

**Flippin School District No. 26**

**Marion County, Arkansas**

**Regulatory Basis Financial Statements  
and Other Reports**

**June 30, 2016**

LEGISLATIVE JOINT AUDITING COMMITTEE



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MARION COUNTY, ARKANSAS  
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JUNE 30, 2016

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# Arkansas

**Sen. Jimmy Hickey, Jr.**  
Senate Chair  
**Sen. Lance Eads**  
Senate Vice Chair



**Rep. Richard Womack**  
House Chair  
**Rep. Mary Bentley**  
House Vice Chair

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Flippin School District No. 26 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 Flippin School District No. 26 (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**

*Supplementary and 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 Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Schedule of Capital Assets, and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

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 January 10, 2017 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  
January 10, 2017  
EDSD23816

# Arkansas

**Sen. Jimmy Hickey, Jr.**  
Senate Chair  
**Sen. Lance Eads**  
Senate Vice Chair



**Rep. Richard Womack**  
House Chair  
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House Vice Chair

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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

Flippin School District No. 26 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 Flippin School District No. 26 (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 January 10, 2017. 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002, that we consider to be material weaknesses.

#### **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 and federal 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*.

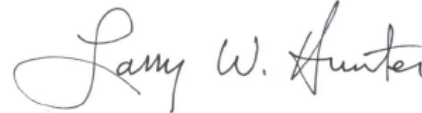
### **District's Response to Findings**

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

### **Purpose of this Report**

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

ARKANSAS LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
January 10, 2017

# Arkansas

**Sen. Jimmy Hickey, Jr.**  
Senate Chair  
**Sen. Lance Eads**  
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Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

### INDEPENDENT AUDITOR'S REPORT

Flippin School District No. 26 and School Board Members  
Legislative Joint Auditing Committee

#### **Report on Compliance for Each Major Federal Program**

We have audited the Flippin School District No. 26 (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

#### **Report on Internal Control Over Compliance**

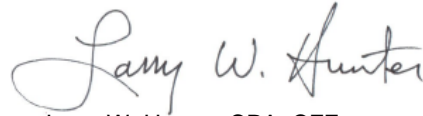
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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  
January 10, 2017



FLIPPIN SCHOOL DISTRICT NO. 26  
MARION 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	\$ 726,211	\$ 204,970	\$ 5,107,704	\$ 132,550
Investments	262,311			
Accounts receivable	12,451	25,518	72,157	
Due from other funds			4,751	
<b>TOTAL ASSETS</b>	<b>\$ 1,000,973</b>	<b>\$ 230,488</b>	<b>\$ 5,184,612</b>	<b>\$ 132,550</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 82,986	\$ 9,024	\$ 823,278	\$ 86
Due student groups				88,915
Due to other funds	4,751			
<b>Total Liabilities</b>	<b>87,737</b>	<b>9,024</b>	<b>823,278</b>	<b>89,001</b>
<b>Fund Balances:</b>				
Restricted	96,605	221,464	3,698,238	43,549
Committed			585,844	
Assigned	70,034		77,252	
Unassigned	746,597			
<b>Total Fund Balances</b>	<b>913,236</b>	<b>221,464</b>	<b>4,361,334</b>	<b>43,549</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,000,973</b>	<b>\$ 230,488</b>	<b>\$ 5,184,612</b>	<b>\$ 132,550</b>

