

Flippin School District No. 26

Marion County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2017



FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2017

Independent Auditor's Report
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet – Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis	B
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis	C
Notes to Financial Statements	

SCHEDULES

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	3
Summary Schedule of Prior Audit Findings	4
Schedule of Selected Information for the Last Five Years – Regulatory Basis (Unaudited)	5

Arkansas

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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, 2017, 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, 2017, 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, 2017, 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 24, 2018 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 24, 2018
EDSD23817

Arkansas

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



Rep. Richard Womack
House Chair
Rep. Mary Bentley
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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, 2017, 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 24, 2018. 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, 2017, 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 2017-001, 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*.

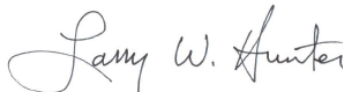
District's Response to Findings

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 24, 2018

Arkansas

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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 of each of the District's major federal programs for the year ended June 30, 2017. 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 2017-002 for Allowable Costs/Cost Principles. 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, 2017.

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, 2017.

Other Matters

The results of our auditing procedures disclosed one other instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-003. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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 were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

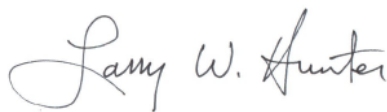
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2017-002 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2017-003 to be a significant deficiency.

The District's response to the internal control over compliance 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 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 24, 2018

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2017

Exhibit A

	Governmental Funds			
	Major			
	General	Special Revenue	Other Aggregate	Fiduciary Fund Types
ASSETS				
Cash	\$ 1,066,821	\$ 189,983	\$ 445,984	\$ 133,866
Accounts receivable	23,037	15,158	239,659	
TOTAL ASSETS	\$ 1,089,858	\$ 205,141	\$ 685,643	\$ 133,866
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 184,745	\$ 4,003	\$ 1,066	
Due student groups				\$ 95,317
Total Liabilities	184,745	4,003	1,066	95,317
Fund Balances:				
Restricted	60,918	201,138		38,549
Assigned	52,775		684,577	
Unassigned	791,420			
Total Fund Balances	905,113	201,138	684,577	38,549
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,089,858	\$ 205,141	\$ 685,643	\$ 133,866

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, 2017

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 3,704,333		
State assistance	3,921,210	\$ 2,991	\$ 461,717
Federal assistance	1,141	1,116,685	
Activity revenues	171,489		
Meal sales		52,896	
Investment income	4,102		3,027
Other revenues	179,720		205,209
TOTAL REVENUES	7,981,995	1,172,572	669,953
EXPENDITURES			
Regular programs	2,952,085		
Special education	363,918	234,047	
Career education programs	98,327		
Compensatory education programs	391,794	173,748	
Other instructional programs	345,321		
Student support services	148,819	128,435	
Instructional staff support services	537,967	182,973	
General administration support services	179,969	38,680	
School administration support services	415,288	204	
Central services support services	153,915		
Operation and maintenance of plant services	786,463	7,213	
Student transportation services	241,076	19,177	
Other support services	20,842		
Food services operations		408,421	
Facilities acquisition and construction services			5,151,706
Activity expenditures	187,041		
Debt Service:			
Principal retirement	76,511		105,000
Interest and fiscal charges	8,783		172,003
TOTAL EXPENDITURES	6,908,119	1,192,898	5,428,709
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,073,876	(20,326)	(4,758,756)
OTHER FINANCING SOURCES (USES)			
Transfers in			1,081,999
Transfers out	(1,081,999)		
TOTAL OTHER FINANCING SOURCES (USES)	(1,081,999)		1,081,999
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(8,123)	(20,326)	(3,676,757)
FUND BALANCES - JULY 1	913,236	221,464	4,361,334
FUND BALANCES - JUNE 30	\$ 905,113	\$ 201,138	\$ 684,577

