

Searcy County School District No. 17

Searcy County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2016

LEGISLATIVE JOINT AUDITING COMMITTEE



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SEARCY COUNTY, ARKANSAS
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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

Searcy County School District No. 17 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 Searcy County School District No. 17 (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2016, or the changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2016, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Schedule of Capital Assets, and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
February 21, 2017
EDSD42816

Arkansas

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



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Rep. Mary Bentley
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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

Searcy County School District No. 17 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 Searcy County School District No. 17 (the "District"), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 21, 2017. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2016, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, 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*.

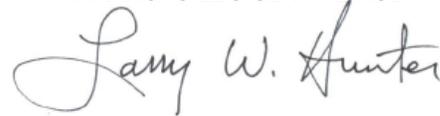
District's Response to Findings

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

ARKANSAS LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 21, 2017

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

Searcy County School District No. 17 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Searcy County School District No. 17 (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002. Our opinion on each major federal program is not modified with respect to these 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.

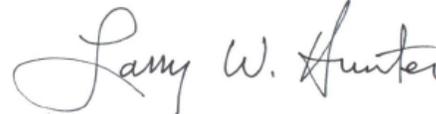
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002, that we consider to be a significant deficiency.

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
February 21, 2017

SEARCY COUNTY SCHOOL DISTRICT NO. 17
 SEARCY COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2016

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 1,165,087		\$ 2,782,198	\$ 99,836
Accounts receivable	9,963	\$ 120,874	432,379	
Due from other funds	29,547			
Deposit with paying agent	43,905			
TOTAL ASSETS	\$ 1,248,502	\$ 120,874	\$ 3,214,577	\$ 99,836
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 91,704	\$ 4,482	\$ 524,228	\$ 480
Due student groups				92,990
Due to other funds		29,547		
Total Liabilities	91,704	34,029	524,228	93,470
Fund Balances:				
Nonspendable	43,905			
Restricted	462,670	87,221	2,085,349	6,366
Committed			605,000	
Assigned	56,011			
Unassigned	594,212	(376)		
Total Fund Balances	1,156,798	86,845	2,690,349	6,366
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,248,502	\$ 120,874	\$ 3,214,577	\$ 99,836

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

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,358,551		
State assistance	5,369,242	\$ 3,277	\$ 1,534,168
Federal assistance	63,332	1,446,482	
Activity revenues	98,488		
Meal sales		106,352	
Investment income	54,156		
Other revenues	329,606	5,556	
TOTAL REVENUES	8,273,375	1,561,667	1,534,168
EXPENDITURES			
Regular programs	2,866,787	122,915	
Special education	385,448	255,451	
Career education programs	436,990	16,097	
Compensatory education programs	18,938	409,457	
Other instructional programs	262,670		
Student support services	281,693	84,341	
Instructional staff support services	769,173	40,870	
General administration support services	281,642	33,655	
School administration support services	421,756		
Central services support services	101,482		
Operation and maintenance of plant services	1,144,954		
Student transportation services	525,960	25,800	
Other support services	18,154		
Food services operations	405	586,246	
Community services operations		191	
Facilities acquisition and construction services			4,508,426
Non-programmed costs		2,282	
Activity expenditures	99,723		
Debt Service:			
Principal retirement	49,511		194,274
Interest and fiscal charges	3,134		224,704
TOTAL EXPENDITURES	7,668,420	1,577,305	4,927,404
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	604,955	(15,638)	(3,393,236)
OTHER FINANCING SOURCES (USES)			
Transfers in		38,959	623,978
Transfers out	(662,937)		
Proceeds from capital lease			984,000
Capital lease issuance cost			(10,455)
TOTAL OTHER FINANCING SOURCES (USES)	(662,937)	38,959	1,597,523
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(57,982)	23,321	(1,795,713)
FUND BALANCES - JULY 1	1,214,780	63,524	4,486,062
FUND BALANCES - JUNE 30	\$ 1,156,798	\$ 86,845	\$ 2,690,349

