

# **Nevada School District No. 1**

**Nevada County, Arkansas**

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

**June 30, 2013**

LEGISLATIVE JOINT AUDITING COMMITTEE

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NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
TABLE OF CONTENTS  
JUNE 30, 2013

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

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

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Nevada School District No. 1 (the "District"), as of and for the year ended June 30, 2013, 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 Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the reporting 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 disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

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

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

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2013, or the changes in financial position for the year then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

**Other Matters**

*Other Information*

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
April 29, 2014  
EDSD26713

**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*

#### INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund and the aggregate remaining fund information of the Nevada School District No. 1 (the "District"), as of and for the year ended June 30, 2013, 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 29, 2014. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

#### **Internal Control Over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

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

## AUDIT FINDINGS

### Material Weakness

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

Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain 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 the accounting records and such employee had unrestricted access to the District's signature stamp pertaining to the District's food services operations account. The same person 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.

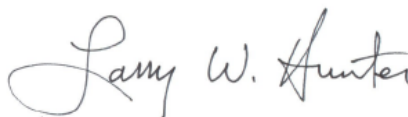
### **District's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
April 29, 2014

NEVADA SCHOOL DISTRICT NO. 1  
 NEVADA COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2013

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 483,470	\$ 72,056		\$ 25,411
Accounts receivable		31,176		
Deposit with paying agent			\$ 11,970	
<b>TOTAL ASSETS</b>	<b>\$ 483,470</b>	<b>\$ 103,232</b>	<b>\$ 11,970</b>	<b>\$ 25,411</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 3,308			
Due student groups				\$ 19,543
<b>Total Liabilities</b>	<b>3,308</b>			<b>19,543</b>
Fund Balances:				
Nonspendable			\$ 11,970	
Restricted	10,982	\$ 103,232		5,868
Assigned	4,288			
Unassigned	464,892			
<b>Total Fund Balances</b>	<b>480,162</b>	<b>103,232</b>	<b>11,970</b>	<b>5,868</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 483,470</b>	<b>\$ 103,232</b>	<b>\$ 11,970</b>	<b>\$ 25,411</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, 2013

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 1,103,541		
State assistance	2,072,216	\$ 1,400	
Federal assistance		509,531	
Activity revenues	54,679		
Meal sales		57,937	
Investment income	908	96	
Other revenues	50,946	7,554	
<b>TOTAL REVENUES</b>	<b>3,282,290</b>	<b>576,518</b>	
<b>EXPENDITURES</b>			
Regular programs	1,430,680	2,418	
Special education	104,992	41,092	
Career education programs	169,024		
Compensatory education programs	49,908	29,309	
Other instructional programs	18,737		
Student support services	118,276	125,464	
Instructional staff support services	219,051	61,086	
General administration support services	140,618	27,035	
School administration support services	158,434		
Central services support services	83,812	4,046	
Operation and maintenance of plant services	353,347		
Student transportation services	291,745		
Other support services	5,698		
Food services operations	1,298	233,657	
Activity expenditures	57,258		
Debt Service:			
Principal retirement	60,878		\$ 45,000
Interest and fiscal charges	6,498		25,275
<b>TOTAL EXPENDITURES</b>	<b>3,270,254</b>	<b>524,107</b>	<b>70,275</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>12,036</b>	<b>52,411</b>	<b>(70,275)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			69,521
Transfers out	(69,521)		
Proceeds from installment contracts	101,025		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>31,504</b>		<b>69,521</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>43,540</b>	<b>52,411</b>	<b>(754)</b>
<b>FUND BALANCES - JULY 1</b>	<b>436,622</b>	<b>50,821</b>	<b>12,724</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 480,162</b>	<b>\$ 103,232</b>	<b>\$ 11,970</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, 2013

