

**Marmaduke School District No. S-2**

**Greene County, Arkansas**

**Regulatory Basis Financial Statements  
And Other Reports**

**June 30, 2016**

LEGISLATIVE JOINT AUDITING COMMITTEE

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MARMADUKE SCHOOL DISTRICT NO. S-2  
GREENE COUNTY, ARKANSAS  
TABLE OF CONTENTS  
JUNE 30, 2016

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



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

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Marmaduke School District No. S-2 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 Marmaduke School District No. S-2 (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

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

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

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

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

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2016, 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, 2016, 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 December 1, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
December 1, 2016  
EDSD14716

# Arkansas

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



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

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

### INDEPENDENT AUDITOR'S REPORT

Marmaduke School District No. S-2 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 Marmaduke School District No. S-2 (the "District"), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated December 1, 2016. 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, 2016, 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.

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. 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 those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

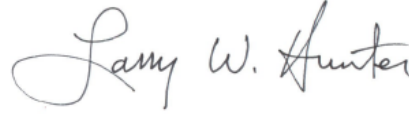
#### Compliance and Other Matters

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

**Purpose of this Report**

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

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
December 1, 2016

MARMADUKE SCHOOL DISTRICT NO. S-2  
 GREENE COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2016

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 1,329,977	\$ 166,939	\$ 350,000	\$ 67,986
Investments	590,576			
Accounts receivable	46,277	44,354		1,837
<b>TOTAL ASSETS</b>	<b>\$ 1,966,830</b>	<b>\$ 211,293</b>	<b>\$ 350,000</b>	<b>\$ 69,823</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 46,564	\$ 1,660		\$ 1,186
Due student groups				68,637
Total Liabilities	46,564	1,660		69,823
Fund Balances:				
Restricted	15,638	209,633		
Assigned	28,286		\$ 350,000	
Unassigned	1,876,342			
Total Fund Balances	1,920,266	209,633	350,000	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,966,830</b>	<b>\$ 211,293</b>	<b>\$ 350,000</b>	<b>\$ 69,823</b>

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

MARMADUKE SCHOOL DISTRICT NO. S-2  
 GREENE COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 1,419,234		
State assistance	4,269,443	\$ 10,296	
Federal assistance	1,235	820,142	
Activity revenues	171,422		
Meal sales		89,620	
Investment income	6,237		
Other revenues	145,243		
<b>TOTAL REVENUES</b>	<b>6,012,814</b>	<b>920,058</b>	
<b>EXPENDITURES</b>			
Regular programs	2,420,937		
Special education	267,290	87,272	
Career education programs	170,135		
Compensatory education programs	1,338	75,657	
Other instructional programs	292,136		
Student support services	293,876	98,234	
Instructional staff support services	436,805	120,559	
General administration support services	186,307	46,253	
School administration support services	361,101		
Central services support services	103,498		
Operation and maintenance of plant services	616,054		
Student transportation services	306,629	10,399	
Other support services	35,669		
Food services operations	30,563	447,587	
Community services operations	58,554	34,686	
Facilities acquisition and construction services	12,679		
Activity expenditures	159,486		
Debt Service:			
Principal retirement			\$ 50,000
Interest and fiscal charges			34,682
<b>TOTAL EXPENDITURES</b>	<b>5,753,057</b>	<b>920,647</b>	<b>84,682</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>259,757</b>	<b>(589)</b>	<b>(84,682)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			184,682
Transfers out	(184,682)		
Refund to grantor	(8,000)		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(192,682)</b>		<b>184,682</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>67,075</b>	<b>(589)</b>	<b>100,000</b>
<b>FUND BALANCES - JULY 1</b>	<b>1,853,191</b>	<b>210,222</b>	<b>250,000</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 1,920,266</b>	<b>\$ 209,633</b>	<b>\$ 350,000</b>

