

Forrest City School District No. 7

St. Francis County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2015

LEGISLATIVE JOINT AUDITING COMMITTEE



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ST. FRANCIS 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

Forrest City School District No. 7 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 Forrest City School District No. 7 (the "District"), as of and for the year ended June 30, 2015, 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, 2015, 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, 2015, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 March 10, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
March 10, 2016
EDSD36115

Arkansas

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



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Forrest City School District No. 7 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 Forrest City School District No. 7 (the "District"), as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 10, 2016. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2015, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 and 2015-002, that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated March 10, 2016.

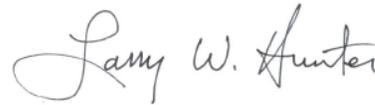
District's Response to Findings

The District's response to the findings identified in our audit, excluding the management letter findings, 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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 10, 2016

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 OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Forrest City School District No. 7 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Forrest City School District No. 7 (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 10, 2016

Arkansas

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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

Forrest City School District No. 7 and School Board Members
Legislative Joint Auditing Committee

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations, and to improve internal control. These matters were discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

1. During our testing of payroll and the review of the District's leave records, we noted the following discrepancies that resulted from various clerical errors:
 - A. Two employees were underpaid \$3,750 and \$330, respectively.
 - B. Two employees were overpaid \$1,726 and \$322, respectively.
 - C. Two employees received payments for personal services totaling \$1,285, for which no supporting documentation was maintained.
 - D. One employee's IRS W-2 form was overstated by \$741 because the District failed to properly void payroll checks in the accounting system.
2. Although the District maintained adequate documentation to support the deletion of certain capital assets, subsidiary records were not updated to reflect the removal of the items. A similar finding was reported in the previous two audits.
3. The District's operating bank account was not reconciled at June 30, 2015, resulting in a discrepancy of \$3,894.
4. The District paid \$34,379 for physical therapy services to a business in which an employee had a financial interest without approval from the Arkansas Department of Education, as required by Ark. Code Ann. § 6-24-107.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

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
March 10, 2016

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2015

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 4,028,334	\$ 352	\$ 518,440	\$ 18,882
Investments			1,054,674	
Accounts receivable	2,622	1,134,798		
Due from other funds		18,728		
TOTAL ASSETS	\$ 4,030,956	\$ 1,153,878	\$ 1,573,114	\$ 18,882
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 244,978	\$ 48,552	\$ 143,073	
Due student groups				\$ 18,882
Due to other funds	18,728			
Total Liabilities	263,706	48,552	143,073	18,882
Fund Balances:				
Restricted	871,917	1,105,326	989,375	
Committed			440,666	
Assigned	99,120			
Unassigned	2,796,213			
Total Fund Balances	3,767,250	1,105,326	1,430,041	
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,030,956	\$ 1,153,878	\$ 1,573,114	\$ 18,882

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

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 5,609,075		
State assistance	19,399,918	\$ 14,372	
Federal assistance	6,764	8,598,153	
Activity revenues	158,500		
Meal sales		364,630	
Investment income	5,117		\$ 4,834
Other revenues	226,250	3,406	
TOTAL REVENUES	25,405,624	8,980,561	4,834
EXPENDITURES			
Regular programs	9,824,818	119,259	
Special education	2,630,575	351,056	
Career education programs	617,581	60,446	
Compensatory education programs	155,847	2,386,764	
Other instructional programs	1,406,215	10,991	
Student support services	1,120,070	264,043	
Instructional staff support services	1,185,270	3,110,481	
General administration support services	747,067	229,163	
School administration support services	1,619,742		
Central services support services	574,823	3,727	
Operation and maintenance of plant services	2,262,563	95,735	82,422
Student transportation services	984,635		
Other support services	17,325		
Food services operations	258,733	2,322,662	
Community services operations		3,017	
Facilities acquisition and construction services	7,000		517,985
Non-programmed costs	556	252,494	
Activity expenditures	160,229		
Debt Service:			
Principal retirement			255,000
Interest and fiscal charges			432,597
TOTAL EXPENDITURES	23,573,049	9,209,838	1,288,004
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,832,575	(229,277)	(1,283,170)
OTHER FINANCING SOURCES (USES)			
Transfers in			1,387,497
Transfers out	(1,387,497)		
Refund to grantor	(9,418)		
TOTAL OTHER FINANCING SOURCES (USES)	(1,396,915)		1,387,497
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	435,660	(229,277)	104,327
FUND BALANCES - JULY 1	3,331,590	1,334,603	1,325,714
FUND BALANCES - JUNE 30	\$ 3,767,250	\$ 1,105,326	\$ 1,430,041