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

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION 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)	\$ 3,689,713		
State assistance	3,940,263	\$ 2,890	\$ 190,702
Federal assistance	27,541	1,149,327	771,417
Activity revenues	190,745		
Meal sales		49,773	
Investment income	4,332		17,168
Other revenues	68,950	13,280	
<b>TOTAL REVENUES</b>	<b>7,921,544</b>	<b>1,215,270</b>	<b>979,287</b>
<b>EXPENDITURES</b>			
Regular programs	2,986,739		
Special education	404,957	126,120	
Career education programs	103,710	51,350	
Compensatory education programs	362,700	269,542	
Other instructional programs	357,733		
Student support services	143,472	45,762	
Instructional staff support services	608,265	92,308	
General administration support services	192,798	44,595	
School administration support services	449,581		
Central services support services	154,853		
Operation and maintenance of plant services	1,001,780	7,856	23,000
Student transportation services	239,367	15,249	
Other support services	28,243		
Food services operations		413,649	
Facilities acquisition and construction services			3,591,173
Activity expenditures	151,958		
Debt Service:			
Principal retirement	82,101		175,000
Interest and fiscal charges	4,202		305,999
<b>TOTAL EXPENDITURES</b>	<b>7,272,459</b>	<b>1,066,431</b>	<b>4,095,172</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>649,085</b>	<b>148,839</b>	<b>(3,115,885)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			851,438
Transfers out	(851,438)		
Value of installment contract	211,696		
Proceeds from refunding bond issue			6,860,000
Net bond issuance costs			(173,388)
Payment to refunding bond escrow agent			(6,681,861)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(639,742)</b>		<b>856,189</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>9,343</b>	<b>148,839</b>	<b>(2,259,696)</b>
<b>FUND BALANCES - JULY 1</b>	<b>903,893</b>	<b>72,625</b>	<b>6,621,030</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 913,236</b>	<b>\$ 221,464</b>	<b>\$ 4,361,334</b>

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

FLIPPIN SCHOOL DISTRICT NO. 26

MARION COUNTY, ARKANSAS

Exhibit C

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)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 3,520,406	\$ 3,689,713	\$ 169,307			
State assistance	3,977,110	3,940,263	(36,847)	\$ 3,000	\$ 2,890	\$ (110)
Federal assistance		27,541	27,541	1,563,680	1,149,327	(414,353)
Activity revenues	228,455	190,745	(37,710)			
Meal sales				63,700	49,773	(13,927)
Investment income	2,096	4,332	2,236			
Other revenues	109,015	68,950	(40,065)	1,500	13,280	11,780
<b>TOTAL REVENUES</b>	<b>7,837,082</b>	<b>7,921,544</b>	<b>84,462</b>	<b>1,631,880</b>	<b>1,215,270</b>	<b>(416,610)</b>
<b>EXPENDITURES</b>						
Regular programs	2,956,470	2,986,739	(30,269)			
Special education	447,977	404,957	43,020	172,470	126,120	46,350
Career education programs	104,704	103,710	994	56,262	51,350	4,912
Compensatory education programs	367,066	362,700	4,366	284,120	269,542	14,578
Other instructional programs	317,467	357,733	(40,266)			
Student support services	149,271	143,472	5,799	126,896	45,762	81,134
Instructional staff support services	562,683	608,265	(45,582)	138,890	92,308	46,582
General administration support services	191,083	192,798	(1,715)	47,618	44,595	3,023
School administration support services	443,976	449,581	(5,605)			
Central services support services	191,959	154,853	37,106			
Operation and maintenance of plant services	847,336	1,001,780	(154,444)	7,005	7,856	(851)
Student transportation services	261,364	239,367	21,997	15,260	15,249	11
Other support services	32,099	28,243	3,856			
Food services operations				393,920	413,649	(19,729)
Community services operations				900		900
Non-programmed costs	1,600		1,600	2,764		2,764
Activity expenditures	206,285	151,958	54,327			
Debt Service:						
Principal retirement	45,850	82,101	(36,251)			
Interest and fiscal charges	1,386	4,202	(2,816)			
<b>TOTAL EXPENDITURES</b>	<b>7,128,576</b>	<b>7,272,459</b>	<b>(143,883)</b>	<b>1,246,105</b>	<b>1,066,431</b>	<b>179,674</b>

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION 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