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

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 2,501,841	\$ 2,358,551	\$ (143,290)			
State assistance	5,066,763	5,369,242	302,479	\$ 2,900	\$ 3,277	\$ 377
Federal assistance	32,000	63,332	31,332	1,708,525	1,446,482	(262,043)
Activity revenues		98,488	98,488			
Meal sales				122,100	106,352	(15,748)
Investment income	46,000	54,156	8,156			
Other revenues	199,529	329,606	130,077		5,556	5,556
TOTAL REVENUES	7,846,133	8,273,375	427,242	1,833,525	1,561,667	(271,858)
EXPENDITURES						
Regular programs	2,867,912	2,866,787	1,125	183,660	122,915	60,745
Special education	452,395	385,448	66,947	366,474	255,451	111,023
Career education programs	389,940	436,990	(47,050)	16,614	16,097	517
Compensatory education programs	12,425	18,938	(6,513)	498,265	409,457	88,808
Other instructional programs	270,154	262,670	7,484			
Student support services	272,393	281,693	(9,300)	108,956	84,341	24,615
Instructional staff support services	864,915	769,173	95,742	131,392	40,870	90,522
General administration support services	265,101	281,642	(16,541)	42,332	33,655	8,677
School administration support services	421,140	421,756	(616)			
Central services support services	71,316	101,482	(30,166)			
Operation and maintenance of plant services	1,017,720	1,144,954	(127,234)			
Student transportation services	574,627	525,960	48,667	25,800	25,800	
Other support services	12,770	18,154	(5,384)			
Food services operations	417	405	12	561,526	586,246	(24,720)
Community services operations				5,000	191	4,809
Non-programmed costs				23,297	2,282	21,015
Activity expenditures		99,723	(99,723)			
Debt Service:						
Principal retirement	95,067	49,511	45,556			
Interest and fiscal charges	30,750	3,134	27,616			
TOTAL EXPENDITURES	7,619,042	7,668,420	(49,378)	1,963,316	1,577,305	386,011

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 227,091	\$ 604,955	\$ 377,864	\$ (129,791)	\$ (15,638)	\$ 114,153
OTHER FINANCING SOURCES (USES)						
Transfers in	9,309,871		(9,309,871)	60,000	38,959	(21,041)
Transfers out	(9,732,800)	(662,937)	9,069,863			
TOTAL OTHER FINANCING SOURCES (USES)	(422,929)	(662,937)	(240,008)	60,000	38,959	(21,041)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(195,838)	(57,982)	137,856	(69,791)	23,321	93,112
FUND BALANCES - JULY 1	1,342,472	1,214,780	(127,692)	70,635	63,524	(7,111)
FUND BALANCES - JUNE 30	\$ 1,146,634	\$ 1,156,798	\$ 10,164	\$ 844	\$ 86,845	\$ 86,001

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

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Searcy County 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.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

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

F. Property Taxes

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

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2015 calendar year taxes collected by June 30, 2016 and 20 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2016 equaled or exceeded the 20 percent calculation.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

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

G. Interfund Receivables and Payables

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

H. Fund Balance Classifications

1. Nonspendable fund balance – represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
2. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
3. 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.
4. 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.
5. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

I. Budget and Budgetary Accounting

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

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

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

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Stabilization Arrangements

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

K. Minimum Fund Balance Policies

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

L. Fund Balance Classification Policies and Procedures

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

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

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

M. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 4,047,121	\$ 4,564,253

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

3: ACCOUNTS RECEIVABLE

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
State assistance	\$ 9,963		\$ 432,379
Federal assistance		\$ 120,874	
Totals	\$ 9,963	\$ 120,874	\$ 432,379

4: COMMITMENTS

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Fine Arts building	November 1, 2016	\$ 240,052
Gym renovations	November 1, 2016	533,509
Elementary School	March 1, 2017	2,759,136

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

General description of leases and leasing arrangements: On April 29, 2015, the District executed a noncancellable lease agreement for 13 copiers with FBT Bank & Mortgage. The term of the lease is 60 months with lease payments of \$1,579 per month. Additionally, on May 13, 2016, the District entered into a noncancellable lease agreement with Central States Bus Sales for 10 buses at \$141,904 annually for three years with a balloon payment of \$445,695 in year four.