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

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS 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, 2015

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 5,647,000	\$ 5,609,075	\$ (37,925)			
State assistance	19,531,381	19,399,918	(131,463)	\$ 15,000	\$ 14,372	\$ (628)
Federal assistance	5,000	6,764	1,764	9,391,759	8,598,153	(793,606)
Activity revenues		158,500	158,500			
Meal sales				342,000	364,630	22,630
Investment income	4,000	5,117	1,117			
Other revenues	304,918	226,250	(78,668)	6,000	3,406	(2,594)
TOTAL REVENUES	25,492,299	25,405,624	(86,675)	9,754,759	8,980,561	(774,198)
EXPENDITURES						
Regular programs	10,180,889	9,824,818	356,071	71,548	119,259	(47,711)
Special education	2,687,748	2,630,575	57,173	316,136	351,056	(34,920)
Career education programs	631,320	617,581	13,739	59,987	60,446	(459)
Compensatory education programs	242,772	155,847	86,925	3,041,002	2,386,764	654,238
Other instructional programs	1,595,140	1,406,215	188,925	12,501	10,991	1,510
Student support services	1,189,242	1,120,070	69,172	292,065	264,043	28,022
Instructional staff support services	1,364,231	1,185,270	178,961	3,897,383	3,110,481	786,902
General administration support services	806,602	747,067	59,535	281,899	229,163	52,736
School administration support services	1,706,919	1,619,742	87,177			
Central services support services	498,535	574,823	(76,288)	4,850	3,727	1,123
Operation and maintenance of plant services	2,473,871	2,262,563	211,308	66,500	95,735	(29,235)
Student transportation services	932,797	984,635	(51,838)	2,700		2,700
Other support services	34,400	17,325	17,075			
Food services operations	250,000	258,733	(8,733)	1,949,314	2,322,662	(373,348)
Community services operations				12,000	3,017	8,983
Facilities acquisition and construction services	7,000	7,000				
Non-programmed costs		556	(556)	69,242	252,494	(183,252)
Activity expenditures		160,229	(160,229)			
TOTAL EXPENDITURES	24,601,466	23,573,049	1,028,417	10,077,127	9,209,838	867,289

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS 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, 2015

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 890,833	\$ 1,832,575	\$ 941,742	\$ (322,368)	\$ (229,277)	\$ 93,091
OTHER FINANCING SOURCES (USES)						
Transfers in	32,288,676		(32,288,676)			
Transfers out	(33,106,258)	(1,387,497)	31,718,761			
Refund to grantor		(9,418)	(9,418)			
TOTAL OTHER FINANCING SOURCES (USES)	(817,582)	(1,396,915)	(579,333)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	73,251	435,660	362,409	(322,368)	(229,277)	93,091
FUND BALANCES - JULY 1	3,506,542	3,331,590	(174,952)	994,702	1,334,603	339,901
FUND BALANCES - JUNE 30	<u>\$ 3,579,793</u>	<u>\$ 3,767,250</u>	<u>\$ 187,457</u>	<u>\$ 672,334</u>	<u>\$ 1,105,326</u>	<u>\$ 432,992</u>

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

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a seven 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 Forrest City School District (District). There are no component units.

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 fair 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	10-50
Buildings	10-50
Equipment	5-25

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 2014 calendar year taxes collected by June 30, 2015 and 24 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, 2015 equaled or exceeded the 24 percent calculation.