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



MARMADUKE SCHOOL DISTRICT NO. S-2

Exhibit C

GREENE 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, 2016

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,460,019	\$ 1,419,234	\$ (40,785)			
State assistance	4,173,768	4,269,443	95,675	\$ 3,100	\$ 10,296	\$ 7,196
Federal assistance		1,235	1,235	736,738	820,142	83,404
Activity revenues		171,422	171,422			
Meal sales				96,700	89,620	(7,080)
Investment income	5,550	6,237	687			
Other revenues	134,700	145,243	10,543			
<b>TOTAL REVENUES</b>	<b>5,774,037</b>	<b>6,012,814</b>	<b>238,777</b>	<b>836,538</b>	<b>920,058</b>	<b>83,520</b>
EXPENDITURES						
Regular programs	2,424,986	2,420,937	4,049			
Special education	261,878	267,290	(5,412)	93,919	87,272	6,647
Career education programs	170,471	170,135	336	11,605		11,605
Compensatory education programs		1,338	(1,338)	78,670	75,657	3,013
Other instructional programs	293,892	292,136	1,756			
Student support services	278,018	293,876	(15,858)	100,589	98,234	2,355
Instructional staff support services	434,758	436,805	(2,047)	140,328	120,559	19,769
General administration support services	186,336	186,307	29	46,730	46,253	477
School administration support services	360,902	361,101	(199)			
Central services support services	104,465	103,498	967			
Operation and maintenance of plant services	606,731	616,054	(9,323)			
Student transportation services	297,338	306,629	(9,291)	12,073	10,399	1,674
Other support services	18,200	35,669	(17,469)			
Food services operations	34,704	30,563	4,141	383,139	447,587	(64,448)
Community services operations	68,618	58,554	10,064	13,392	34,686	(21,294)
Facilities acquisition and construction services	11,299	12,679	(1,380)			
Activity expenditures		159,486	(159,486)			
<b>TOTAL EXPENDITURES</b>	<b>5,552,596</b>	<b>5,753,057</b>	<b>(200,461)</b>	<b>880,445</b>	<b>920,647</b>	<b>(40,202)</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	221,441	259,757	38,316	(43,907)	(589)	43,318

MARMADUKE SCHOOL DISTRICT NO. S-2

Exhibit C

GREENE 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, 2016

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 7,833,318		\$ (7,833,318)	\$ 6,000		\$ (6,000)
Transfers out	(7,918,004)	\$ (184,682)	7,733,322	(6,000)		6,000
Refund to grantor		(8,000)	(8,000)			
TOTAL OTHER FINANCING SOURCES (USES)	<u>(84,686)</u>	<u>(192,682)</u>	<u>(107,996)</u>	<u>0</u>		<u>0</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	136,755	67,075	(69,680)	(43,907)	\$ (589)	43,318
FUND BALANCES - JULY 1	<u>1,944,140</u>	<u>1,853,191</u>	<u>(90,949)</u>	<u>208,975</u>	<u>210,222</u>	<u>1,247</u>
FUND BALANCES - JUNE 30	<u>\$ 2,080,895</u>	<u>\$ 1,920,266</u>	<u>\$ (160,629)</u>	<u>\$ 165,068</u>	<u>\$ 209,633</u>	<u>\$ 44,565</u>

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

MARMADUKE SCHOOL DISTRICT NO. S-2  
GREENE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**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 Marmaduke 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).

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, 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.

MARMADUKE SCHOOL DISTRICT NO. S-2  
 GREENE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016

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

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

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	20-50
Buildings	20-50
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 2015 calendar year taxes collected by June 30, 2016 and 20 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, 2016 equaled or exceeded the 20 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.

MARMADUKE SCHOOL DISTRICT NO. S-2  
GREENE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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

G. Fund Balance Classifications

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

H. Budget and Budgetary Accounting

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

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

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

I. Stabilization Arrangements

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

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.

MARMADUKE SCHOOL DISTRICT NO. S-2  
 GREENE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016

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

K. Fund Balance Classification Policies and Procedures (Continued)

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 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)	\$ 500,000	\$ 500,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	2,005,478	2,027,830
Total Deposits	\$ 2,505,478	\$ 2,527,830

The above total deposits include certificates of deposit of \$590,576 reported as investments and classified as nonparticipating contracts.

**3: ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2016 were comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types
	Major	Special	
	General	Revenue	
State assistance	\$ 40,228		
Federal assistance		\$ 44,354	
Activity fund accounts			\$ 1,837
Other	6,049		
Totals	\$ 46,277	\$ 44,354	\$ 1,837

MARMADUKE SCHOOL DISTRICT NO. S-2  
GREENE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2016:

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, 2016	Maturities To June 30, 2016
2/1/12	2/1/36	1 - 3.4%	<u>\$ 1,430,000</u>	<u>\$ 1,310,000</u>	<u>\$ 120,000</u>

Changes in Long-term Debt

	Balance July 1, 2015	Issued	Retired	Balance June 30, 2016
Bonds payable	<u>\$ 1,360,000</u>	<u>\$ 0</u>	<u>\$ 50,000</u>	<u>\$ 1,310,000</u>

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2017	\$ 50,000	\$ 33,752	\$ 83,752
2018	55,000	33,178	88,178
2019	55,000	32,545	87,545
2020	55,000	31,665	86,665
2021	60,000	30,785	90,785
2022-2026	295,000	137,020	432,020
2027-2031	345,000	96,550	441,550
2032-2036	395,000	40,521	435,521
Totals	<u>\$ 1,310,000</u>	<u>\$ 436,016</u>	<u>\$ 1,746,016</u>

Security for Debt Payments

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

MARMADUKE SCHOOL DISTRICT NO. S-2  
 GREENE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016

**5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2016 were comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types
	General	Special Revenue	
Vendor payables	\$ 45,542	\$ 1,660	\$ 1,186
Payroll withholdings and matching	1,022		
<b>Totals</b>	<b>\$ 46,564</b>	<b>\$ 1,660</b>	<b>\$ 1,186</b>

**6: INTERFUND TRANSFERS**

The District transferred \$184,682 from the general fund to the other aggregate funds for debt related payments of \$84,682 and to supplement future capital expenditures by \$100,000.

