

EARLE SCHOOL DISTRICT NUMBER ONE
REGULATORY BASIS FINANCIAL STATEMENTS
AND OTHER REPORTS

For the Year Ended June 30, 2015

EARLE SCHOOL DISTRICT NUMBER ONE
REGULATORY BASIS FINANCIAL STATEMENTS
AND OTHER REPORTS

For the Year Ended June 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	4 - 7
REGULATORY BASIS FINANCIAL STATEMENTS	
Balance Sheet – Regulatory Basis	9
Statement of Revenues, Expenditures and Changes in Fund Balance –Governmental Funds – Regulatory Basis	10
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual-General Fund- Regulatory Basis	11
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual-Special Revenue Fund- Regulatory Basis	12
Notes to Financial Statements	13 - 23

EARLE SCHOOL DISTRICT NUMBER ONE
REGULATORY BASIS FINANCIAL STATEMENTS
AND OTHER REPORTS

For the Year Ended June 30, 2015

TABLE OF CONTENTS (CONTINUED)

	<u>Page</u>
OTHER REPORTS AND SUPPLEMENTAL INFORMATION	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 - 26
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	27 - 28
Independent Auditors' Report on Compliance with Arkansas Code Annotated 6-1-101 (Repl. 1993) and 6-20-311 (Supp. 1995)	29
Schedule of Capital Assets	30
Schedule of Expenditures of Federal Awards	31
Schedule of State Assistance	32
Schedule of Units of Service – Summer Food Service Program	33
Schedule of Findings and Questioned Costs	35 - 36
Schedule of Prior Audit Findings	37

FREEMAN & COMPANY, INC.

CERTIFIED PUBLIC ACCOUNTANTS

3712 E. Highland Drive, Jonesboro, Arkansas 72401 Phone: 870-932-4514

INDEPENDENT AUDITORS' REPORT

Members of the School Board
Earle School District Number One
Earle, Arkansas

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 Earle School District Number One, 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 Arkansas Code Annotated §10-4-413(c), as provided in Act 2201 of 2005, as described in Note 1, to meet the reporting 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 error or fraud.

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 disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 more fully 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 financial reporting provisions of Arkansas Code Annotated §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" paragraph, 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 provision of Arkansas Code Annotated §10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming Earle School District Number One will continue as a going concern. As discussed in Note 9 to the financial statements, the District has a deficit fund balance in General Fund of \$(214,349) at June 30, 2015 and had a decrease in fund balance of General Fund of \$(458,183) for the year ended June 30, 2015. These conditions raise substantial doubt about its ability to continue as a going concern. Management plans regarding those matters also are described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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 accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Capital Assets, Schedule of State Assistance and Schedule of Units of Service 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 and Schedule of State Assistance are the responsibility of management and were derived from and relate 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 and Schedule of State Assistance are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole.

The Schedule of Capital Assets and Schedule of Units of Service 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 7, 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 the 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.

FREEMAN & COMPANY, INC.

A handwritten signature in cursive script that reads "Freeman & Company, Inc".

Jonesboro, Arkansas
March 7, 2016

REGULATORY BASIS FINANCIAL STATEMENTS

EARLE SCHOOL DISTRICT NUMBER ONE

BALANCE SHEET-REGULATORY BASIS

June 30, 2015

	<u>Governmental Funds</u>			
	<u>Major</u>			<u>Fiduciary Fund Types</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Other Aggregate</u>	
ASSETS				
Cash	\$ 170,322		\$ 11,746	\$ 6,725
Accounts receivable	<u>129,511</u>	\$ <u>325,367</u>	<u>13,536</u>	<u> </u>
TOTAL ASSETS	\$ <u>299,833</u>	\$ <u>325,367</u>	\$ <u>25,282</u>	\$ <u>6,725</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 364,182	\$ 48,492		\$ 6,725
Bank overdraft		209,593		
Other liabilities	<u>150,000</u>		<u> </u>	<u> </u>
Total Liabilities	<u>514,182</u>	<u>258,085</u>	<u> </u>	<u>6,725</u>
Fund Balances				
Restricted	(255,467)	67,282	25,282	
Unassigned	<u>41,118</u>		<u> </u>	<u> </u>
Total Fund Balance	<u>(214,349)</u>	<u>67,282</u>	<u>25,282</u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>299,833</u>	\$ <u>325,367</u>	\$ <u>25,282</u>	\$ <u>6,725</u>

