

Sheridan School District No. 37

Grant County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2014



SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
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Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Sheridan School District No. 37 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 Sheridan School District No. 37 (the "District"), as of and for the year ended June 30, 2014, 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, 2014, 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, 2014, 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 the purposes of additional analysis and are not a required part of the regulatory basis financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2015, 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.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
February 20, 2015
EDSD14414

Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF 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

Sheridan School District No. 37 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 Sheridan School District No. 37 (the "District"), as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 20, 2015. 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, 2014, 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.

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 accompanying 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 2014-001 to be a material weakness.

Compliance and Other Matters

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

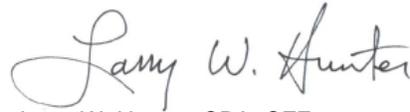
District's Response to Findings

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

Purpose of this Report

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 20, 2015

Arkansas

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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF 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

Sheridan School District No. 37 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Sheridan School District No. 37 (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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002, 2014-003, and 2014-004. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

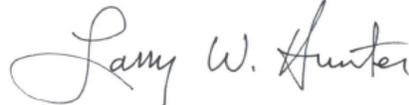
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002, 2014-003, and 2014-004, that we consider to be significant deficiencies.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 20, 2015

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2014

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 4,378,560		\$ 4,814,361	\$ 211,986
Accounts receivable	34,386	\$ 277,836		
Due from other funds	182,698			
Deposit with paying agent			1,176,471	
TOTAL ASSETS	\$ 4,595,644	\$ 277,836	\$ 5,990,832	\$ 211,986
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 171,380	\$ 16,918		\$ 2,916
Due student groups				179,738
Due to other funds		182,698		
Total Liabilities	171,380	199,616		182,654
Fund Balances:				
Restricted	306,124	78,220	\$ 2,806,034	29,332
Assigned	456,300		3,184,798	
Unassigned	3,661,840			
Total Fund Balances	4,424,264	78,220	5,990,832	29,332
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,595,644	\$ 277,836	\$ 5,990,832	\$ 211,986

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

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 6,732,292		\$ 1,938,888
State assistance	22,087,625	\$ 14,437	1,293,443
Federal assistance	27,921	2,920,395	216,318
Activity revenues	383,912		
Meal sales		461,622	
Investment income	31,003	12,258	14,092
Other revenues	75,589	11,866	
TOTAL REVENUES	29,338,342	3,420,578	3,462,741
EXPENDITURES			
Regular programs	12,859,477		
Special education	1,541,089	642,081	
Career education programs	451,648	44,850	
Compensatory education programs	376,037	372,490	
Other instructional programs	1,542,238	67,042	
Student support services	1,480,933	58,043	
Instructional staff support services	1,376,593	448,463	
General administration support services	815,803	851	
School administration support services	1,719,787		
Central services support services	1,255,022	38,672	
Operation and maintenance of plant services	2,686,966		14,900
Student transportation services	1,802,270	13,746	
Other support services	39,954		
Food services operations	1,227	1,822,019	
Other enterprise operations	6,393		
Community services operations		303	
Facilities acquisition and construction services	705,001		2,345,535
Activity expenditures	387,918		
Debt Service:			
Principal retirement	87,119		560,000
Interest and fiscal charges	22,750		804,579
TOTAL EXPENDITURES	29,158,225	3,508,560	3,725,014
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	180,117	(87,982)	(262,273)
OTHER FINANCING SOURCES (USES)			
Transfers in	690,272	93,052	
Transfers out	(93,052)		(690,272)
Proceeds from installment contract	200,000		
Value of installment contract	391,844		
Payment to refund installment contract	(391,844)		
TOTAL OTHER FINANCING SOURCES (USES)	797,220	93,052	(690,272)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	977,337	5,070	(952,545)
FUND BALANCES - JULY 1 (RESTATED)	3,446,927	73,150	6,943,377
FUND BALANCES - JUNE 30	\$ 4,424,264	\$ 78,220	\$ 5,990,832