1. Future minimum rental payments (aggregate) at June 30, 2016: \$944,068
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2017	\$ 160,851
2018	160,851
2019	160,851
2020	461,515
Total	\$ 944,068

Rental payments for the operating leases described above were approximately \$20,526 for the year ended June 30, 2016.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

4: COMMITMENTS (Continued)

C. Long-term Debt Issued and Outstanding

The District is presently paying on the following long-term debt:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2016	Maturities To June 30, 2016
12/1/14	6/1/44	1 - 3.8%	\$ 6,970,000	\$ 6,800,000	\$ 170,000
4/2/13	4/2/18	2.5%	203,883	84,649	119,234
7/7/15	7/7/30	3.99%	984,000	959,726	24,274
Totals			<u>\$ 8,157,883</u>	<u>\$ 7,844,375</u>	<u>\$ 313,508</u>

Changes in Long-term Debt

	Balance July 1, 2015	Issued	Retired	Balance June 30, 2016
Bonds payable	\$ 6,970,000		\$ 170,000	\$ 6,800,000
Capital leases	125,394	\$ 984,000	65,019	1,044,375
Installment contracts	8,766		8,766	
Totals	<u>\$ 7,104,160</u>	<u>\$ 984,000</u>	<u>\$ 243,785</u>	<u>\$ 7,844,375</u>

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2017	\$ 261,803	\$ 243,055	\$ 504,858
2018	269,884	238,188	508,072
2019	229,124	233,437	462,561
2020	236,305	229,156	465,461
2021	238,574	224,367	462,941
2022-2026	1,290,234	1,035,396	2,325,630
2027-2031	1,448,451	845,697	2,294,148
2032-2036	1,280,000	626,050	1,906,050
2037-2041	1,530,000	378,475	1,908,475
2042-2044	1,060,000	81,510	1,141,510
Totals	<u>\$ 7,844,375</u>	<u>\$ 4,135,331</u>	<u>\$ 11,979,706</u>

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

4: COMMITMENTS (Continued)

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

Capital Leases

Capital assets acquired through capital leases consisted of the following at June 30, 2016:

Class of Property	Cost	Accumulated Depreciation	Net Value
School buses	\$ 198,900	\$ 78,731	\$ 120,169
Energy savings improvements	922,958		922,958
Total	<u>\$ 1,121,858</u>	<u>\$ 78,731</u>	<u>\$ 1,043,127</u>

The present value of the net minimum lease payments is as follows at June 30, 2016:

Total Minimum Lease Payments	\$ 1,360,603
Less: Amount Representing Interest	<u>316,228</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 1,044,375</u>

Security for Debt Payments

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

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Description	Governmental Funds			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
Vendor payables	\$ 85,680	\$ 4,482	\$ 524,228	\$ 480
Due to grantors	6,024			
Totals	<u>\$ 91,704</u>	<u>\$ 4,482</u>	<u>\$ 524,228</u>	<u>\$ 480</u>

6: INTERFUND TRANSFERS

The District transferred \$623,978 from the general fund to the other aggregate funds for debt related payments of \$418,978 and for future construction projects of \$205,000. Additionally, \$38,959 was transferred from the general fund to the special revenue fund to supplement the District's food services operations.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

7: RETIREMENT PLANS

Arkansas Teacher Retirement System

Plan Description

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

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries. The District's contributions to ATRS for the year ended June 30, 2016 were \$727,630, equal to the required contributions.