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

EARLE SCHOOL DISTRICT NUMBER ONE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS-REGULATORY BASIS (CONTINUED)

For The Year Ended June 30, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Other Aggregate</u>
NET CHANGE IN FUND BALANCE	(458,183)	7,207	23,302
FUND BALANCE, BEGINNING OF YEAR	<u>243,834</u>	<u>60,075</u>	<u>1,980</u>
FUND BALANCE, END OF YEAR	\$ <u>(214,349)</u>	\$ <u>67,282</u>	\$ <u>25,282</u>

EARLE SCHOOL DISTRICT NUMBER ONE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL-GENERAL FUND-REGULATORY BASIS

For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 1,155,000	\$ 1,149,554	\$ (5,446)
State revenues	4,968,158	5,032,984	64,826
Tuition fees and other	<u> </u>	<u>108,340</u>	<u>108,340</u>
Total Revenues	<u>6,123,158</u>	<u>6,290,878</u>	<u>167,720</u>
EXPENDITURES			
Instructional services	3,226,281	3,316,166	(89,885)
Student support	200,036	228,959	(28,923)
Instructional support services	350,367	430,907	(80,540)
Pupil transportation services	270,378	264,572	5,806
Operation and maintenance of plant	946,316	1,084,030	(137,714)
School administration	223,531	223,087	444
General administration	557,752	650,418	(92,666)
Food services	<u> </u>	<u>18,917</u>	<u>(18,917)</u>
Capital outlay	<u> </u>	<u> </u>	<u> </u>
Debt service:	<u> </u>	<u> </u>	<u> </u>
Principal	86,132	88,140	(2,008)
Interest and fiscal charges	<u>16,385</u>	<u>14,376</u>	<u>2,009</u>
Total expenditures	<u>5,877,178</u>	<u>6,319,572</u>	<u>(442,394)</u>
Revenues over (under) expenditures	<u>245,980</u>	<u>(28,694)</u>	<u>(274,674)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)	<u>(414,845)</u>	<u>(429,489)</u>	<u>(14,644)</u>
Total other financing sources (uses)	<u>(414,845)</u>	<u>(429,489)</u>	<u>(14,644)</u>
NET CHANGE IN FUND BALANCE	(168,865)	(458,183)	(289,318)
FUND BALANCE, BEGINNING OF YEAR	<u>243,834</u>	<u>243,834</u>	<u>0</u>
FUND BALANCE, END OF YEAR	\$ <u>74,969</u>	\$ <u>(214,349)</u>	\$ <u>(289,318)</u>

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

EARLE SCHOOL DISTRICT NUMBER ONE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL-SPECIAL REVENUE FUND-REGULATORY BASIS

For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Federal revenues	\$ 1,471,233	\$ 1,556,590	\$ 85,357
State revenues	3,000	2,772	(228)
Tuition, fees and other	<u>94,000</u>	<u>75,438</u>	<u>(18,562)</u>
Total Revenues	<u>1,568,233</u>	<u>1,634,800</u>	<u>66,567</u>
EXPENDITURES			
Instructional services	751,587	771,354	(19,767)
Student support	110,094	97,441	12,653
Instructional support services	236,116	238,273	(2,157)
Food services	<u>506,561</u>	<u>520,525</u>	<u>(13,964)</u>
Total expenditures	<u>1,604,358</u>	<u>1,627,593</u>	<u>(23,235)</u>
Revenues over (under) expenditures	<u>(36,125)</u>	<u>7,207</u>	<u>43,332</u>
FUND BALANCE, BEGINNING OF YEAR			
	<u>60,075</u>	<u>60,075</u>	<u>0</u>
FUND BALANCE, END OF YEAR			
	\$ <u>23,950</u>	\$ <u>67,282</u>	\$ <u>43,332</u>

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

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Earle School District (District). There are no component units.

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 including the following:

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

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Arkansas Code Annotated §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.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP requires 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, 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.

EARLE SCHOOL DISTRICT NUMBER ONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition Policies

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

Capital Assets

Information on capital assets and related depreciation is reported in the Other Supplemental Information. 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:

<u>Assets Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

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 28 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 28 percent calculation.

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Interfund Receivables and Payables

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

Fund Balance Classifications

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.

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.

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.

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.