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

SHERIDAN SCHOOL DISTRICT NO. 37
 GRANT 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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 6,686,260	\$ 6,732,292	\$ 46,032			
State assistance	21,657,356	22,087,625	430,269	\$ 14,600	\$ 14,437	\$ (163)
Federal assistance		27,921	27,921	2,817,625	2,920,395	102,770
Activity revenues		383,912	383,912			
Meal sales				550,000	461,622	(88,378)
Investment income	30,000	31,003	1,003		12,258	12,258
Other revenues	25,000	75,589	50,589	11,500	11,866	366
TOTAL REVENUES	28,398,616	29,338,342	939,726	3,393,725	3,420,578	26,853
EXPENDITURES						
Regular programs	12,893,230	12,859,477	33,753			
Special education	1,458,569	1,541,089	(82,520)	619,471	642,081	(22,610)
Career education programs	442,225	451,648	(9,423)	45,556	44,850	706
Compensatory education programs	431,397	376,037	55,360	399,433	372,490	26,943
Other instructional programs	1,577,361	1,542,238	35,123	70,914	67,042	3,872
Student support services	1,347,068	1,480,933	(133,865)	95,886	58,043	37,843
Instructional staff support services	2,232,551	1,376,593	855,958	483,772	448,463	35,309
General administration support services	826,061	815,803	10,258	1,104	851	253
School administration support services	1,699,277	1,719,787	(20,510)			
Central services support services	1,409,827	1,255,022	154,805	51,244	38,672	12,572
Operation and maintenance of plant services	2,825,743	2,686,966	138,777			
Student transportation services	1,505,062	1,802,270	(297,208)	15,067	13,746	1,321
Other support services	5,050	39,954	(34,904)			
Food services operations	29,258	1,227	28,031	1,761,911	1,822,019	(60,108)
Other enterprise operations		6,393	(6,393)			
Community services operations				3,775	303	3,472
Facilities acquisition and construction services		705,001	(705,001)			
Activity expenditures		387,918	(387,918)			
Debt Service:						
Principal retirement	87,119	87,119				
Interest and fiscal charges	22,751	22,750	1			
TOTAL EXPENDITURES	28,792,549	29,158,225	(365,676)	3,548,133	3,508,560	39,573

SHERIDAN SCHOOL DISTRICT NO. 37
 GRANT 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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (393,933)	\$ 180,117	\$ 574,050	\$ (154,408)	\$ (87,982)	\$ 66,426
OTHER FINANCING SOURCES (USES)						
Transfers in	15,179,720	690,272	(14,489,448)	92,511	93,052	541
Transfers out	(14,935,817)	(93,052)	14,842,765			
Proceeds from installment contract		200,000	200,000			
Value of installment contract		391,844	391,844			
Payment to refund installment contract		(391,844)	(391,844)			
TOTAL OTHER FINANCING SOURCES (USES)	243,903	797,220	553,317	92,511	93,052	541
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(150,030)	977,337	1,127,367	(61,897)	5,070	66,967
FUND BALANCES - JULY 1 (RESTATED)	3,755,151	3,446,927	(308,224)	135,238	73,150	(62,088)
FUND BALANCES - JUNE 30	\$ 3,605,121	\$ 4,424,264	\$ 819,143	\$ 73,341	\$ 78,220	\$ 4,879

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

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

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

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 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	20
Buildings	50
Equipment	5-20

F. Property Taxes

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

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2013 calendar year taxes collected by June 30, 2014 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, 2014 equaled or exceeded the 28 percent calculation.

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

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.

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.

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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)	\$ 500,000	\$ 500,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	8,904,907	9,390,417
Uninsured and uncollateralized	8,904,907	9,390,417
Total Deposits	\$ 9,404,907	\$ 10,088,942

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At June 30, 2014, \$198,525 of the District's bank balance of \$10,088,942 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 198,525</u>
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SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 was comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 32,094	
Federal assistance		\$ 276,949
Other	2,292	887
Totals	<u>\$ 34,386</u>	<u>\$ 277,836</u>

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2014:

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

General description of lease and leasing arrangements: 32 copiers for a term of 36 months beginning on June 1, 2012 with monthly payments of \$9,084 plus applicable taxes.

1. Future minimum rental payments (aggregate) at June 30, 2014: \$99,924
2. Future minimum rental payments for the succeeding year:

Year Ended June 30,	Amount
2015	<u>\$ 99,924</u>

Rental payments for the operating lease described above were approximately \$119,636 for the year ended June 30, 2014.