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, 2017

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 3,564,212	\$ 3,704,333	\$ 140,121			
State assistance	3,914,912	3,921,210	6,298	\$ 3,800	\$ 2,991	\$ (809)
Federal assistance	13,183	1,141	(12,042)	1,147,877	1,116,685	(31,192)
Activity revenues	264,022	171,489	(92,533)			
Meal sales				62,100	52,896	(9,204)
Investment income	2,000	4,102	2,102			
Other revenues	32,295	179,720	147,425	1,500		(1,500)
TOTAL REVENUES	7,790,624	7,981,995	191,371	1,215,277	1,172,572	(42,705)
EXPENDITURES						
Regular programs	2,941,895	2,952,085	(10,190)			
Special education	471,959	363,918	108,041	243,740	234,047	9,693
Career education programs	99,986	98,327	1,659			
Compensatory education programs	358,991	391,794	(32,803)	240,494	173,748	66,746
Other instructional programs	304,921	345,321	(40,400)			
Student support services	159,622	148,819	10,803	91,241	128,435	(37,194)
Instructional staff support services	649,143	537,967	111,176	180,795	182,973	(2,178)
General administration support services	291,649	179,969	111,680	47,871	38,680	9,191
School administration support services	413,770	415,288	(1,518)		204	(204)
Central services support services	156,913	153,915	2,998			
Operation and maintenance of plant services	908,032	786,463	121,569	7,300	7,213	87
Student transportation services	318,224	241,076	77,148	16,787	19,177	(2,390)
Other support services	27,000	20,842	6,158			
Food services operations				405,107	408,421	(3,314)
Community services operations				1,000		1,000
Activity expenditures	219,905	187,041	32,864			
Debt Service:						
Principal retirement	63,540	76,511	(12,971)			
Interest and fiscal charges	24,055	8,783	15,272			
TOTAL EXPENDITURES	7,409,605	6,908,119	501,486	1,234,335	1,192,898	41,437

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, 2017

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 381,019	\$ 1,073,876	\$ 692,857	\$ (19,058)	\$ (20,326)	\$ (1,268)
OTHER FINANCING SOURCES (USES)						
Transfers in	3,396,489		(3,396,489)	35,000		(35,000)
Transfers out	(3,672,705)	(1,081,999)	2,590,706	(35,000)		35,000
TOTAL OTHER FINANCING SOURCES (USES)	(276,216)	(1,081,999)	(805,783)	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	104,803	(8,123)	(112,926)	(19,058)	(20,326)	(1,268)
FUND BALANCES - JULY 1	1,078,184	913,236	(164,948)	206,433	221,464	15,031
FUND BALANCES - JUNE 30	\$ 1,182,987	\$ 905,113	\$ (277,874)	\$ 187,375	\$ 201,138	\$ 13,763

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, 2017

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, 2017

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, 2017

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2016 calendar year taxes collected by June 30, 2017 and 16 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, 2017 equaled or exceeded the 16 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. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

H. Budget and Budgetary Accounting

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

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

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

I. Stabilization Arrangements

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

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

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

The District's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the District's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The District does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when 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.

K. 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)	\$ 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	1,086,654	1,321,979
Total Deposits	\$ 1,836,654	\$ 2,071,979

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 were comprised of the following:

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
State assistance			\$ 59,957
Federal assistance		\$ 15,158	
Other	\$ 23,037		179,702
Totals	\$ 23,037	\$ 15,158	\$ 239,659

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2017:

A. Construction Contract

Project Name	Completion Date	Contract Balance
High School Cafeteria Remodel	November 2017	\$ 598,816

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, 2017	Maturities To June 30, 2017
10/8/08	10/8/18	1.5%	\$ 200,000	\$ 42,417	\$ 157,583
10/1/10	2/1/30	1 - 3.5%	2,260,000	1,710,000	550,000
11/7/14	11/7/19	1.89%	82,177	50,241	31,936
2/1/16	2/1/21	3.25%	211,696	172,042	39,654
6/7/16	2/1/44	1.2 - 3.15%	6,860,000	6,860,000	
Totals			\$ 9,613,873	\$ 8,834,700	\$ 779,173

Changes in Long-term Debt

	Balance July 1, 2016	Issued	Retired	Balance June 30, 2017
Bonds payable	\$ 8,675,000		\$ 105,000	\$ 8,570,000
Postdated warrants	63,156		20,739	42,417
Installment contracts	278,055		55,772	222,283
Totals	\$ 9,016,211	\$ 0	\$ 181,511	\$ 8,834,700

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

4: COMMITMENTS (Continued)

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
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	260,000	219,745	479,745
2023-2027	1,395,000	1,008,095	2,403,095
2028-2032	1,560,000	816,318	2,376,318
2033-2037	1,780,000	599,353	2,379,353
2038-2042	2,040,000	331,737	2,371,737
2043-2044	905,000	42,998	947,998
Totals	<u>\$ 8,834,700</u>	<u>\$ 3,949,555</u>	<u>\$ 12,784,255</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

Accounts payable at June 30, 2017 were comprised of the following:

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Vendor payables	<u>\$ 184,745</u>	<u>\$ 4,003</u>	<u>\$ 1,066</u>

6: DEBT REFUNDING

On June 7, 2016 (previous fiscal year), 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 \$5,990,000 at June 30, 2017. The balance of the escrow account at June 30, 2017 was \$6,383,672.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

7: INTERFUND TRANSFERS

The District transferred \$1,081,999 from the general fund to the other aggregate funds for debt related payments of \$272,252 and to supplement current and future capital projects by \$809,747.

