

Flippin School District No. 26

Marion County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2018



FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
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Arkansas



Sen. Jason Rapert
Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair

Rep. Richard Womack
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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, 2018, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2018, or the changes in financial position for the year then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2018, 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 the 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 22, 2019 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
January 22, 2019
EDSD23818

Arkansas

Sen. Jason Rapert
Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. DeAnn Vaught
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

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, 2018, 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 22, 2019. 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, 2018, 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state 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*.

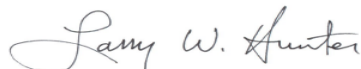
District's Response to Findings

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

ARKANSAS LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 22, 2019

Arkansas

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Senate Chair
Sen. Eddie Cheatham
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Roger A. Norman, JD, CPA, CFE, CFF
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 of each of the District's major federal programs for the year ended June 30, 2018. 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the District's compliance.

Basis for Qualified Opinion on CFDA 84.027 Special Education – Grants to States

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding CFDA 84.027 Special Education – Grants to States as described in finding number 2018-002 for Reporting. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 84.027 Special Education – Grants to States

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 CFDA 84.027 Special Education – Grants to States for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2018.

Other Matters

The District's response to the noncompliance finding 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 compliance and, accordingly, we express no opinion on the response.

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.

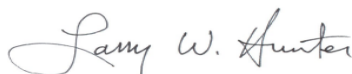
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 and therefore, material weaknesses or significant deficiencies may exist that have not identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2018-002, that we consider to be a material weakness.

The District's response to the internal control over compliance finding 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 compliance and, accordingly, we express no opinion on the response.

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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 22, 2019

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2018

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 972,263	\$ 16,616	\$ 1,001,388	\$ 133,448
Accounts receivable	23,578	71,519		
TOTAL ASSETS	\$ 995,841	\$ 88,135	\$ 1,001,388	\$ 133,448
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 69,958	\$ 6,102		\$ 589
Due student groups				92,310
Total Liabilities	69,958	6,102		92,899
Fund Balances:				
Restricted	85,685	82,033	\$ 1,388	40,549
Committed			1,000,000	
Assigned	67,421			
Unassigned	772,777			
Total Fund Balances	925,883	82,033	1,001,388	40,549
TOTAL LIABILITIES AND FUND BALANCES	\$ 995,841	\$ 88,135	\$ 1,001,388	\$ 133,448

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, 2018

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 3,925,162		
State assistance	4,193,209	\$ 3,049	
Federal assistance	18,135	1,101,189	
Activity revenues	179,914		
Meal sales		54,225	
Investment income	163		\$ 1,188
Other revenues	103,946		
TOTAL REVENUES	8,420,529	1,158,463	1,188
EXPENDITURES			
Regular programs	2,788,091		
Special education	402,616	219,185	
Career education programs	124,929	7,697	
Compensatory education programs	411,801	220,406	
Other instructional programs	339,360		
Student support services	154,364	142,274	
Instructional staff support services	432,483	174,669	
General administration support services	168,368	43,339	
School administration support services	462,220		
Central services support services	157,562		
Operation and maintenance of plant services	898,522	7,238	240,512
Student transportation services	335,396	15,033	
Other support services	27,528		
Food services operations		447,679	
Community services operations		48	
Facilities acquisition and construction services			605,983
Activity expenditures	169,880		
Debt Service:			
Principal retirement	78,435		110,000
Interest and fiscal charges	6,859		234,120
TOTAL EXPENDITURES	6,958,414	1,277,568	1,190,615
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,462,115	(119,105)	(1,189,427)
OTHER FINANCING SOURCES (USES)			
Transfers in			1,506,238
Transfers out	(1,506,238)		
Refund to grantor	(1,460)		
Proceeds from installment contract	66,353		
TOTAL OTHER FINANCING SOURCES (USES)	(1,441,345)		1,506,238
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	20,770	(119,105)	316,811
FUND BALANCES - JULY 1	905,113	201,138	684,577
FUND BALANCES - JUNE 30	\$ 925,883	\$ 82,033	\$ 1,001,388