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 708,506	\$ 649,085	\$ (59,421)	\$ 385,775	\$ 148,839	\$ (236,936)
OTHER FINANCING SOURCES (USES)						
Transfers in	3,418,611		(3,418,611)			
Transfers out	(4,052,071)	(851,438)	3,200,633			
Value of installment contract		211,696	211,696			
TOTAL OTHER FINANCING SOURCES (USES)	(633,460)	(639,742)	(6,282)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	75,046	9,343	(65,703)	385,775	148,839	(236,936)
FUND BALANCES - JULY 1	1,023,755	903,893	(119,862)	59,987	72,625	12,638
FUND BALANCES - JUNE 30	<u>\$ 1,098,801</u>	<u>\$ 913,236</u>	<u>\$ (185,565)</u>	<u>\$ 445,762</u>	<u>\$ 221,464</u>	<u>\$ (224,298)</u>

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

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION 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 Flippin School District (District). There are no component units.

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

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

C. Measurement Focus and Basis of Accounting

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

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION 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 RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, inclusion of the net pension liability in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

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

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 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.

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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

F. Property Taxes (Continued)

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

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. 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. Committed fund balance – represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Education.
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.

I. 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.

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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

J. 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.

K. Minimum Fund Balance Policies

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

L. Fund Balance Classification Policies and Procedures

The District's highest level of decision-making authority is its Board of Education. The establishment of amounts classified as committed fund balances and subsequent modifications to such balances are the result of formal action taken by the District's Board of Education through a resolution or adoption of board policy.

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

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

M. 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)	\$ 1,011,407	\$ 1,011,407
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	5,422,339	5,570,865
Total Deposits	\$ 6,433,746	\$ 6,582,272

The above total deposits include certificates of deposit of \$262,311 reported as investments and classified as nonparticipating contracts.



FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**3: ACCOUNTS RECEIVABLE**

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
State assistance	\$ 324		\$ 72,157
Federal assistance	12,127	\$ 25,518	
Totals	<u>\$ 12,451</u>	<u>\$ 25,518</u>	<u>\$ 72,157</u>

**4: COMMITMENTS**

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

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
Elementary School building	January 2017	\$ 4,846,072

B. 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
10/8/08	10/8/18	1.5%	\$ 200,000	\$ 63,156	\$ 136,844
10/1/10	2/1/30	1 - 3.5%	2,260,000	1,815,000	445,000
11/7/14	11/7/19	1.89%	82,177	66,359	15,818
2/1/16	2/1/21	3.25%	211,696	211,696	
6/7/16	2/1/44	1.2 - 3.15%	6,860,000	6,860,000	
Totals			<u>\$ 9,613,873</u>	<u>\$ 9,016,211</u>	<u>\$ 597,662</u>

Changes in Long-term Debt

	Balance July 1, 2015	Issued	Retired	Balance June 30, 2016
Bonds payable	\$ 8,055,000	\$ 6,860,000	\$ 6,240,000	\$ 8,675,000
Postdated warrants	107,299		44,143	63,156
Installment contracts	104,317	211,696	37,958	278,055
Totals	<u>\$ 8,266,616</u>	<u>\$ 7,071,696</u>	<u>\$ 6,322,101</u>	<u>\$ 9,016,211</u>

\*Includes \$6,065,000 early retirement of debt - See Note 6.

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**4: COMMITMENTS (Continued)**

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

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2017	\$ 181,511	\$ 179,998	\$ 361,509
2018	188,434	239,805	428,239
2019	195,407	235,358	430,765
2020	210,747	230,600	441,347
2021	300,112	225,546	525,658
2022-2026	1,360,000	1,039,834	2,399,834
2027-2031	1,525,000	857,831	2,382,831
2032-2036	1,735,000	645,210	2,380,210
2037-2041	1,985,000	390,538	2,375,538
2042-2044	1,335,000	84,835	1,419,835
Totals	<u>\$ 9,016,211</u>	<u>\$ 4,129,555</u>	<u>\$ 13,145,766</u>

Qualified Zone Academy Bond (QZAB)

On October 8, 2008, the District obtained funding of \$200,000 through the Qualified Zone Academy Bond (QZAB) program, a debt financial arrangement authorized under the Taxpayer Relief Act of 1997. The District is required to remit annual payments to retire this debt.