**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 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 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 District's contributions to ATRS for the year ended June 30, 2016 were \$562,857, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2015 (actuarial valuation date and measurement date) was \$4,513,062.

**8: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$1,430,000 issued on February 1, 2012. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$1,746,016, payable through February 1, 2036. Principal and interest paid for the current year and total property taxes pledged for debt service were \$84,252 and \$170,641, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 49.37 percent.



MARMADUKE SCHOOL DISTRICT NO. S-2  
GREENE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**9: 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, student accidents, and business trip accidental death and dismemberment coverage.

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

Additionally, the District participates in the Arkansas School Boards Association - Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating, and settling claims that have been filed against member districts. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

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

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

**10: 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 \$192,160 for the year ended June 30, 2016.

MARMADUKE SCHOOL DISTRICT NO. S-2  
 GREENE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 65		
Educational programs - national school lunch state categorical funding	2,330		
Child nutrition programs		\$ 188,236	
Medical services		6,507	
Special education programs	1,200	11,203	
Other purposes	12,043	3,687	
Total Restricted	<u>15,638</u>	<u>209,633</u>	
Assigned to:			
Capital projects			\$ 350,000
Student activities	28,286		
Total Assigned	<u>28,286</u>		<u>350,000</u>
Unassigned	<u>1,876,342</u>		
Totals	<u>\$1,920,266</u>	<u>\$ 209,633</u>	<u>\$ 350,000</u>

**12: SUBSEQUENT EVENTS**

On July 10, 2016, the District executed a \$62,000 installment contract to finance the purchase of a bus.

MARMADUKE SCHOOL DISTRICT NO. S-2  
 GREENE COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2016  
 (Unaudited)

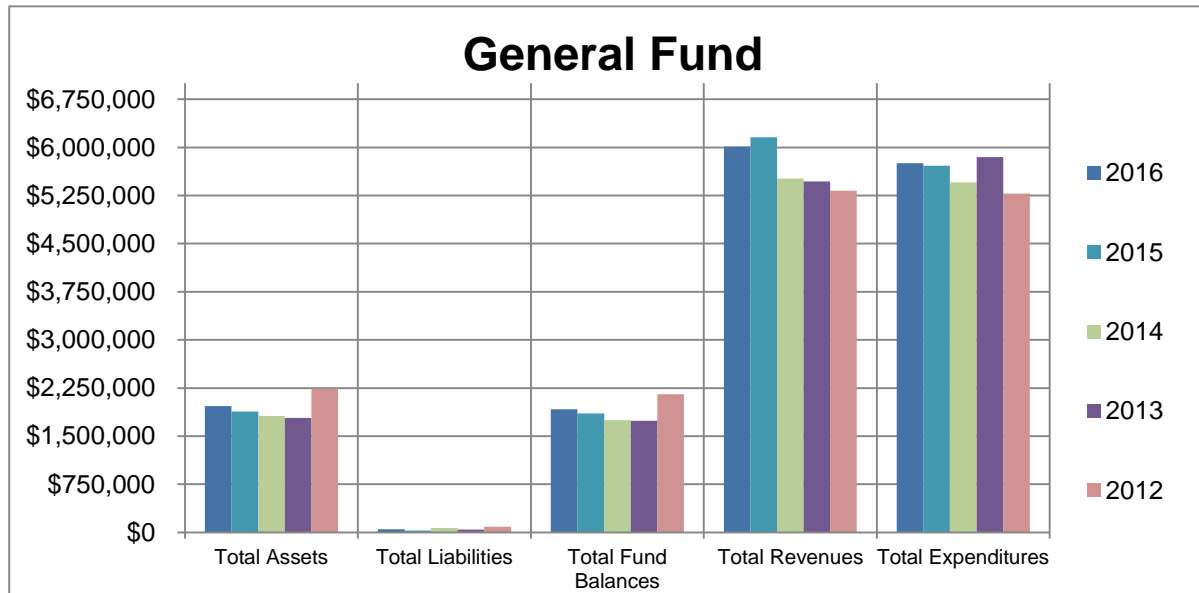
Schedule 1

	Balance June 30, 2016
<i>Nondepreciable capital assets:</i>	
Land	<u>\$ 46,532</u>
<i>Depreciable capital assets:</i>	
Buildings	9,942,957
Improvements/infrastructure	919,173
Equipment	1,895,634
Total depreciable capital assets	<u>12,757,764</u>
Less accumulated depreciation for:	
Buildings	2,930,326
Improvements/infrastructure	327,207
Equipment	1,475,089
Total accumulated depreciation	<u>4,732,622</u>
Total depreciable capital assets, net	<u>8,025,142</u>
Capital assets, net	<u><u>\$ 8,071,674</u></u>