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Minimum Fund Balance Policies

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

Fund Balance Classification Policies and Procedures

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

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

EARLE SCHOOL DISTRICT NUMBER ONE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances

The District does not utilize encumbrance accounting.

Estimates and Subsequent Events

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The District has evaluated subsequent events through March 7, 2016 which is the date that the financial statements were available to be issued.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

		<u>Carrying Amount</u>			<u>Bank Balance</u>
Insured (FDIC)	\$	(20,800)	\$		144,164

NOTE 3: RECEIVABLES

The receivables of \$468,214 at June 30, 2015, are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Aggregate</u>	<u>Total</u>
Federal Grants		\$ 325,367		\$ 325,367
State Grants	\$ 87,505			87,505
Other	<u>41,806</u>	_____	\$ <u>13,536</u>	<u>55,342</u>
Totals	\$ <u>129,311</u>	\$ <u>325,367</u>	\$ <u>13,536</u>	\$ <u>468,214</u>

EARLE SCHOOL DISTRICT NUMBER ONE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 4: COMMITMENTS

LONG-TERM DEBT ISSUED AND OUTSTANDING

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2015</u>	<u>Maturities to June 30, 2015</u>
01/01/2013	2/01/2034	2.0-2.75%	\$ 1,460,000	\$ 1,460,000	
08/01/2010	05/01/2028	1.0-2.7%	3,725,000	3,040,000	\$ 685,000
08/01/2010	05/01/2034	1.8-3.7%	2,160,000	2,105,000	55,000
10/12/2007	01/15/2017	5.85%	430,000	117,509	312,491
12/29/2009	06/29/2017	5.5%	<u>300,000</u>	<u>67,398</u>	<u>232,602</u>
Totals			\$ <u>8,075,000</u>	\$ <u>6,789,907</u>	\$ <u>1,285,093</u>

Changes in Long-Term Debt

	<u>Balance July 1, 2014</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2015</u>
Bonds payable	\$ 6,830,000		\$ 225,000	\$ 6,605,000
Capital leases	<u>273,047</u>		<u>88,140</u>	<u>184,907</u>
Totals	\$ <u>7,103,047</u>		\$ <u>313,140</u>	\$ <u>6,789,907</u>

EARLE SCHOOL DISTRICT NUMBER ONE
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 4: COMMITMENTS (CONTINUED)

LONG-TERM DEBT ISSUED AND OUTSTANDING (CONTINUED)

Total long-term debt principal and interest payments are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 318,248	\$ 209,083	\$ 527,331
2017	326,659	199,551	526,210
2018	235,000	190,875	425,875
2019	250,000	185,400	435,400
2020	475,000	179,150	654,150
2021-2025	1,465,000	766,156	2,231,156
2026-2030	1,945,000	491,657	2,436,657
2031-2034	<u>1,775,000</u>	<u>155,161</u>	<u>1,930,161</u>
	<u>\$ 6,789,907</u>	<u>\$ 2,377,033</u>	<u>\$ 9,166,940</u>

CAPITAL LEASES

The District has executed the following capital leases:

<u>Class of Property</u>	<u>Asset Balance</u> <u>June 30, 2015</u>
Vocational training facilities	\$ 430,000
	<u>June 30, 2015</u>
Total Minimum Lease Payments	\$ 126,226
Less: Amount Representing Interest	<u>8,717</u>
Total Present Value of Net Minimum Lease Payments	\$ <u>117,509</u>

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 4: COMMITMENTS (CONTINUED)

CAPITAL LEASES (CONTINUED)

Asset Balance	<u>June 30, 2015</u>
<u>Class of Property</u>	
Facilities and equipment	\$ 201,561
	<u>June 30, 2015</u>
Total Minimum Lease Payments	\$ 71,813
Less: Amount Representing Interest	<u>4,415</u>
Total Present Value of Net Minimum Lease Payments	\$ <u>67,398</u>

NOTE 5: RETIREMENT PLANS

Arkansas Teacher Retirement Systems

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. 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 non-contributory plans. Contributory members are required by State law to contribute 6% of their salary. 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 maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2015, 2014, and 2013 were \$590,514, \$697,691, and \$694,160, respectively, equal to the required contributions for each year.

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 \$4,105,133.

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 6: CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

NOTE 7: 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 \$98,077 for the year ended June 30, 2015.