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.

**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
	Major		Other Aggregate	
	General	Special Revenue		
Vendor payables	\$ 42,461	\$ 9,024	\$ 823,278	\$ 86
Due to grantors	40,525			
Totals	<u>\$ 82,986</u>	<u>\$ 9,024</u>	<u>\$ 823,278</u>	<u>\$ 86</u>

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**6: DEBT REFUNDINGS**

On June 7, 2016, the District issued refunding bonds of \$6,860,000 with interest rates of 1.2 to 3.15 percent to refund \$6,065,000 of outstanding bonds dated December 1, 2013. The interest rates of the bonds refunded were 1 to 4.55 percent. Net bond proceeds of \$6,681,861 were remitted to an escrow agent to provide for all future debt service payments for the bonds refunded. These bonds will be called on February 1, 2019. The remaining proceeds of \$4,751 (after payment of \$173,388 net bond issuance costs) will be utilized for subsequent debt payments. The issuance of these bonds will result in a savings of \$644,347 to the District over the life of the bonds.

The outstanding principal of the bonds refunded was \$6,065,000 at June 30, 2016. U.S. Treasury obligations of \$6,673,529, purchased by the escrow agent, were pledged for the retirement of these bonds.

**7: INTERFUND TRANSFERS**

The District transferred \$851,438 from the general fund to the other aggregate funds for debt related payments of \$480,999 and to supplement future capital projects by \$370,439.

**8: RETIREMENT PLAN**

Arkansas Teacher Retirement System

Plan Description

The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies, except certain non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 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 \$677,381, 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 \$5,275,518.

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS**

ADDITIONS		
Donations	\$	13,500
DEDUCTIONS		
Scholarships		5,440
CHANGE IN FUND BALANCE		8,060
FUND BALANCE - JULY 1		35,489
FUND BALANCE - JUNE 30	\$	43,549

**10: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$9,120,000 issued from October 1, 2010 to June 7, 2016. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$12,780,061, payable through February 1, 2044. Principal and interest paid for the current year and total property taxes pledged for debt service were \$479,906 and \$567,648, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 84.54 percent.

**11: RISK MANAGEMENT**

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

The District carries commercial insurance for vehicles, board liability, and accidental death and dismemberment for employees and board members.

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

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

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

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.

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**12: 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 \$163,963 for the year ended June 30, 2016.

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

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 895		
Educational programs - national school lunch state categorical funding	23		
English-language learners	398		
Capital projects			\$3,693,487
Child nutrition programs		\$ 59,721	
Debt service	1,388		4,751
Medical services		84,990	
Special education programs	36,736	68,452	
Other purposes	57,165	8,301	
Total Restricted	<u>96,605</u>	<u>221,464</u>	<u>3,698,238</u>
Committed to:			
Capital projects			<u>585,844</u>
Assigned to:			
Capital projects			77,252
Student activities	70,034		
Total Assigned	<u>70,034</u>		<u>77,252</u>
Unassigned	<u>746,597</u>		
Totals	<u>\$ 913,236</u>	<u>\$ 221,464</u>	<u>\$4,361,334</u>

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION 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	\$ 139,010
Construction in progress	2,737,141
Total nondepreciable capital assets	2,876,151
 <i>Depreciable capital assets:</i>	
Buildings	8,949,755
Improvements/infrastructure	586,096
Equipment	1,953,101
Total depreciable capital assets	11,488,952
 Less accumulated depreciation for:	
Buildings	2,769,833
Improvements/infrastructure	518,192
Equipment	2,074,430
Total accumulated depreciation	5,362,455
 Total depreciable capital assets, net	 6,126,497
 Capital assets, net	 \$ 9,002,648