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

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

G. Interfund Receivables and Payables

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

H. Fund Balance Classifications

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

I. Budget and Budgetary Accounting

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

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

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

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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)	\$ 344,304	\$ 346,255
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	5,276,378	6,235,009
Total Deposits	\$ 5,620,682	\$ 6,581,264

The above total deposits include certificates of deposit of \$1,054,674 reported as investments and classified as nonparticipating contracts.

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Federal assistance		\$ 1,133,775
Meal sales		105
Other	\$ 2,622	918
Totals	<u>\$ 2,622</u>	<u>\$ 1,134,798</u>

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2015:

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, 2015	Maturities To June 30, 2015
2/1/06	2/1/27	3.75%	\$ 785,000	\$ 520,000	\$ 265,000
8/1/12	2/1/39	1.25 - 2.95%	4,955,000	4,955,000	
8/15/12	2/1/23	1.5%	1,920,000	1,545,000	375,000
11/1/13	2/1/39	1 - 4.375%	7,855,000	7,855,000	
5/1/08	5/1/18		350,000	105,000	245,000
Totals			<u>\$ 15,865,000</u>	<u>\$ 14,980,000</u>	<u>\$ 885,000</u>

Changes in Long-term Debt

	Balance July 1, 2014	Issued	Retired	Balance June 30, 2015
Bonds payable	\$ 15,095,000		\$ 220,000	\$ 14,875,000
Postdated warrants	140,000		35,000	105,000
Totals	<u>\$ 15,235,000</u>	<u>\$ 0</u>	<u>\$ 255,000</u>	<u>\$ 14,980,000</u>

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

4: COMMITMENTS (Continued)

Long-term Debt Issued and Outstanding (Continued)

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2016	\$ 365,000	\$ 426,735	\$ 791,735
2017	600,000	421,285	1,021,285
2018	695,000	413,310	1,108,310
2019	665,000	403,030	1,068,030
2020	670,000	391,458	1,061,458
2021-2025	3,145,000	1,755,080	4,900,080
2026-2030	2,755,000	1,383,090	4,138,090
2031-2035	3,135,000	914,253	4,049,253
2036-2039	2,950,000	289,543	3,239,543
Totals	<u>\$ 14,980,000</u>	<u>\$ 6,397,783</u>	<u>\$ 21,377,783</u>

Qualified Zone Academy Bond (QZAB)

On May 1, 2008, the District obtained funding of \$350,000 through the Qualified Zone Academy Bond (QZAB) program, a debt financial arrangement authorized under the Taxpayer Relief Act of 1997. The District is required to remit annual payments to retire this debt.

Security for Debt Payments

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

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015 were comprised of the following:

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Vendor payables	\$ 75,094	\$ 48,552	\$ 143,073
Payroll withholdings and matching	160,466		
Due to grantors	9,418		
Totals	<u>\$ 244,978</u>	<u>\$ 48,552</u>	<u>\$ 143,073</u>

6: INTERFUND TRANSFERS

The District transferred \$1,387,497 from the general fund to the other aggregate funds for debt related payments of \$687,497, debt refunding savings of \$259,334 required to be utilized for capital expenditures, and to supplement future capital projects by \$440,666.

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015 were \$2,547,043, 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, 2014 (actuarial valuation date and measurement date) was \$16,500,557.

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, 2015 were \$7,537, equal to the required contributions.

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2014 (actuarial valuation date and measurement date) was \$52,662.

8: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$15,515,000 issued from February 1, 2006 through November 1, 2013. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$21,272,783, payable through February 1, 2039. Principal and interest paid for the current year and total property taxes pledged for debt service were \$650,823 and \$1,307,637, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 49.77 percent.

9: RISK MANAGEMENT

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

The District carries commercial insurance for board liability and student accident coverage.

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

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

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

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

10: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$728,165 for the year ended June 30, 2015.