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 -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 3,547,300	\$ 3,925,162	\$ 377,862			
State assistance	3,799,046	4,193,209	394,163	\$ 2,800	\$ 3,049	\$ 249
Federal assistance	13,227	18,135	4,908	1,170,765	1,101,189	(69,576)
Activity revenues	270,450	179,914	(90,536)			
Meal sales				57,300	54,225	(3,075)
Investment income	3,000	163	(2,837)			
Other revenues	130,617	103,946	(26,671)	1,000		(1,000)
TOTAL REVENUES	7,763,640	8,420,529	656,889	1,231,865	1,158,463	(73,402)
EXPENDITURES						
Regular programs	2,829,455	2,788,091	41,364			
Special education	399,611	402,616	(3,005)	227,296	219,185	8,111
Career education programs	120,142	124,929	(4,787)	7,697	7,697	0
Compensatory education programs	388,160	411,801	(23,641)	229,546	220,406	9,140
Other instructional programs	319,576	339,360	(19,784)			
Student support services	159,344	154,364	4,980	83,792	142,274	(58,482)
Instructional staff support services	489,925	432,483	57,442	221,098	174,669	46,429
General administration support services	185,987	168,368	17,619	53,250	43,339	9,911
School administration support services	480,652	462,220	18,432			
Central services support services	167,591	157,562	10,029			
Operation and maintenance of plant services	1,002,290	898,522	103,768	7,300	7,238	62
Student transportation services	368,495	335,396	33,099	14,795	15,033	(238)
Other support services	27,370	27,528	(158)			
Food services operations				441,321	447,679	(6,358)
Community services operations				1,000	48	952
Activity expenditures	292,637	169,880	122,757			
Debt Service:						
Principal retirement	63,000	78,435	(15,435)			
Interest and fiscal charges	6,700	6,859	(159)			
TOTAL EXPENDITURES	7,300,935	6,958,414	342,521	1,287,095	1,277,568	9,527

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, 2018

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 462,705	\$ 1,462,115	\$ 999,410	\$ (55,230)	\$ (119,105)	\$ (63,875)
OTHER FINANCING SOURCES (USES)						
Transfers in	8,751,436		(8,751,436)	10,000		(10,000)
Transfers out	(9,244,381)	(1,506,238)	7,738,143	(10,000)		10,000
Refund to grantor		(1,460)	(1,460)			
Proceeds from installment contract		66,353	66,353			
TOTAL OTHER FINANCING SOURCES (USES)	(492,945)	(1,441,345)	(948,400)	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(30,240)	20,770	51,010	(55,230)	(119,105)	(63,875)
FUND BALANCES - JULY 1	1,062,852	905,113	(157,739)	192,104	201,138	9,034
FUND BALANCES - JUNE 30	\$ 1,032,612	\$ 925,883	\$ (106,729)	\$ 136,874	\$ 82,033	\$ (54,841)

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, 2018

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, 2018

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

F. Property Taxes (Continued)

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2017 calendar year taxes collected by June 30, 2018 and 12 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, 2018 equaled or exceeded the 12 percent calculation.

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

G. Fund Balance Classifications

1. 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.

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.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Stabilization Arrangements

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

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

The 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 balances when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 750,000	\$ 750,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	<u>1,373,715</u>	<u>1,647,512</u>
Total Deposits	<u><u>\$ 2,123,715</u></u>	<u><u>\$ 2,397,512</u></u>

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 1,283	
Federal assistance		\$ 71,519
Other	22,295	
Totals	\$ 23,578	\$ 71,519

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2018:

A. Operating Leases (noncapital leases with initial noncancellable lease terms in excess of one year)

General description of leases and leasing arrangements:

On May 22, 2014, the District entered into a noncancellable lease agreement for 18 copiers with Xerox Corporation. The terms of the lease agreement are monthly payments of \$1,630 for 60 months. In October 2017, the agreement was amended to change the monthly payment to \$1,535.

On November 23, 2016, the District entered into a noncancellable lease agreement for 3 copiers with XMC, Inc. The terms of the lease agreement are monthly payments of \$875 for 60 months. The agreement stipulates that XMC, Inc. may increase the monthly rate after the end of the first year, and not more than once each successive twelve-month period thereafter, by a maximum of 10% of the then existing payment. In December 2017, XMC increased the base monthly payment to \$893.