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.artrs.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, 2017 were \$670,966, 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, 2016 (actuarial valuation date and measurement date) was \$7,286,735.

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 7,250
DEDUCTIONS	
Scholarships	12,250
CHANGE IN FUND BALANCE	(5,000)
FUND BALANCE - JULY 1	43,549
FUND BALANCE - JUNE 30	\$ 38,549

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 \$12,503,843, payable through February 1, 2044. Principal and interest paid for the current year and total property taxes pledged for debt service were \$276,216 and \$569,897, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 48.47 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.

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 \$165,121 for the year ended June 30, 2017.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Educational programs - national school lunch state categorical funding	\$ 11,313		
English-language learners	729		
Child nutrition programs		\$ 98,308	
Debt service	1,388		
Medical services		65,358	
Special education programs	9,230	29,774	
Other purposes	38,258	7,698	
Total Restricted	<u>60,918</u>	<u>201,138</u>	
Assigned to:			
Capital projects			\$ 684,577
Student activities	52,382		
Other purposes	393		
Total Assigned	<u>52,775</u>		<u>684,577</u>
Unassigned	<u>791,420</u>		
Totals	<u>\$ 905,113</u>	<u>\$ 201,138</u>	<u>\$ 684,577</u>

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(Unaudited)

Schedule 1

	Balance June 30, 2017
<i>Nondepreciable capital assets:</i>	
Land	\$ 139,010
<i>Depreciable capital assets:</i>	
Buildings	16,451,413
Improvements/infrastructure	586,096
Equipment	2,016,316
Total depreciable capital assets	19,053,825
Less accumulated depreciation for:	
Buildings	2,946,724
Improvements/infrastructure	536,373
Equipment	2,150,355
Total accumulated depreciation	5,633,452
Total depreciable capital assets, net	13,420,373
Capital assets, net	\$ 13,559,383

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

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
CHILD NUTRITION CLUSTER				
<u>U. S. Department of Agriculture</u>				
Direct Program:				
National School Lunch Program (Note 3)	10.555			\$ 3,998
Passed Through Arkansas Department of Education:				
School Breakfast Program	10.553	4501		100,506
National School Lunch Program	10.555	4501		266,199
Total Arkansas Department of Education				366,705
Passed Through Arkansas Department of Human Services:				
National School Lunch Program (Note 4)	10.555	4501000		27,631
TOTAL CHILD NUTRITION CLUSTER				398,334
 SPECIAL EDUCATION CLUSTER (IDEA)				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Special Education - Grants to States	84.027	4501		254,503
Special Education - Preschool Grants	84.173	4501		3,103
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				257,606
 OTHER PROGRAMS				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Title I Grants to Local Educational Agencies	84.010	4501		330,119
Rural Education	84.358	4501		13,951
Supporting Effective Instruction State Grant	84.367	4501		48,468
Total Arkansas Department of Education				392,538
Passed Through Arkansas Department of Career Education:				
Career and Technical Education - Basic Grants to States	84.048	4501		604
Total U. S. Department of Education				393,142
TOTAL OTHER PROGRAMS				393,142
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 0	\$ 1,049,082

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, 2017

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, 2017. 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, 2017, the District received Medicaid funding of \$69,330 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, 2017

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 checked="" type="checkbox"/>	yes	<input 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
84.010 84.027 and 84.173	Title I Grants to Local Educational Agencies Special Education Cluster (IDEA)

Dollar threshold used to distinguish between type A and type B programs:	<u>\$</u>		<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, 2017

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2017-001. 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, 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 and planned corrective actions: 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, 2017

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, 2017

2017-002. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of management and Budget (OMB) 2 CFR part 200, subpart E - Cost Principles establish principles for determining the allowable costs incurred by the District under Federal awards. Such costs are to be necessary and reasonable for the performance of the Federal Award and be adequately documented.

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.

Questioned Costs: The amount of questioned costs was \$1,163.

Context: Examination of payroll expenditures for 2 employees (\$9,874) from a population of 17 employees (\$150,683). Our sample was a statistically valid sample.

Effect: The District expended Special Education program funds of \$1,163 for payroll expenditures determined not allowable.

Cause: Lack of internal controls and management oversight over program payroll expenditures.

Recommendation: The District should contact the Arkansas Department of Education for resolution regarding this matter and implement proper internal controls over program expenditures.