NOTE 8: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS
DISPLAYED IN THE AGGREGATE

Description	Governmental Funds			Total
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted for:				
Educational programs - national school lunch state categorical funding	\$ (50,000)		\$	(50,000)
Debt service	150,000			150,000
Capital projects			\$ 25,282	25,282
Medical services		\$ (6,980)		(6,980)
Title I programs		17,410		17,410
Special education programs	10,120			10,120
Other purposes	(365,587)	56,852		(308,735)
Total Restricted	<u>(255,467)</u>	<u>67,282</u>	<u>25,282</u>	<u>(162,903)</u>
Unassigned	41,118			41,118
Totals	\$ <u>(214,349)</u>	\$ <u>67,282</u>	\$ <u>25,282</u>	\$ <u>(121,785)</u>

EARLE SCHOOL DISTRICT NUMBER ONE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE 9: GOING CONCERN

During the year ended June 30, 2015, the District had a net decrease in fund balance of the General Fund of \$(458,183). This resulted in a deficit fund balance for the General Fund of \$(214,349) at June 30, 2015. General Fund expenditures of \$6,319,572 for year ended June 30, 2015 exceeded budgeted expenditures of \$5,877,178 by \$442,394. The District's overall cash position at June 30, 2015 was a net overdraft balance of \$(20,080). Management plans to improve the District's financial position by controlling and reducing future expenditures and more effectively monitoring actual expenditures with its budget. Management also plans to refinance the District's two bond issues, which will result in lower interest rates and lower annual interest costs.

OTHER REPORTS AND
SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITOR'S 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*

Members of the School Board
Earle School District Number One
Earle, Arkansas

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 Earle School District Number One (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, and have issued our report thereon dated March 7, 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 these 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the following Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2015-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, 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 Earle School District Number One in a separate letter dated March 7, 2016.

Earle School District Number One's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

FREEMAN & COMPANY, INC.



Jonesboro, Arkansas
March 7, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

Members of the School Board
Earle School District Number One
Earle, Arkansas

Report on Compliance for Each Major Federal Program

We have audited Earle School District Number One (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 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 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.

FREEMAN & COMPANY, INC.



Jonesboro, Arkansas
March 7, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
ARKANSAS CODE ANNOTATED 6-1-101 (REPL. 1993)
AND 6-20-311 (SUPP. 1995)

Members of the School Board
Earle School District Number One
Earle, Arkansas

We have audited the basic financial statements of Earle School District Number One for the year ended June 30, 2015, and have issued our report thereon dated March 7, 2016. Our audit was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In the course of our audit, nothing came to our attention that caused us to believe there has been any lack of substantial compliance with Arkansas Code Annotated 6-1-101 (Repl. 1993) and 6-20-311 (Supp. 1995).

FREEMAN & COMPANY, INC.

Freeman & Company, Inc

March 7, 2016

EARLE SCHOOL DISTRICT NUMBER ONE

SCHEDULE OF CAPITAL ASSETS

For the Year Ended June 30, 2015

(Unaudited)

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Capital Assets, not being depreciated:				
Land	\$ 355,291	_____	_____	\$ 355,291
Total Capital Assets, not being depreciated	<u>355,291</u>	_____	_____	<u>355,291</u>
Capital Assets, being depreciated:				
Buildings	8,757,294			8,757,294
Improvements/infrastructure	1,633,149			1,633,149
Equipment	<u>2,225,350</u>	<u>12,128</u>	<u>134,501</u>	<u>2,102,977</u>
Total Capital Assets, being depreciated	<u>12,615,793</u>	<u>12,128</u>	<u>134,501</u>	<u>12,493,420</u>
Buildings	3,108,743	145,263		3,254,006
Improvements/infrastructure	260,490	44,828		305,318
Equipment	<u>1,638,685</u>	<u>78,348</u>	_____	<u>1,717,033</u>
Total accumulated depreciation	<u>5,007,918</u>	<u>268,439</u>	_____	<u>5,276,357</u>
Total Capital Assets, being depreciated, net	<u>7,607,875</u>	<u>(256,311)</u>	<u>134,501</u>	<u>7,217,063</u>
Capital Assets, Net	\$ <u>7,963,166</u>	\$ <u>(256,311)</u>	<u>134,501</u>	\$ <u>7,572,354</u>

Notes to Schedule:

1. Basis of Presentation - This schedule includes the federal grant activity of Earle School District Number One 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 OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this 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.
2. Summary of Significant Accounting Policies - Expenditures reported on this 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.
3. Medicaid reimbursements are defined as contracts of services and not federal awards; therefore, such reimbursements totaling \$32,155 are not covered by the reporting requirements of OMB Circular A-133.
4. Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.