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)	\$ 1,069,500	\$ 1,103,541	\$ 34,041			
State assistance	2,149,857	2,072,216	(77,641)	\$ 1,300	\$ 1,400	\$ 100
Federal assistance				513,975	509,531	(4,444)
Activity revenues		54,679	54,679			
Meal sales				151,165	57,937	(93,228)
Investment income	1,200	908	(292)	100	96	(4)
Other revenues	47,025	50,946	3,921		7,554	7,554
<b>TOTAL REVENUES</b>	<b>3,267,582</b>	<b>3,282,290</b>	<b>14,708</b>	<b>666,540</b>	<b>576,518</b>	<b>(90,022)</b>
<b>EXPENDITURES</b>						
Regular programs	1,427,779	1,430,680	(2,901)		2,418	(2,418)
Special education	84,562	104,992	(20,430)	44,461	41,092	3,369
Career education programs	169,196	169,024	172			
Compensatory education programs	51,662	49,908	1,754	35,045	29,309	5,736
Other instructional programs	16,957	18,737	(1,780)			
Student support services	110,031	118,276	(8,245)	140,851	125,464	15,387
Instructional staff support services	193,721	219,051	(25,330)	54,588	61,086	(6,498)
General administration support services	124,654	140,618	(15,964)	27,205	27,035	170
School administration support services	154,785	158,434	(3,649)			
Central services support services	152,328	83,812	68,516	2,925	4,046	(1,121)
Operation and maintenance of plant services	391,448	353,347	38,101	8,067		8,067
Student transportation services	367,292	291,745	75,547			
Other support services	4,500	5,698	(1,198)			
Food services operations		1,298	(1,298)	301,145	233,657	67,488
Community services operations				100		100
Activity expenditures	70,275	57,258	13,017			
Debt Service:						
Principal retirement	60,870	60,878	(8)			
Interest and fiscal charges	6,821	6,498	323			
<b>TOTAL EXPENDITURES</b>	<b>3,386,881</b>	<b>3,270,254</b>	<b>116,627</b>	<b>614,387</b>	<b>524,107</b>	<b>90,280</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, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (119,299)	\$ 12,036	\$ 131,335	\$ 52,153	\$ 52,411	\$ 258
OTHER FINANCING SOURCES (USES)						
Transfers in	1,598,678		(1,598,678)			
Transfers out	(1,668,312)	(69,521)	1,598,791			
Proceeds from installment contracts	101,025	101,025				
TOTAL OTHER FINANCING SOURCES (USES)	31,391	31,504	113			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(87,908)	43,540	131,448	52,153	52,411	258
FUND BALANCES - JULY 1	489,100	436,622	(52,478)	50,821	50,821	
FUND BALANCES - JUNE 30	\$ 401,192	\$ 480,162	\$ 78,970	\$ 102,974	\$ 103,232	\$ 258

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, 2013

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

**B. Description of Funds**

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

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

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

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

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

Fiduciary Fund types include the following:

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

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

**C. Measurement Focus and Basis of Accounting**

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

NEVADA SCHOOL DISTRICT NO. 1  
 NEVADA COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013

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

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

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

F. Property Taxes

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

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**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 2012 calendar year taxes collected by June 30, 2013 and 32 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, 2013 equaled or exceeded the 32 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.

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**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 an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

L. Encumbrances

The District does not utilize encumbrance accounting.

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	330,937	582,346
Total Deposits	\$ 580,937	\$ 832,346

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$31,176 at June 30, 2013 was comprised of the following:

Description	Governmental Fund Major Special Revenue
Federal assistance	\$ 31,176

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2013:

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, 2013	Maturities To June 30, 2013
8/1/03	1/1/23	3 - 4.25%	\$ 980,000	\$ 575,000	\$ 405,000
2/2/09	12/15/13	4.75%	67,075	14,607	52,468
11/20/09	12/15/14	4.7%	66,500	28,518	37,982
8/2/10	12/15/14	4.8%	67,625	28,132	39,493
7/9/12	12/15/16	3%	76,810	61,328	15,482
9/18/12	12/15/16	3%	24,215	19,207	5,008
Totals			\$ 1,282,225	\$ 726,792	\$ 555,433

Changes in Long-Term Debt

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013
Bonds payable	\$ 620,000		\$ 45,000	\$ 575,000
Installment contracts	111,645	\$ 101,025	60,878	151,792
Totals	\$ 731,645	\$ 101,025	\$ 105,878	\$ 726,792

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**4: COMMITMENTS (Continued)**

Long-term Debt Issued and Outstanding (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 111,575	\$ 29,141	\$ 140,716
2015	98,798	24,703	123,501
2016	70,442	20,883	91,325
2017	75,977	18,294	94,271
2018	55,000	15,493	70,493
2019-2023	315,000	40,985	355,985
Totals	<u>\$ 726,792</u>	<u>\$ 149,499</u>	<u>\$ 876,291</u>

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$3,308 at June 30, 2013 was comprised of the following:

Description	<u>Governmental Fund</u>
	<u>Major</u>
	<u>General</u>
Vendor payables	<u>\$ 3,308</u>

**6: INTERFUND TRANSFERS**

The District transferred \$69,521 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.