1. Future minimum rental payments (aggregate) at June 30, 2018: \$55,435
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2019	\$ 30,060
2020	10,500
2021	10,500
2022	4,375
Total	\$ 55,435

Rental payments for the operating leases described above were approximately \$29,427 for the year ended June 30, 2018.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4: COMMITMENTS (Continued)

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, 2018	Maturities To June 30, 2018
10/8/08	10/8/18	1.5%	\$ 200,000	\$ 21,366	\$ 178,634
10/1/10	2/1/30	1 - 3.5%	2,260,000	1,600,000	660,000
11/7/14	11/7/19	1.89%	82,177	33,811	48,366
2/1/16	2/1/21	3.25%	211,696	131,088	80,608
6/7/16	2/1/44	1.2 - 3.15%	6,860,000	6,860,000	
10/6/17	10/6/22	2.68%	66,353	66,353	
Totals			<u>\$ 9,680,226</u>	<u>\$ 8,712,618</u>	<u>\$ 967,608</u>

Changes in Long-term Debt

	Balance July 1, 2017	Issued	Retired	Balance June 30, 2018
Bonds payable	\$ 8,570,000		\$ 110,000	\$ 8,460,000
Postdated warrants	42,417		21,051	21,366
Installment contracts	222,283	\$ 66,353	57,384	231,252
Totals	<u>\$ 8,834,700</u>	<u>\$ 66,353</u>	<u>\$ 188,435</u>	<u>\$ 8,712,618</u>

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2019	\$ 207,976	\$ 237,161	\$ 445,137
2020	223,658	232,061	455,719
2021	313,370	226,660	540,030
2022	273,622	220,495	494,117
2023	278,992	214,585	493,577
2024-2028	1,425,000	974,184	2,399,184
2029-2033	1,600,000	774,271	2,374,271
2034-2038	1,830,000	551,245	2,381,245
2039-2043	2,100,000	270,108	2,370,108
2044	460,000	14,490	474,490
Totals	<u>\$ 8,712,618</u>	<u>\$ 3,715,260</u>	<u>\$ 12,427,878</u>

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

4: COMMITMENTS (Continued)

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

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

Accounts payable at June 30, 2018 were comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types
	Major		
	General	Special Revenue	
Vendor payables	\$ 69,958	\$ 6,102	\$ 589

6: DEBT REFUNDING

On June 7, 2016 (fiscal year 2016), the District issued \$6,860,000 in refunding bonds to advance refund \$6,065,000 of outstanding bonds dated December 1, 2013. The net bond proceeds of \$6,681,861 were remitted to an escrow agent to provide for all future debt service payments on the bonds refunded until February 1, 2019 when the remaining outstanding bonds will be called for redemption. The outstanding principal of the bonds refunded was \$5,915,000 at June 30, 2018. The balance of the escrow account at June 30, 2018 was \$6,112,266.

7: INTERFUND TRANSFERS

The District transferred \$1,506,238 from the general fund to the other aggregate funds for debt related payments of \$345,508 and to supplement current and future capital projects by \$1,160,730.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

8: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description

The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies, except certain non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201, by calling 1-800-666-2877, or by visiting the ATRS website at www.artss.gov.

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, 2018 were \$668,242, 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, 2017 (actuarial valuation date and measurement date) was \$6,797,481.

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	<u>\$ 13,500</u>
DEDUCTIONS	
Scholarships	<u>11,500</u>
CHANGE IN FUND BALANCE	2,000
FUND BALANCE - JULY 1	<u>38,549</u>
FUND BALANCE - JUNE 30	<u><u>\$ 40,549</u></u>

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 \$12,160,898, payable through February 1, 2044. Principal and interest paid for the current year and total property taxes pledged for debt service were \$342,945 and \$603,871, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 56.79 percent.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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 \$153,429 for the year ended June 30, 2018.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

13: 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	\$ 23,481		
Educational programs - national school lunch state categorical funding	23,560		
English-language learners	2,081		
Professional development	1,093		
Child nutrition programs		\$ 82,033	
Debt service			\$ 1,388
Special education programs	10,695		
Other purposes	24,775		
Total Restricted	<u>85,685</u>	<u>82,033</u>	<u>1,388</u>
Committed to:			
Capital projects			<u>1,000,000</u>
Assigned to:			
Student activities	62,416		
Other purposes	5,005		
Total Assigned	<u>67,421</u>		
Unassigned	<u>772,777</u>		
Totals	<u>\$ 925,883</u>	<u>\$ 82,033</u>	<u>\$ 1,001,388</u>