MARMADUKE SCHOOL DISTRICT NO. S-2  
 GREENE COUNTY, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016  
 (Unaudited)

Schedule 2

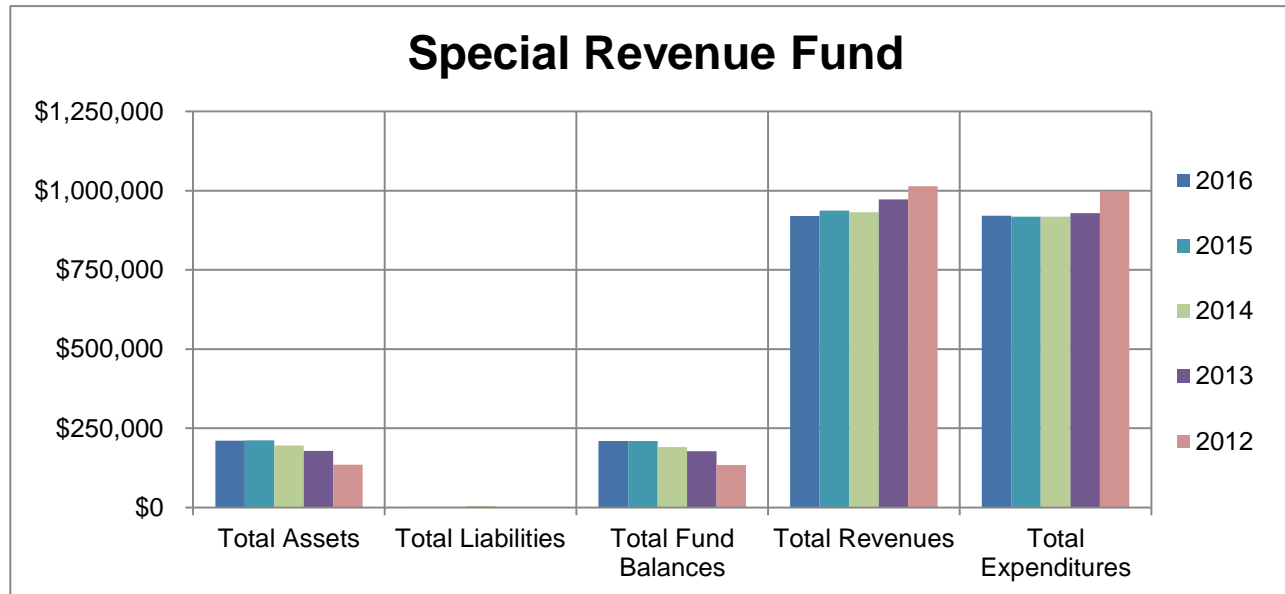
<u>General Fund</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 1,966,830	\$ 1,883,066	\$ 1,814,525	\$ 1,784,864	\$ 2,240,276
Total Liabilities	46,564	29,875	65,574	44,989	87,081
Total Fund Balances	1,920,266	1,853,191	1,748,951	1,739,875	2,153,195
Total Revenues	6,012,814	6,159,307	5,514,410	5,471,608	5,324,607
Total Expenditures	5,753,057	5,714,831	5,454,973	5,849,575	5,279,042
Total Other Financing Sources (Uses)	(192,682)	(340,236)	(50,361)	(35,353)	(88,572)



MARMADUKE SCHOOL DISTRICT NO. S-2  
 GREENE COUNTY, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016  
 (Unaudited)

Schedule 2

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 211,293	\$ 211,605	\$ 195,576	\$ 178,357	\$ 135,222
Total Liabilities	1,660	1,383	4,450	946	704
Total Fund Balances	209,633	210,222	191,126	177,411	134,518
Total Revenues	920,058	937,413	932,024	972,213	1,013,766
Total Expenditures	920,647	918,317	918,309	929,320	997,659
Total Other Financing Sources (Uses)					



MARMADUKE SCHOOL DISTRICT NO. S-2  
 GREENE COUNTY, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016  
 (Unaudited)

Schedule 2

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 350,000	\$ 250,000			
Total Liabilities					
Total Fund Balances	350,000	250,000			
Total Revenues					\$ 59,567
Total Expenditures	84,682	90,236	\$ 50,361	\$ 35,353	153,282
Total Other Financing Sources (Uses)	184,682	340,236	50,361	35,353	93,715