- B. Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2014	Maturities To June 30, 2014
7/1/08	2/1/33	2.5 - 4.25%	\$ 1,045,000	\$ 855,000	\$ 190,000
11/1/09	2/1/33	2 - 4.5%	14,870,000	13,520,000	1,350,000
8/18/10	3/1/27	4.7%	5,000,000	5,000,000	
7/5/13	7/5/17	2.91%	391,844	391,844	
4/15/14	4/15/24	4.29%	200,000	200,000	
Totals			<u>\$ 21,506,844</u>	<u>\$ 19,966,844</u>	<u>\$ 1,540,000</u>

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

4: COMMITMENTS (Continued)

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

Changes in Long-term Debt

	Balance July 1, 2013	Issued	Retired	Balance June 30, 2014
Bonds payable	\$ 19,935,000		\$ 560,000	\$ 19,375,000
Installment contracts	478,963	\$ 591,844	478,963	591,844
Totals	\$ 20,413,963	\$ 591,844	\$ 1,038,963	* \$ 19,966,844

*Includes \$391,844 early retirement of debt - See Note 6.

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2015	\$ 678,791	\$ 808,745	\$ 1,487,536
2016	701,521	790,139	1,491,660
2017	714,313	769,451	1,483,764
2018	727,219	747,662	1,474,881
2019	645,000	724,079	1,369,079
2020-2024	3,530,000	3,268,999	6,798,999
2025-2029	9,110,000	2,087,349	11,197,349
2030-2033	3,860,000	437,381	4,297,381
Totals	\$ 19,966,844	\$ 9,633,805	\$ 29,600,649

Qualified School Construction Bonds

On August 18, 2010, the District obtained funding of \$5,000,000 from Qualified School Construction Bonds, a debt financial arrangement authorized by the American Recovery and Reinvestment Act of 2009. The District will deposit a specified amount annually into a sinking fund for 17 years. This amount plus interest earned will be used to retire the debt when due.

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.

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014 were comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types
	Major		
	General	Special Revenue	
Vendor payables	\$ 164,027	\$ 16,918	\$ 2,916
Payroll withholdings and matching	7,353		
Totals	<u>\$ 171,380</u>	<u>\$ 16,918</u>	<u>\$ 2,916</u>

6: DEBT REFUNDING

On July 5, 2013, the District executed an installment contract in the amount of \$391,844 with an interest rate of 2.91 percent to refund in advance \$391,844 of the outstanding balance on an installment contract dated July 6, 2007 with an interest rate of 4.75 percent. This refunding will result in a savings of \$18,705 over the remaining life of the related debt.

7: INTERFUND TRANSFERS

The District transferred excess property taxes of \$690,272 from the other aggregate funds to the general fund and \$93,052 from the general fund to the special revenue fund to supplement its food services operations. Additionally, the District transferred excess property taxes of \$2,127 from the debt service fund to the capital projects fund for debt refunding savings required to be utilized for capital expenditures. This transfer is not reflected in the financial statements since both funds are included in the other aggregate funds.

8: 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 all Arkansas public school employees, 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 maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2014, 2013, and 2012 were \$2,744,629, \$2,683,096, and \$2,720,565, respectively, equal to the required contributions for each year.

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

8: RETIREMENT PLANS (Continued)

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, 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 years ended June 30, 2014, 2013, and 2012 were \$4,679, \$6,301, and \$6,384, respectively, equal to the required contributions for each year.

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

Donations	\$	13,122
Interest		<u>3,627</u>
 TOTAL ADDITIONS		 <u>16,749</u>
 DEDUCTIONS		
Scholarships		<u>17,000</u>
 CHANGE IN FUND BALANCE		 (251)
 FUND BALANCE - JULY 1		 <u>29,583</u>
 FUND BALANCE - JUNE 30		 <u><u>\$ 29,332</u></u>

10: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$20,915,000 issued from July 1, 2008 through August 18, 2010. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$28,932,684, payable through February 1, 2033. Principal and interest paid for the current year and total property taxes pledged for debt service were \$1,362,193 and \$1,938,897, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 70.26 percent.

11: RISK MANAGEMENT

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

The District carries commercial insurance for board liability and student accidents. Settled claims have not exceeded this commercial 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.

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

11: RISK MANAGEMENT (Continued)

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.

12: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$489,232 for the year ended June 30, 2014.

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 19,943		
Educational programs - national school lunch state categorical funding	149,207		
English-language learners	9,038		
Professional development	45,731		
Capital projects			\$ 1,629,563
Debt service			1,176,471
Medical services		\$ 57,012	
Special education programs	25,397	4,356	
Other purposes	56,808	16,852	
Total Restricted	<u>306,124</u>	<u>78,220</u>	<u>2,806,034</u>
Assigned to:			
Capital projects	3,500		3,184,798
Student activities	452,800		
Total Assigned	<u>456,300</u>		<u>3,184,798</u>
Unassigned	<u>3,661,840</u>		
Totals	<u>\$4,424,264</u>	<u>\$ 78,220</u>	<u>\$5,990,832</u>

14: PRIOR YEAR RESTATEMENT

The beginning fund balances of the general and the special revenue funds were increased and decreased, respectively, by \$724 to reclassify the fund balance remaining in the adult education program related to state funding.