14: SUBSEQUENT EVENT

On August 7, 2018, the District entered into a construction contract with Legacy Construction Management, Inc. for a building demolition project. After change orders dated November 1, 2018, the guaranteed maximum price for the project is \$330,706.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2018
(Unaudited)

Schedule 1

	Balance June 30, 2018
<i>Nondepreciable capital assets:</i>	
Land	\$ 139,010
<i>Depreciable capital assets:</i>	
Buildings	17,051,706
Improvements/infrastructure	588,646
Equipment	2,304,550
Total depreciable capital assets	19,944,902
Less accumulated depreciation for:	
Buildings	3,778,469
Improvements/infrastructure	242,572
Equipment	2,064,565
Total accumulated depreciation	6,085,606
Total depreciable capital assets, net	13,859,296
Capital assets, net	\$ 13,998,306

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
CHILD NUTRITION CLUSTER				
<u>U. S. Department of Agriculture</u>				
Arkansas Department of Education - School Breakfast Program	10.553	4501		\$ 91,551
National School Lunch Program (Note 3)	10.555			4,999
Arkansas Department of Education - National School Lunch Program	10.555	4501		250,950
Arkansas Department of Human Services - National School Lunch Program (Note 4)	10.555	4501000		33,867
Total for National School Lunch Program				289,816
Total U. S. Department of Agriculture				381,367
TOTAL CHILD NUTRITION CLUSTER				381,367
SPECIAL EDUCATION CLUSTER (IDEA)				
<u>U. S. Department of Education</u>				
Arkansas Department of Education - Special Education - Grants to States	84.027	4501		208,942
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				208,942
OTHER PROGRAMS				
<u>U. S. Department of Education</u>				
Arkansas Department of Education - Title I Grants to Local Educational Agencies	84.010	4501		364,212
Arkansas Department of Career Education - Career and Technical Education - Basic Grants to States	84.048	4501		7,697
Arkansas Department of Education - Rural Education	84.358	4501		18,097
Arkansas Department of Education - Supporting Effective Instruction State Grants	84.367	4501		36,978
Total U. S. Department of Education				426,984
TOTAL OTHER PROGRAMS				426,984
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 0	\$ 1,017,293

The accompanying notes are an integral part of this schedule.

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 award activity of Flippin School District No. 26 (District) under programs of the federal government for the year ended June 30, 2018. 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 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, 2018, the District received Medicaid funding of \$85,835 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, 2018

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

FEDERAL AWARDS

Internal control over major federal programs:

<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

Type of auditor's report issued on compliance for major federal programs: unmodified for all major federal programs except for the Special Education - Grants to States program, which was qualified.

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

CFDA Number(s)	Name of Federal Program or Cluster
84.027	Special Education Cluster (IDEA)
84.010	Title I Grants to Local Educational Agencies

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, 2018

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2018-001. Internal Control

Criteria: 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: payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls.

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.

Effect or potential 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.

Recommendation: District management should 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.

Views of responsible officials: We concur with the recommendation and will implement corrective procedures to the extent possible.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESS

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - GRANTS TO STATES - CFDA NUMBER 84.027
PASS-THROUGH NUMBER 4501
AUDIT PERIOD - YEAR ENDED JUNE 30, 2018

2018-002. Reporting

Criteria or specific requirement: The District is required to budget program expenditures. Expenditures may not exceed the budgeted amounts for specific categories by more than 10 percent of the total budget without prior approval from the Arkansas Department of Education (ADE) and the submission of budget amendments or adjustments. An annual financial report is compiled at the end of the fiscal year.

Condition: Special Education - Grants to States expenditures for function 1230 (Special Class - 1:15 Ratio) exceeded the budgeted amount by \$19,861 more than the 10 percent variance allowed. Total Special Education - Grants to States program expenditures did not exceed the total budgeted expenditures.

Cause: The District failed to properly monitor expenditures against the approved budget.

Effect or potential effect: The District did not expend Special Education - Grants to States funds within the approved budget categories.

Context: Comparison of budgeted expenditures to actual expenditures as reported on the annual financial report.

Recommendation: The District should implement procedures to ensure costs are incurred within the applicable budget categories and contact the ADE for further guidance regarding this matter.