EARLE SCHOOL DISTRICT NUMBER ONE

SCHEDULE OF STATE ASSISTANCE

Year Ended June 30, 2015

<u>Program Grantor/ Program Title</u>	<u>Amount Received</u>
State Foundation Funding	\$ 3,366,236
Professional Development	16,397
Children with Disabilities - Supervision	2,391
Special Education Extended School Year	12,210
National School Lunch Program	896,871
Arkansas Better Chance Program	178,163
HIPPY/ABC Child Care	121,992
General Facilities Funding	2,028
Debt Service Supplement	126,283
Pre-AP Funding	150
98% URT Act	7,559
Supplemental Mill	5,992
High Priority District Teachers	149,973
Declining Enrollment	114,574
Infant/Toddler Program	26,092
Food Service State Funding	2,772
Broadband	660
Academic Facilities	25,282
 <u>ARKANSAS DEPARTMENT OF WORKFORCE EDUCATION</u>	
Secondary Workforce Centers	<u>5,413</u>
 TOTAL STATE ASSISTANCE	 \$ <u>5,061,038</u>

EARLE SCHOOL DISTRICT NUMBER ONE
 SCHEDULE OF UNITS OF SERVICE – SUMMER FOOD PROGRAM

Year Ended June 30, 2015

(Unaudited)

<u>MONTH</u>	<u>MEALS SERVED</u>		
	<u>BREAKFAST</u>	<u>SNACK</u>	<u>LUNCH</u>
July, 2014	2,828	0	3,244
August, 2014	0	0	0
September, 2014	0	0	0
October, 2014	0	0	0
November, 2014	0	0	0
December, 2014	0	0	0
January, 2015	0	0	0
February, 2015	0	0	0
March, 2015	0	0	0
April, 2015	0	0	0
May, 2015	0	0	0
June, 2015	<u>3,103</u>	<u>0</u>	<u>3,486</u>
Total	<u>5,931</u>	<u>0</u>	<u>6,730</u>

EARLE SCHOOL DISTRICT NUMBER ONE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: GAAP basis of reporting - adverse
Regulatory basis opinion units - unmodified

Internal control over financial reporting:

- Material weakness identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>Program or Cluster</u>	<u>CFDA Number(s)</u>
1. Child Nutrition Cluster	10.555, 10.553, 10.559 and 10.579
2. Elementary & Secondary Education Act ESEA Title I	84.010

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

Auditee qualified as low-risk auditee? Yes No

EARLE SCHOOL DISTRICT NUMBER ONE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2015

SECTION II – FINANCIAL STATEMENT FINDING

MATERIAL WEAKNESS

2015-1. Monitoring of Budget

Statement of Condition: Lack of adequate monitoring of budget.

Criteria: Monitoring procedures should allow management to effectively compare operating results to budget and identify areas where costs need to be reduced and controlled.

Effect of Condition: Monitoring procedures are not followed to allow management to effectively compare operating results to budget where costs need to be reduced and controlled. This has resulted in actual costs exceeding budget and a deficit balance in the fund balance of the General Fund.

Cause of Condition: Monitoring of budget procedures are performed in an incomplete and irregular method. This has hindered management's ability to respond to costs exceeding budget in a timely and effective manner.

Recommendation: To ensure proper monitoring of budget, financial information should be provided that allows management to effectively monitor actual results to budget in a timely and efficient manner. This process should be documented to ensure the procedures will be performed on a regular basis.

Views of responsible officials and planned corrective actions: The management of Earle School District Number One has indicated they plan to improve the District's financial position by controlling and reducing future expenditures and more effectively monitoring actual expenditures with its budget. Management also plans to refinance the District's two bond issues, which will result in lower interest rates and lower annual interest costs.

EARLE SCHOOL DISTRICT NUMBER ONE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No audit findings or questioned costs relative to the federal awards programs for Earle School District Number One were disclosed during the audit.

EARLE SCHOOL DISTRICT NUMBER ONE

SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2015

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no prior audit findings or questioned costs relative to the federal awards programs for Earle School District Number One.