Additionally, the Arkansas Department of Education (ADE) paid retirement contributions to ATRS for certain employees of the District's North Central Career Center, a secondary area center for career and technical education. The ADE's contributions for the year ended June 30, 2016 were \$22,386, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2015 (actuarial valuation date and measurement date) was \$5,930,055.

Arkansas Public Employees Retirement System

Plan Description

The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain non-teaching school employees. APERS, 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 Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy

APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% 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 for school districts is 4% of covered salaries. The District's contributions to APERS for the year ended June 30, 2016 were \$567, equal to the required contributions.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

7: RETIREMENT PLANS (Continued)

Arkansas Public Employees Retirement System (Continued)

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2015 (actuarial valuation date and measurement date) was \$3,636.

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS		
Interest	\$	<u>8</u>
CHANGE IN FUND BALANCE		8
FUND BALANCE - JULY 1		<u>6,358</u>
FUND BALANCE - JUNE 30	\$	<u><u>6,366</u></u>

9: DEFICIT FUND BALANCES

The deficit unassigned fund balance of \$376 reflected in the special revenue fund at the table in Note 13 pertains to the child nutrition program. The temporary deficit balance was caused by the recognition of minor accounts payable at year-end.

10: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$6,970,000 issued on December 1, 2014. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$10,619,103, payable through June 1, 2044. Principal and interest paid for the current year and total property taxes pledged for debt service were \$375,073 and \$745,315, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 50.32 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 board liability and student accidents.

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

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

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

11: RISK MANAGEMENT (Continued)

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

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

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 \$210,688 for the year ended June 30, 2016.

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Nonspendable:			
Deposit with paying agent	\$ 43,905		
Restricted for:			
Alternative learning environment	7,776		
Educational programs - national school lunch state categorical funding	48,056		
English-language learners	648		
Professional development	45,528		
Isolated special needs (transportation)	208,878		
Capital projects			\$2,085,349
Medical services		\$ 66,455	
Special education programs	75,907		
Other purposes	75,877	20,766	
Total Restricted	<u>462,670</u>	<u>87,221</u>	<u>2,085,349</u>
Committed to:			
Capital projects			<u>605,000</u>
Assigned to:			
Student activities	<u>56,011</u>		
Unassigned	<u>594,212</u>	<u>(376)</u>	
Totals	<u>\$1,156,798</u>	<u>\$ 86,845</u>	<u>\$2,690,349</u>

14: SUBSEQUENT EVENT

The District issued refunding bonds of \$7,085,000 on September 1, 2016.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
 SEARCY COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

Schedule 1

	Balance June 30, 2016
<i>Nondepreciable capital assets:</i>	
Land	\$ 164,183
Construction in progress	2,457,412
Total nondepreciable capital assets	2,621,595
 <i>Depreciable capital assets:</i>	
Buildings	7,701,403
Improvements/infrastructure	528,623
Equipment	3,576,457
Total depreciable capital assets	11,806,483
 Less accumulated depreciation for:	
Buildings	3,210,421
Improvements/infrastructure	335,455
Equipment	2,742,484
Total accumulated depreciation	6,288,360
 Total depreciable capital assets, net	 5,518,123
 Capital assets, net	 \$ 8,139,718