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>				
<u>U. S. Department of Agriculture</u>				
Direct Program:				
National School Lunch Program (Note 3)	10.555			\$ 4,000
Passed Through Arkansas Department of Education:				
School Breakfast Program	10.553	4501		82,604
National School Lunch Program	10.555	4501		256,005
Total Arkansas Department of Education				<u>338,609</u>
Passed Through Arkansas Department of Human Services:				
National School Lunch Program (Note 4)	10.555	4501000		<u>30,494</u>
<b>TOTAL CHILD NUTRITION CLUSTER</b>				<u>373,103</u>
<b>SPECIAL EDUCATION CLUSTER (IDEA)</b>				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Special Education - Grants to States	84.027	4501		113,704
Special Education - Preschool Grants	84.173	4501		<u>19,307</u>
<b>TOTAL SPECIAL EDUCATION CLUSTER (IDEA)</b>				<u>133,011</u>
<b>OTHER PROGRAMS</b>				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Title I Grants to Local Educational Agencies	84.010	4501		365,303
Rural Education	84.358	4501		16,327
Improving Teacher Quality State Grants	84.367	4501		19,421
Total Arkansas Department of Education				<u>401,051</u>
Passed Through Arkansas Department of Career Education:				
Career and Technical Education - Basic Grants to States	84.048	4501		<u>58,383</u>
Total U. S. Department of Education				<u>459,434</u>
<u>U. S. Department of Homeland Security</u>				
Passed Through Arkansas Department of Emergency Management:				
Hazard Mitigation Grant	97.039	4501		<u>771,417</u>
<b>TOTAL OTHER PROGRAMS</b>				<u>1,230,851</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 0</u>	<u>\$ 1,736,965</u>

The accompanying notes are an integral part of this schedule.

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Flippin School District No. 26 (District) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.
- Note 5: The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- Note 6: During the year ended June 30, 2016, the District received Medicaid funding of \$68,097 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.



FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Types of auditor's reports issued: GAAP basis of reporting - adverse  
Regulatory basis opinion units - unmodified

Internal control over financial reporting:

<input checked="" type="radio"/> Material weakness(es) identified?	<input checked="" type="checkbox"/>	yes	<input type="checkbox"/>	no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	none reported

Noncompliance material to financial statements noted?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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**FEDERAL AWARDS**

Internal control over major federal programs:

<input checked="" type="radio"/> Material weakness(es) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	none reported

Type of auditor's report issued on compliance for major federal programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.039	Hazard Mitigation Grant

Dollar threshold used to distinguish between type A and type B programs:	\$ <u>750,000</u>
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Auditee qualified as low-risk auditee?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESSES**

2016-001. Internal Control

Criteria or specific requirement: 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.

Condition: 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 accounting records and the same employee was responsible for receiving and depositing monies collected, without compensating controls.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect: 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 in the above internal control component.

Cause: 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.

Recommendation: 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.

Views of responsible officials and planned corrective actions: The District is striving to segregate duties to the extent possible with the office staff available. Our management and personnel are continually working together to adopt, establish, and maintain sound accounting policies and 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. After each audit our office staff meets to discuss new procedures that can be put in place to promote further segregation of tasks. We appreciate the ideas discussed during the audit process for safety and security.

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

2016-002. Misstatement not Detected by Internal Control System

Criteria or specific requirement: Financial accounting records should be accurate to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting.

Condition: The District's internal control did not prevent or detect material errors in the financial accounting records. Such records are utilized in the preparation of the District's financial statements. The District did not record accounts receivable of \$72,157 and accounts payable of \$813,863 in the other aggregate funds. The financial statements were corrected during the audit fieldwork.

Context: Identification of misstatements not initially detected by the District's internal control.

Effect: Misstatements were not detected and corrected by the District's internal control system.