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 70,372		
Educational programs - national school lunch state categorical funding	330,663		
English-language learners	426		
Professional development	115,341		
Capital projects			\$ 989,375
Child nutrition programs		\$ 997,891	
Medical services		79,388	
Arkansas Better Chance programs	138,311		
Special education programs	98,038		
Other purposes	118,766	28,047	
Total Restricted	<u>871,917</u>	<u>1,105,326</u>	<u>989,375</u>
Committed to:			
Capital projects			<u>440,666</u>
Assigned to:			
Student activities	75,422		
Other purposes	23,698		
Total Assigned	<u>99,120</u>		
Unassigned	<u>2,796,213</u>		
Totals	<u>\$3,767,250</u>	<u>\$1,105,326</u>	<u>\$1,430,041</u>

FORREST CITY SCHOOL DISTRICT NO. 7
 ST. FRANCIS COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2015
 (Unaudited)

Schedule 1

	Balance June 30, 2015
<i>Nondepreciable capital assets:</i>	
Land	\$ 451,047
 <i>Depreciable capital assets:</i>	
Buildings	23,673,083
Improvements/infrastructure	7,592,528
Equipment	9,021,976
Total depreciable capital assets	40,287,587
 Less accumulated depreciation for:	
Buildings	10,912,349
Improvements/infrastructure	1,066,653
Equipment	7,492,960
Total accumulated depreciation	19,471,962
 Total depreciable capital assets, net	20,815,625
 Capital assets, net	\$ 21,266,672

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	62-01-000	\$ 538,203
National School Lunch Program - Cash Assistance	10.555	62-01-000	1,145,869
Total State Department of Education			1,684,072
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	6201000	146,025
TOTAL CHILD NUTRITION CLUSTER			1,830,097
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program	10.582	6201	4,698
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 4)	12.N3012B		58,410
<u>U. S. Department of Education</u>			
Direct Program:			
Impact Aid	84.041		6,764
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	62-01	1,802,050
Special Education - Grants to States	84.027	6201	769,099
Charter Schools	84.282	6201	5,736
Education Technology State Grants	84.318	6201	6,457
Rural Education	84.358	6201	72,372
Improving Teacher Quality State Grants	84.367	6201	314,826
School Improvement Grants	84.377	6201000	3,193,018
Total State Department of Education			6,163,558
Passed Through State Department of Career Education:			
Career and Technical Education - Basic Grants to States	84.048	6201	71,090
Passed Through State Department of Higher Education:			
Teacher Quality Enhancement Grants	84.336	Unavailable	2,077
Total U. S. Department of Education			6,243,489
TOTAL OTHER PROGRAMS			6,306,597
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 8,136,694

The accompanying notes are an integral part of this schedule.

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

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 Forrest City School District No. 7 (District) under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 5: During the year ended June 30, 2015, the District received Medicaid funding of \$131,611 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

FORREST CITY SCHOOL DISTRICT NO. 7
 ST. FRANCIS COUNTY, ARKANSAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2015

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? yes no

Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major federal programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified? 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 Section 510(a) of OMB Circular A-133? yes no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants
84.377	School Improvement Grants

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2015-001. Internal Control

Criteria or specific requirement: Internal control is a process consisting of 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: receipting, depositing, posting, and reconciliation procedures were performed by the same employee, without compensating controls.

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

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

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

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

Views of responsible officials and planned corrective actions: The District is in the process of putting policies in place to help remedy this situation.

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

MATERIAL WEAKNESSES (Continued)

2015-002. Misstatements not Detected by Internal Control System

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

Condition: The District's internal control system did not prevent, or detect and correct material errors in the financial accounting records. Such records were utilized in the preparation of the District's financial statements. The District incorrectly recorded principal payments of \$220,000 as interest payments in the debt service fund, which is included in the other aggregate funds. The financial statements were subsequently corrected by an adjusting entry during audit fieldwork.

Context: Identification of misstatements not initially detected by the District's internal control system through inspection of debt repayment schedules.

Effect: The financial statement amounts in the other aggregate funds were initially materially misstated as a result of this misclassification.

Cause: The District did not reconcile recorded principal and interest payments to the applicable repayment schedules.

Recommendation: To achieve reliable financial reporting, the District should exercise due care to ensure the proper classification of expenditures.