Views of responsible officials and planned corrective actions: The District Treasurer will look closely at the time sheets to ensure that a substitute teacher will only be paid for actual time worked.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 3

SIGNIFICANT DEFICIENCY

U.S. DEPARTMENT OF EDUCATION
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010
PASS-THROUGH NUMBER 4501
AUDIT PERIOD - YEAR ENDED JUNE 30, 2017

2017-003. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of management and Budget (OMB) 2 CFR part 200, subpart E - Cost Principles establish principles for determining the allowable costs incurred by the District under Federal awards. Such costs are to be necessary and reasonable for the performance of the Federal Award and be adequately documented.

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 fund, was for a baseball coaching stipend paid to an employee who also worked as a paraprofessional in the Title I program.

Questioned Costs: The amount of questioned costs was \$1,200.

Context: Examination of payroll expenditures for 2 employees (\$25,306) from a population of 14 employees (\$201,998). Our sample was a statistically valid sample.

Effect: The District expended Title I program funds of \$1,200 for payroll expenditures determined not allowable.

Cause: Lack of internal controls and management oversight over program payroll expenditures.

Recommendation: The District should contact the Arkansas Department of Education for resolution regarding this matter and implement proper internal controls over program expenditures.

Views of responsible officials and planned corrective actions: The Reporting Coordinator has contacted the Title I Office for the guidance for properly reimbursing the federal fund. The bookkeeper and District Treasurer will work together to see that activity stipends are correctly coded to fund 2000.



Excellence in Education

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL STATEMENT FINDINGS

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 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: Areas involving lack of segregation of financial accounting duties had not yet been addressed by the District. See Finding 2017-001 at Schedule 3.

2016 – Finding 2016-002: Misstatement not Detected by Internal Control System

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.

Current Status: Corrective action was taken to ensure all applicable general ledger accounts are properly stated.

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 employee 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 2017-001 at Schedule 3.



Excellence in Education

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

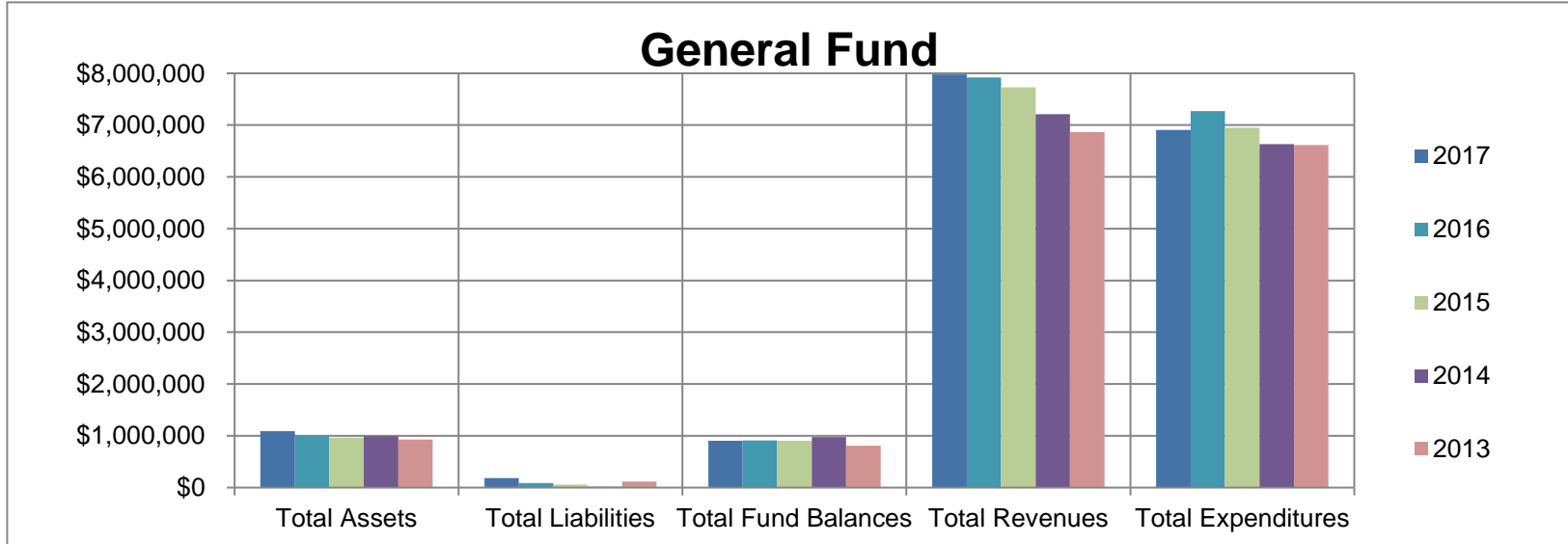
There were no findings in the prior audit.