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
CHILD NUTRITION CLUSTER				
<u>U. S. Department of Agriculture</u>				
Direct Program:				
National School Lunch Program (Note 3)	10.555			\$ 3,499
Passed Through Arkansas Department of Education:				
School Breakfast Program	10.553	6502		119,993
National School Lunch Program	10.555	6502		272,022
Total Arkansas Department of Education				392,015
Passed Through Arkansas Department of Human Services:				
National School Lunch Program (Note 4)	10.555	6502000		31,806
TOTAL CHILD NUTRITION CLUSTER				427,320
SPECIAL EDUCATION CLUSTER (IDEA)				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Special Education - Grants to States	84.027	6502		247,321
Special Education - Preschool Grants	84.173	6502		33,879
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				281,200
OTHER PROGRAMS				
<u>National Endowment for the Arts</u>				
Passed through Department of Arkansas Heritage - Arkansas Arts Council:				
Promotion of the Arts - Partnership Agreements	45.025	6502		320
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Title I Grants to Local Educational Agencies	84.010	6502		378,027
Rural Education	84.358	6502		16,136
Improving Teacher Quality State Grants	84.367	6502		107,164
Total Arkansas Department of Education				501,327
Passed Through Arkansas Department of Career Education:				
Career and Technical Education - Basic Grants to States	84.048	6502		16,097
Total U. S. Department of Education				517,424
TOTAL OTHER PROGRAMS				517,744
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 0	\$ 1,226,264

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 grant activity of Searcy County School District No. 17 (District) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.
- Note 5: The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- Note 6: During the year ended June 30, 2016, the District received Medicaid funding of \$91,265 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
 SEARCY COUNTY, ARKANSAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

FEDERAL AWARDS

Internal control over major federal programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? X yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555 84.010	Child Nutrition Cluster Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes X no

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2016-001. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: non-payroll checks were prepared by the same employee responsible for the maintenance of accounting records and such employee had unrestricted access to the District's signature stamp, without compensating controls. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls.

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

Effect: The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weaknesses in the above internal control component.

Cause: District management, due to cost/benefit implications, which hindered the District's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiencies in internal control.

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

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

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER - CFDA NUMBERS 10.553 AND 10.555
PASS-THROUGH NUMBER 6502
AUDIT PERIOD - YEAR ENDED JUNE 30, 2016

2016-002. Eligibility

Criteria or specific requirement: In accordance with U. S. Department of Agriculture guidelines, the determining official must review each incoming application for free and reduced price meals and then determine whether the household is eligible for benefits based on the information provided on the application.

Condition: Eligibility status for one student's free and reduced price meal application should have been denied eligibility for free and reduced price meals. The application was incorrectly classified as reduced price meals. The amount of excess reimbursement for meals claimed could not be readily determined.

Context: Examination of 25 free and reduced price meal applications for completeness and proper classification from a total population of approved applications of 246.

Effect: The meal status of one applicant was incorrectly classified as reduced price meals instead of being denied eligibility.

Cause: The District miscalculated annual income by using 24 pay periods for bi-weekly payroll instead of 26 pay periods.

Recommendation: The District should establish controls in reviewing applications to ensure proper meal status is determined.

Views of responsible officials and planned corrective actions: The Searcy County School District started using the E-Triton Meal Tracking System in February, 2016. Since that time, we are able to track the free and reduced lunch applications. When we receive an application, the Cafeteria Director will process the application. She then gives it to the Assistant Cafeteria Director, who enters it into the E-Triton patron application system. This will inform us if a student is free, reduced price, or paid. We then inform the parent.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 4

FINANCIAL STATEMENT FINDINGS

2015 - Finding 2015-001: Internal Control

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: non-payroll checks were prepared by the same employee responsible for the maintenance of accounting records and such employee had unrestricted access to the District's signature stamp, without compensating controls. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls.

Current Status: The District had not yet addressed the lack of segregation of certain financial accounting duties reported in the prior audit. See Finding 2016-001 at Schedule 3.

2015 - Finding 2015-002: Misstatements not Detected by Internal Control System

Condition: The District's internal control system 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. Significant errors in the capital projects fund, a component of the other aggregate funds, included the misclassification of expenditures for principal retirement in the amount of \$358,225, which were incorrectly posted to the District's general ledger as facilities acquisition and construction services/other professional and technical services. The financial statements were subsequently corrected by adjusting entries during audit fieldwork.