Views of responsible officials and planned corrective actions: The District will make sure principal and interest payments are correctly classified.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2014 - Finding 2014-001: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: The District claimed indirect costs in excess of the allowable amount by \$9,418.

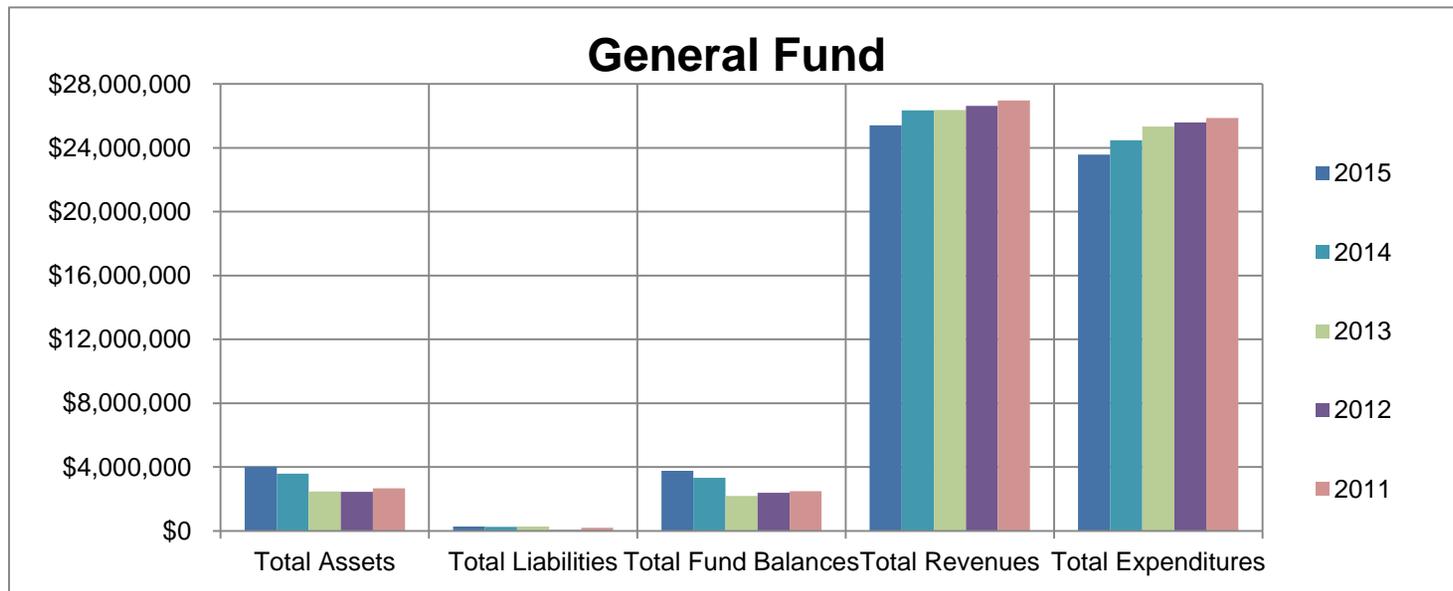
Recommendation: The District should contract the Arkansas Department of Education for guidance regarding this matter and implement proper controls over program expenditures.

Current Status: Corrective action was taken.

FORREST CITY SCHOOL DISTRICT NO. 7
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015
(Unaudited)