FLIPPIN SCHOOL DISTRICT NO. 26
MARION COUNTY, ARKANSAS

Schedule 5

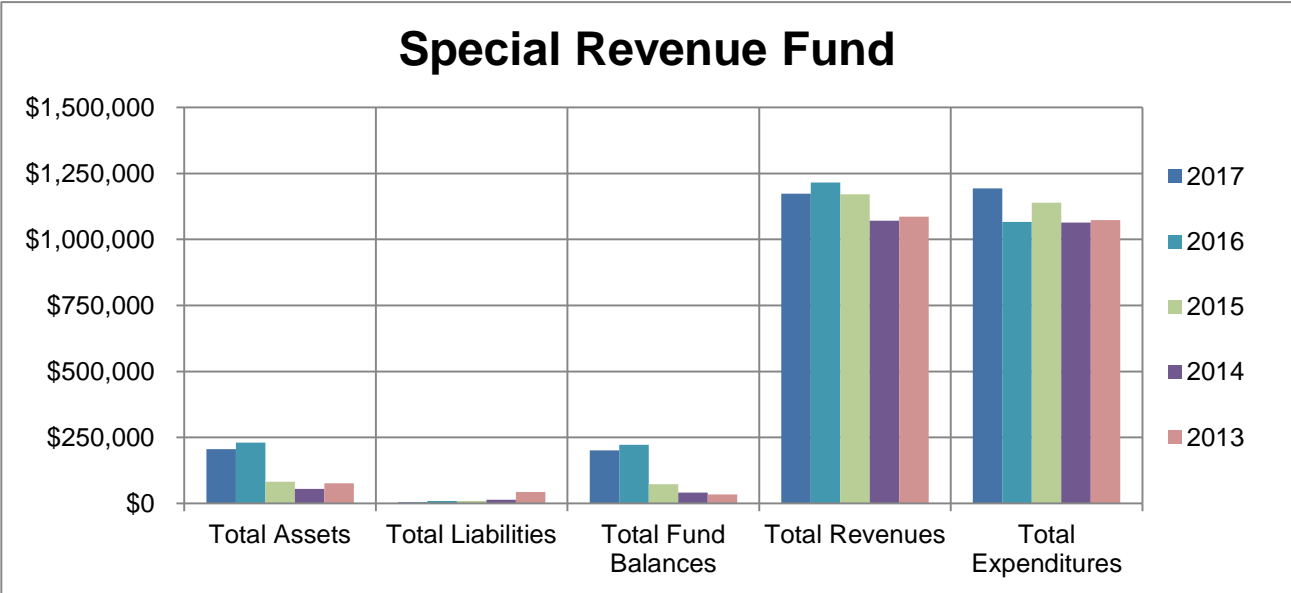
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2017
(Unaudited)

General Fund	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 1,089,858	\$ 1,000,973	\$ 963,940	\$ 996,245	\$ 926,957
Total Liabilities	184,745	87,737	60,047	18,928	119,878
Total Fund Balances	905,113	913,236	903,893	977,317	807,079
Total Revenues	7,981,995	7,921,544	7,728,698	7,210,044	6,863,499
Total Expenditures	6,908,119	7,272,459	6,948,927	6,630,531	6,611,789
Total Other Financing Sources (Uses)	(1,081,999)	(639,742)	(853,195)	(409,275)	(248,677)



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, 2017
 (Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 205,141	\$ 230,488	\$ 82,130	\$ 55,036	\$ 76,490
Total Liabilities	4,003	9,024	9,505	14,062	42,959
Total Fund Balances	201,138	221,464	72,625	40,974	33,531
Total Revenues	1,172,572	1,215,270	1,171,041	1,071,244	1,086,158
Total Expenditures	1,192,898	1,066,431	1,139,390	1,063,801	1,073,390
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, 2017
 (Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 685,643	\$ 5,184,612	\$ 6,976,826	\$ 6,355,005	\$ 231,522
Total Liabilities	1,066	823,278	355,796		
Total Fund Balances	684,577	4,361,334	6,621,030	6,355,005	231,522
Total Revenues	669,953	979,287	319,236	3,456	
Total Expenditures	5,428,709	4,095,172	988,583	294,135	212,478
Total Other Financing Sources (Uses)	1,081,999	856,189	935,372	6,414,162	313,830