Current Status: Corrective action was taken.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER

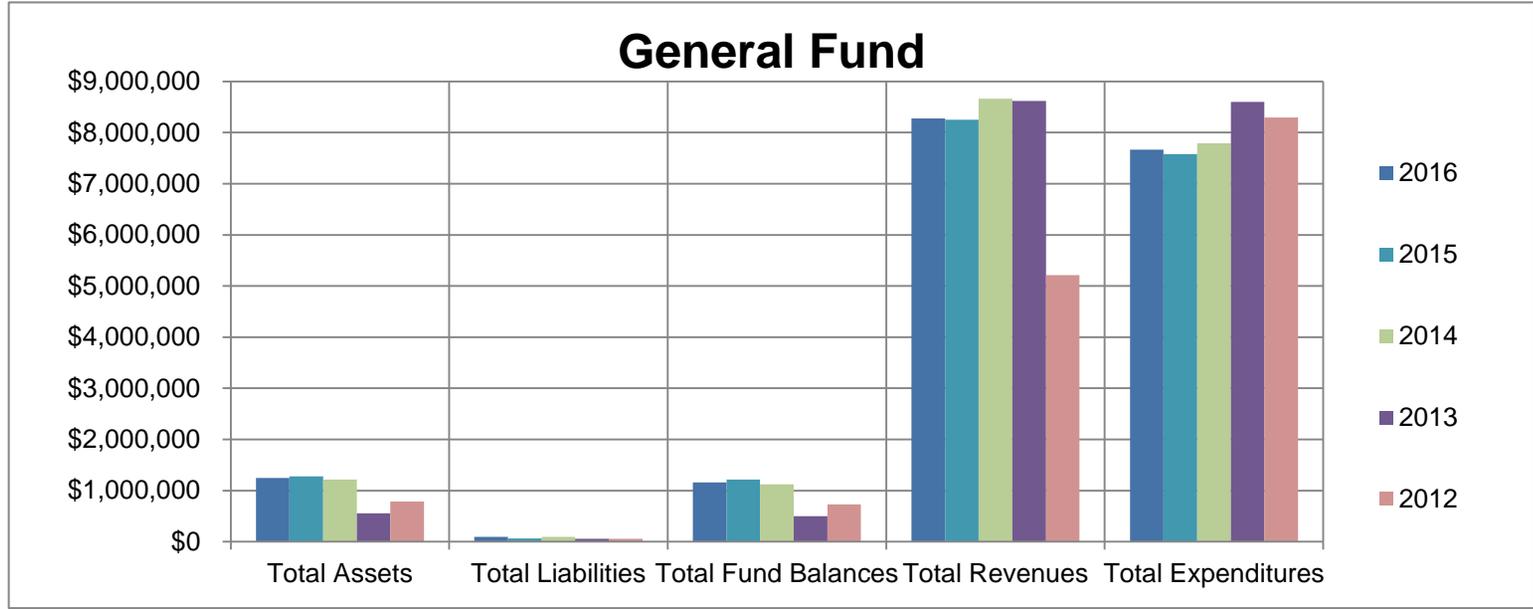
2015 - Finding 2015-003: Child Nutrition Cluster - CFDA Numbers 10.553 and 10.555

Condition: Although standard payroll documentation supporting the employees' work in the child nutrition program was available for audit inspection, monthly personnel activity reports were not prepared for employees who also worked other activities. Periodic time certifications were not prepared for employees who worked solely with the child nutrition program.

Current Status: Corrective action was taken.