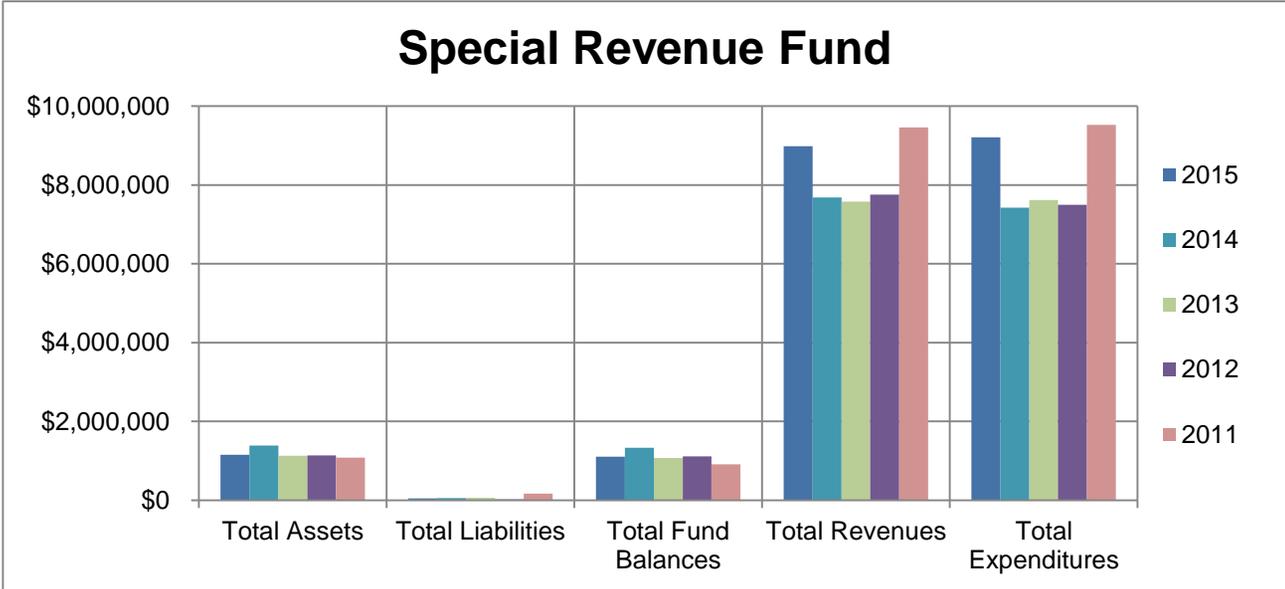
Schedule 5

General Fund	Year Ended June 30,				
	2015	2014	2013	2012	2011
Total Assets	\$ 4,030,956	\$ 3,576,877	\$ 2,475,591	\$ 2,439,542	\$ 2,673,197
Total Liabilities	263,706	245,287	279,524	44,693	185,851
Total Fund Balances	3,767,250	3,331,590	2,196,067	2,394,849	2,487,346
Total Revenues	25,405,624	26,345,129	26,373,837	26,630,836	26,973,961
Total Expenditures	23,573,049	24,466,652	25,324,644	25,586,206	25,862,186
Total Other Financing Sources (Uses)	(1,396,915)	(742,954)	(1,247,975)	(1,137,127)	(1,114,114)



FORREST CITY SCHOOL DISTRICT NO. 7
 ST. FRANCIS COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2015
 (Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2015	2014	2013	2012	2011
Total Assets	\$ 1,153,878	\$ 1,385,202	\$ 1,130,215	\$ 1,135,224	\$ 1,078,420
Total Liabilities	48,552	50,599	60,908	22,376	169,048
Total Fund Balances	1,105,326	1,334,603	1,069,307	1,112,848	909,372
Total Revenues	8,980,561	7,685,477	7,574,677	7,754,697	9,459,866
Total Expenditures	9,209,838	7,420,181	7,618,218	7,492,603	9,528,463
Total Other Financing Sources (Uses)				(58,618)	



FORREST CITY SCHOOL DISTRICT NO. 7
 ST. FRANCIS COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2015
 (Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2015	2014	2013	2012	2011
Total Assets	\$ 1,573,114	\$ 1,369,737	\$ 1,814,561	\$ 2,508,768	\$ 2,307,386
Total Liabilities	143,073	44,023	208,097	938	165
Total Fund Balances	1,430,041	1,325,714	1,606,464	2,507,830	2,307,221
Total Revenues	4,834	5,236	187,623	1,321,924	3,232,381
Total Expenditures	1,288,004	1,097,610	2,032,436	2,233,740	6,585,594
Total Other Financing Sources (Uses)	1,387,497	811,624	943,447	1,112,425	1,114,114

