricted for:				
Alternative learning environment	\$ 894			894
Educational programs - national school lunch state categorical funding	17,554			17,554
Professional development	3,470			3,470
Child nutrition programs		\$ 37,679		37,679
Medical services		11,075		11,075
Special education programs	3,802			3,802
Other purposes	75	2,067		2,142
Total Restricted	<u>25,795</u>	<u>50,821</u>		<u>76,616</u>
Assigned to:				
Student activities	<u>6,867</u>			<u>6,867</u>
Unassigned	<u>403,960</u>			<u>403,960</u>
Totals	<u>\$ 436,622</u>	<u>\$ 50,821</u>	<u>\$ 12,724</u>	<u>\$ 500,167</u>

NEVADA SCHOOL DISTRICT NO. 1  
 NEVADA COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Unaudited)

Schedule 1

	Balance June 30, 2012
<i>Nondepreciable capital assets:</i>	
Land	\$ 51,297
<i>Depreciable capital assets:</i>	
Buildings	4,234,984
Improvements/infrastructure	185,282
Equipment	1,168,429
Total depreciable capital assets	5,588,695
Less accumulated depreciation for:	
Buildings	2,096,153
Improvements/infrastructure	138,893
Equipment	936,383
Total accumulated depreciation	3,171,429
Total depreciable capital assets, net	2,417,266
Capital assets, net	\$ 2,468,563

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, 2012  
(Unaudited)

Schedule 2

	Year Ended June 30,				
	2012	2011	2010	2009	2008
<b><u>General Fund</u></b>					
Total Assets	\$ 441,184	\$ 408,180	\$ 375,049	\$ 342,115	\$ 156,679
Total Liabilities	4,562	1,305	2,154	3,127	17,444
Total Fund Balances	436,622	406,875	372,895	338,988	139,235
Total Revenues	3,336,229	3,269,373	3,361,661	3,540,031	3,180,791
Total Expenditures	3,235,454	3,230,561	3,325,525	3,337,424	3,367,135
Total Other Financing Sources (Uses)	(71,028)	(4,832)	(2,229)	(2,854)	(71,129)
<b><u>Special Revenue Fund</u></b>					
Total Assets	50,821	30,504	36,416	29,024	49,674
Total Liabilities		17,484	31,273		3,534
Total Fund Balances	50,821	13,020	5,143	29,024	46,140
Total Revenues	589,736	737,851	950,360	594,215	594,783
Total Expenditures	551,935	729,974	974,241	611,331	593,805
<b><u>Other Aggregate Funds</u></b>					
Total Assets	12,724	13,478	14,153	14,753	15,353
Total Liabilities					
Total Fund Balances	12,724	13,478	14,153	14,753	15,353
Total Revenues					
Total Expenditures	71,782	73,132	69,329	70,529	71,429
Total Other Financing Sources (Uses)	71,028	72,457	68,729	69,929	71,129