Cause: Financial records were not properly monitored.

Recommendation: To achieve reliable financial reporting, the District should exercise due care to ensure all applicable general ledger accounts are properly stated.

Views of responsible officials and planned corrective actions: Bookkeeping will make sure all invoice dates are entered when paying invoices so all will pull when reporting financial information by fund, including the building fund and other aggregate funds, to detect material errors in the financial accounting records.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 4

**FINANCIAL STATEMENT FINDINGS**

2015 - Finding 2015-001: Internal Control

Condition: 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 accounting records and such employees had unrestricted access to the District's signature stamp, without compensating controls. The same employee was responsible for receiving and depositing monies collected, without compensating controls.

Current Status: The District discontinued the use of a signature stamp with the conversion to a different accounting application, eFinance Plus. Other areas involving lack of segregation of financial accounting duties had not yet been addressed by the District. See Finding 2016-001 at Schedule 3.

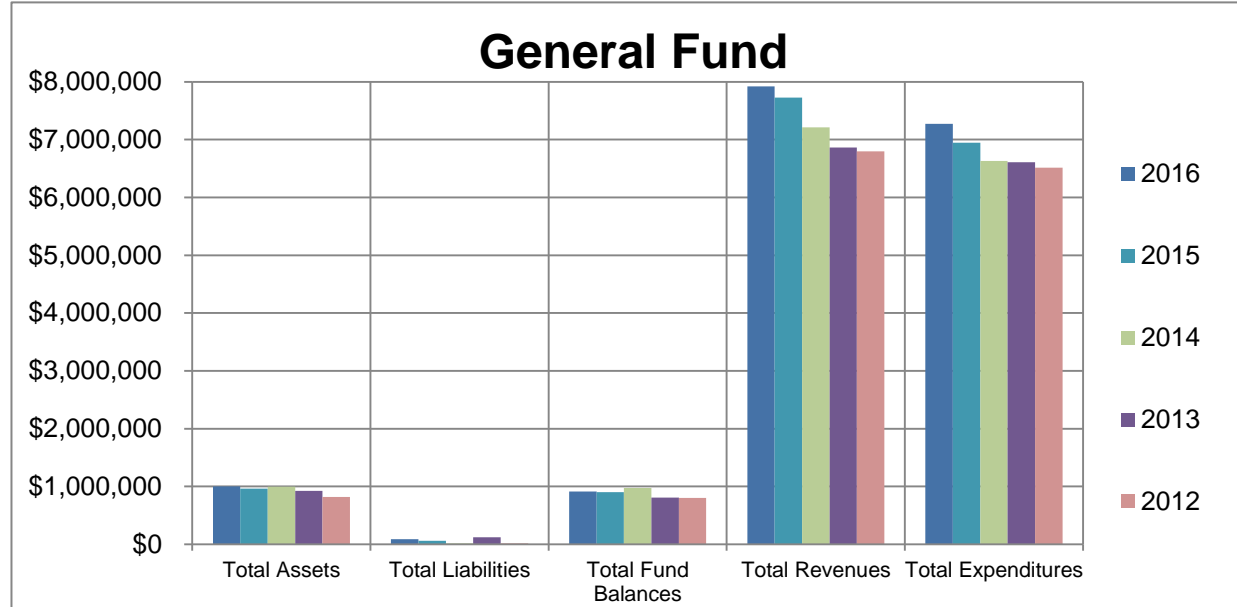
**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no findings in the prior audit.

FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS

SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016  
(Unaudited)

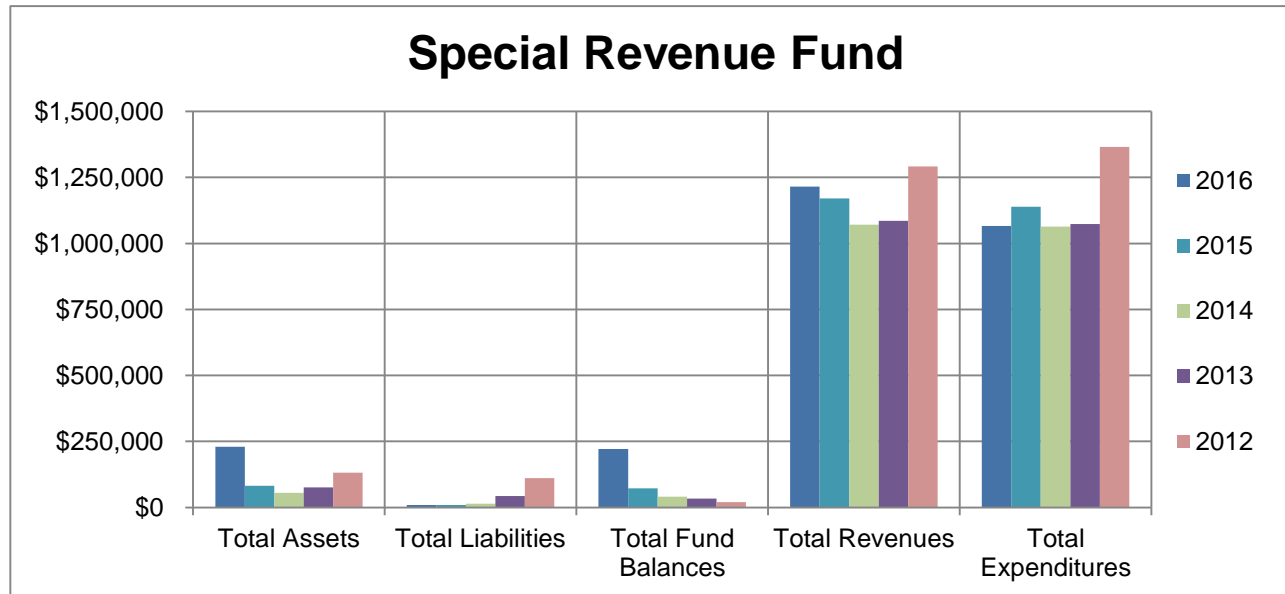
<b>General Fund</b>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 1,000,973	\$ 963,940	\$ 996,245	\$ 926,957	\$ 821,423
Total Liabilities	87,737	60,047	18,928	119,878	17,377
Total Fund Balances	913,236	903,893	977,317	807,079	804,046
Total Revenues	7,921,544	7,728,698	7,210,044	6,863,499	6,798,181
Total Expenditures	7,272,459	6,948,927	6,630,531	6,611,789	6,516,030
Total Other Financing Sources (Uses)	(639,742)	(853,195)	(409,275)	(248,677)	(161,117)



FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS

SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016  
(Unaudited)

<b><u>Special Revenue Fund</u></b>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 230,488	\$ 82,130	\$ 55,036	\$ 76,490	\$ 132,279
Total Liabilities	9,024	9,505	14,062	42,959	111,516
Total Fund Balances	221,464	72,625	40,974	33,531	20,763
Total Revenues	1,215,270	1,171,041	1,071,244	1,086,158	1,291,314
Total Expenditures	1,066,431	1,139,390	1,063,801	1,073,390	1,365,739
Total Other Financing Sources (Uses)					



FLIPPIN SCHOOL DISTRICT NO. 26  
MARION COUNTY, ARKANSAS

SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016  
(Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 5,184,612	\$ 6,976,826	\$ 6,355,005	\$ 231,522	\$ 156,585
Total Liabilities	823,278	355,796			26,415
Total Fund Balances	4,361,334	6,621,030	6,355,005	231,522	130,170
Total Revenues	979,287	319,236	3,456		779,766
Total Expenditures	4,095,172	988,583	294,135	212,478	1,589,164
Total Other Financing Sources (Uses)	856,189	935,372	6,414,162	313,830	161,117