Views of responsible officials: The District Treasurer will work closely with the Special Education Director regarding the 10 percent variance is followed closely and not to exceed that percent in the future.

FLIPPIN SCHOOL DISTRICT
ADVANCEED ACCREDITED|NCA

Excellence in Education

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDING JUNE 30, 2018**

FINANCIAL STATEMENT FINDINGS

2017 – Finding 2017-001: Internal Control

Condition: Deficiencies in the internal control component of control activities adversely affected the District 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.

Current Status: District has implemented additional mitigating controls for non-payroll checks and is currently working towards implementing additional controls for payroll procedures. Finding 2018-001 at Schedule 3.

2016 - Finding 2016-001: 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 amount 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.

Current Status: District has implemented additional mitigating controls for non-payroll checks and is currently working towards implementing additional controls for payroll procedures. See Finding 2018-001 at Schedule 3.

FLIPPIN SCHOOL DISTRICT
ADVANCEED ACCREDITED|NCA

Excellence in Education

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U. S. Department of Education
Passed Through Arkansas Department of Education
Special Education – Grants to States – CFDA Number 84.027

2017 – Finding 2017-002: Allowable Costs/Cost Principles

Condition: The District paid a substitute teacher \$2,211 from the special education program; however, supporting time records indicated the substitute teacher should have been paid \$1,048, resulting in an overpayment and unallowable cost of \$1,163.

Current Status: The reimbursement has been made to the Special Education department as instructed by the Special Education Department.

U. S. Department of Education
Passed Through Arkansas Department of Education
Title I Grants to Local Educational Agencies – CFDA Number 84.010

2017 – Finding 2017-003: Allowable Cost/Cost Principles

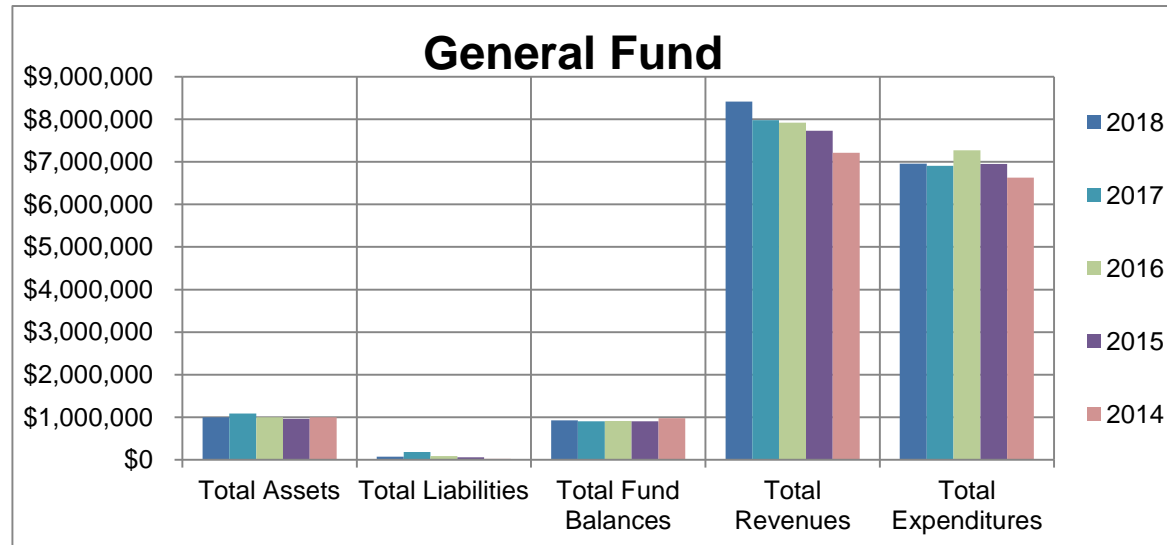
Condition: Unallowable costs paid from the Title I program for the year ended June 30, 2017, totaled \$1,200. This expenditure, which should have been recorded in the District's general funds, was for a baseball coaching stipend paid to an employee who also worked as a paraprofessional in the Title I program.

Current Status: The reimbursement has been made to the Title I Office as instructed by the Title I Department.