**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, 2013, 2012, and 2011 were \$330,122, \$338,046, and \$354,333, respectively, equal to the required contributions for each year.



NEVADA SCHOOL DISTRICT NO. 1  
 NEVADA COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013

**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	\$ <u>1,184</u>
DEDUCTIONS	
Scholarships	<u>1,655</u>
CHANGE IN FUND BALANCE	(471)
FUND BALANCE - JULY 1	<u>6,339</u>
FUND BALANCE - JUNE 30	<u>\$ 5,868</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 \$713,612, payable through January 1, 2023. Principal and interest paid for the current year and total property taxes pledged for debt service were \$69,848 and \$310,767, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 22.48 percent.

**10: RISK MANAGEMENT**

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

The District carries commercial insurance for student accidents. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

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

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

The District participates in the 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.

NEVADA SCHOOL DISTRICT NO. 1  
NEVADA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**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 \$58,877 for the year ended June 30, 2013.

**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			\$ 11,970	\$ 11,970
Restricted for:				
Alternative learning environment	\$ 894			894
Educational programs - national school lunch state categorical funding	6,644			6,644
Professional development	2,831			2,831
Child nutrition programs		\$ 64,399		64,399
Medical services		36,766		36,766
Special education programs	613			613
Other purposes		2,067		2,067
Total Restricted	<u>10,982</u>	<u>103,232</u>		<u>114,214</u>
Assigned to:				
Student activities	<u>4,288</u>			<u>4,288</u>
Unassigned	<u>464,892</u>			<u>464,892</u>
Totals	<u>\$ 480,162</u>	<u>\$ 103,232</u>	<u>\$ 11,970</u>	<u>\$ 595,364</u>

**13: SUBSEQUENT EVENTS**

On April 10, 2014, the State Board of Education approved the involuntary administrative consolidation of the Stephens School District with three adjacent school districts, one being the Nevada School District. The portion of the Stephens School District located in Nevada County will be consolidated with the District effective July 1, 2014 in accordance with the State Board of Education decision.

NEVADA SCHOOL DISTRICT NO. 1  
 NEVADA COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Unaudited)

Schedule 1

	Balance June 30, 2013
<i>Nondepreciable capital assets:</i>	
Land	\$ 51,297
<i>Depreciable capital assets:</i>	
Buildings	4,234,984
Improvements/infrastructure	185,282
Equipment	1,260,323
Total depreciable capital assets	5,680,589
Less accumulated depreciation for:	
Buildings	2,182,238
Improvements/infrastructure	141,975
Equipment	984,145
Total accumulated depreciation	3,308,358
Total depreciable capital assets, net	2,372,231
Capital assets, net	\$ 2,423,528

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, 2013  
 (Unaudited)

Schedule 2

<b><u>General Fund</u></b>	Year Ended June 30,				
	2013	2012	2011	2010	2009
Total Assets	\$ 483,470	\$ 441,184	\$ 408,180	\$ 375,049	\$ 342,115
Total Liabilities	3,308	4,562	1,305	2,154	3,127
Total Fund Balances	480,162	436,622	406,875	372,895	338,988
Total Revenues	3,282,290	3,336,229	3,269,373	3,361,661	3,540,031
Total Expenditures	3,270,254	3,235,454	3,230,561	3,325,525	3,337,424
Total Other Financing Sources (Uses)	31,504	(71,028)	(4,832)	(2,229)	(2,854)
<b><u>Special Revenue Fund</u></b>					
Total Assets	103,232	50,821	30,504	36,416	29,024
Total Liabilities			17,484	31,273	
Total Fund Balances	103,232	50,821	13,020	5,143	29,024
Total Revenues	576,518	589,736	737,851	950,360	594,215
Total Expenditures	524,107	551,935	729,974	974,241	611,331
Total Other Financing Sources (Uses)					
<b><u>Other Aggregate Funds</u></b>					
Total Assets	11,970	12,724	13,478	14,153	14,753
Total Liabilities					
Total Fund Balances	11,970	12,724	13,478	14,153	14,753
Total Revenues					
Total Expenditures	70,275	71,782	73,132	69,329	70,529
Total Other Financing Sources (Uses)	69,521	71,028	72,457	68,729	69,929