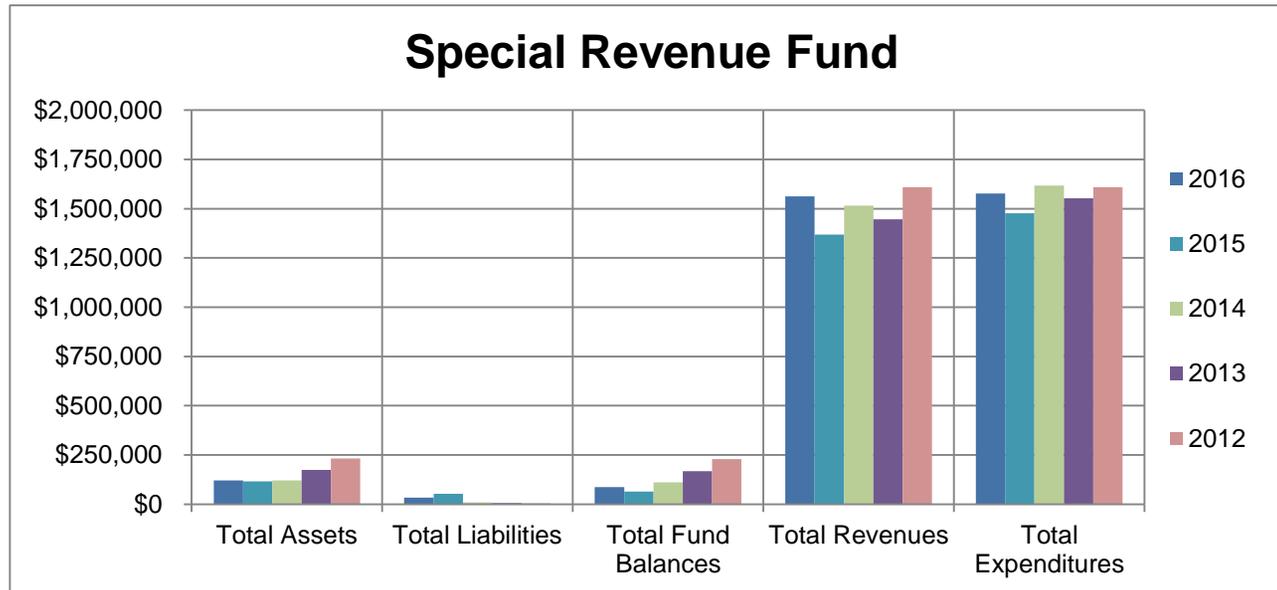
SEARCY COUNTY SCHOOL DISTRICT NO. 17
 SEARCY COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

General Fund	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 1,248,502	\$ 1,275,616	\$ 1,215,015	\$ 555,852	\$ 787,907
Total Liabilities	91,704	60,836	91,471	56,561	57,625
Total Fund Balances	1,156,798	1,214,780	1,123,544	499,291	730,282
Total Revenues	8,273,375	8,254,398	8,661,947	8,615,846	5,215,605
Total Expenditures	7,668,420	7,578,627	7,791,369	8,601,459	8,293,471
Total Other Financing Sources (Uses)	(662,937)	(584,535)	(246,325)	(245,378)	(252,926)



SEARCY COUNTY SCHOOL DISTRICT NO. 17
 SEARCY COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 120,874	\$ 116,107	\$ 120,603	\$ 173,768	\$ 232,290
Total Liabilities	34,029	52,583	9,320	6,215	4,037
Total Fund Balances	86,845	63,524	111,283	167,553	228,253
Total Revenues	1,561,667	1,368,817	1,516,029	1,445,575	1,608,958
Total Expenditures	1,577,305	1,477,326	1,616,860	1,553,014	1,608,869
Total Other Financing Sources (Uses)	38,959	60,750	44,561	46,739	1,626



SEARCY COUNTY SCHOOL DISTRICT NO. 17
 SEARCY COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 3,214,577	\$ 4,803,951	\$ 321,372	\$ 287,278	\$ 246,843
Total Liabilities	524,228	317,889			
Total Fund Balances	2,690,349	4,486,062	321,372	287,278	246,843
Total Revenues	1,534,168	3,662	106	6,447	21,973
Total Expenditures	4,927,404	989,522	167,776	164,651	751,703
Total Other Financing Sources (Uses)	1,597,523	5,150,550	201,764	198,639	251,300