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, 2018
(Unaudited)

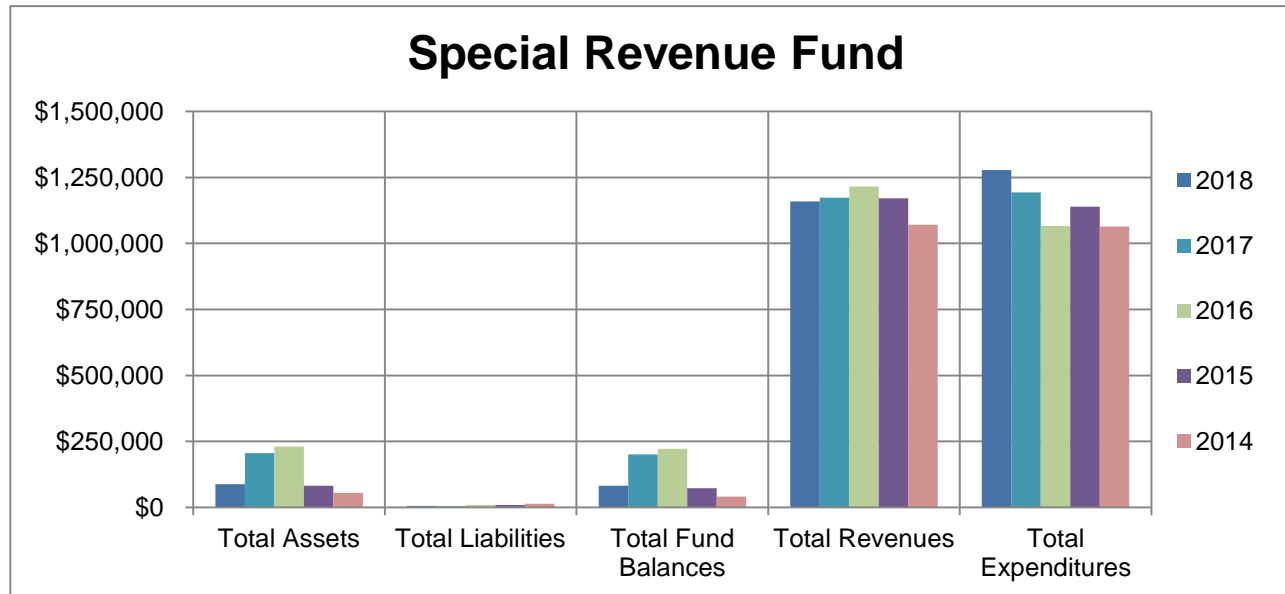
<u>General Fund</u>	Year Ended June 30,				
	2018	2017	2016	2015	2014
Total Assets	\$ 995,841	\$ 1,089,858	\$ 1,000,973	\$ 963,940	\$ 996,245
Total Liabilities	69,958	184,745	87,737	60,047	18,928
Total Fund Balances	925,883	905,113	913,236	903,893	977,317
Total Revenues	8,420,529	7,981,995	7,921,544	7,728,698	7,210,044
Total Expenditures	6,958,414	6,908,119	7,272,459	6,948,927	6,630,531
Total Other Financing Sources (Uses)	(1,441,345)	(1,081,999)	(639,742)	(853,195)	(409,275)



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, 2018
(Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2018	2017	2016	2015	2014
Total Assets	\$ 88,135	\$ 205,141	\$ 230,488	\$ 82,130	\$ 55,036
Total Liabilities	6,102	4,003	9,024	9,505	14,062
Total Fund Balances	82,033	201,138	221,464	72,625	40,974
Total Revenues	1,158,463	1,172,572	1,215,270	1,171,041	1,071,244
Total Expenditures	1,277,568	1,192,898	1,066,431	1,139,390	1,063,801
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, 2018
(Unaudited)

Schedule 5

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2018	2017	2016	2015	2014
Total Assets	\$ 1,001,388	\$ 685,643	\$ 5,184,612	\$ 6,976,826	\$ 6,355,005
Total Liabilities		1,066	823,278	355,796	
Total Fund Balances	1,001,388	684,577	4,361,334	6,621,030	6,355,005
Total Revenues	1,188	669,953	979,287	319,236	3,456
Total Expenditures	1,190,615	5,428,709	4,095,172	988,583	294,135
Total Other Financing Sources (Uses)	1,506,238	1,081,999	856,189	935,372	6,414,162