SHERIDAN SCHOOL DISTRICT NO. 37
 GRANT COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Unaudited)

Schedule 1

	Balance June 30, 2014
<i>Nondepreciable capital assets:</i>	
Land	\$ 1,427,110
<i>Depreciable capital assets:</i>	
Buildings	34,379,706
Improvements/infrastructure	6,564,046
Equipment	7,712,159
Total depreciable capital assets	48,655,911
Less accumulated depreciation for:	
Buildings	11,899,344
Improvements/infrastructure	1,547,660
Equipment	5,980,321
Total accumulated depreciation	19,427,325
Total depreciable capital assets, net	29,228,586
Capital assets, net	\$ 30,655,696

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

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>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 24,997
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	27-05-000	245,036
National School Lunch Program - Cash Assistance	10.555	27-05-000	834,566
Total State Department of Education			<u>1,079,602</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	2705000	124,183
TOTAL CHILD NUTRITION CLUSTER			<u>1,228,782</u>
OTHER PROGRAMS			
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 5)	12.AR24018		67,042
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	27-05	553,994
Special Education - Grants to States	84.027	27-05	807,998
Improving Teacher Quality State Grants	84.367	27-05	141,405
Total State Department of Education			<u>1,503,397</u>
Passed Through State Department of Career Education:			
Career and Technical Education - Basic Grants to States	84.048	L27-05-000	44,850
Total U. S. Department of Education			<u>1,548,247</u>
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Temporary Assistance for Needy Families	93.558	0000200586	27,921
TOTAL OTHER PROGRAMS			<u>1,643,210</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,871,992</u>

The accompanying notes are an integral part of this schedule.

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

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 Sheridan School District No. 37 (District) under programs of the federal government for the year ended June 30, 2014. 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 U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 6: During the year ended June 30, 2014, the District received Medicaid funding of \$93,665 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

SHERIDAN SCHOOL DISTRICT NO. 37
 GRANT COUNTY, ARKANSAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2014

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
10.553 and 10.555	Child Nutrition Cluster
84.027	Special Education - Grants to States

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

Auditee qualified as low-risk auditee? yes no

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, the same employees were responsible for receiving and depositing monies collected, maintenance of accounting records, and preparation of bank reconciliations, without compensating controls. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of 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 Superintendent will to the extent possible (limited funding) adhere to the "Internal Control" recommendation provided by Legislative Audit as funds become available.

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS) - CFDA NUMBERS 10.553 AND 10.555
PASS-THROUGH NUMBER 27-05-000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - GRANTS TO STATES - CFDA NUMBER 84.027
PASS-THROUGH NUMBER 27-05
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-002. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires the preparation of periodic time certifications for employees working solely on a single federal program or monthly personnel activity reports when District employees work multiple activities.

Condition: Although standard payroll documentation supporting the employees' work in the child nutrition and special education programs was available for audit inspection, periodic time certifications were not prepared for four employees who worked solely with the child nutrition program and one employee who worked solely with the special education program. A similar finding was reported in the prior audit for the special education program.

Context: Examination of documentation substantiating time worked by applicable employees in the payroll test of 11 employees from a total population of 97 employees.

Effect: The District was unable to provide required documentation substantiating the time charged to the child nutrition and special education programs.

Cause: The District failed to adequately monitor the preparation of periodic time certifications.

Recommendation: The District should prepare periodic time certifications for all applicable employees.

Views of responsible officials and planned corrective actions: The District will ensure that the directors of any Federal program/programs collect periodic time certifications for employees working and being paid from Federal programs. The District had hired a new Special Education Director at the beginning of the 2013 fiscal year and also for the 2014 fiscal year. The District had hired a new Food Service Director at the beginning of the 2014 fiscal year.

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

SIGNIFICANT DEFICIENCIES (Continued)

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - GRANTS TO STATES - CFDA NUMBER 84.027
PASS-THROUGH NUMBER 27-05
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-003. Reporting

Criteria or specific requirement: The District is required to budget Special Education program expenditures and submit the budget to the Arkansas Department of Education (ADE). Expenditures may not exceed the budgeted amount by more than 10 percent of the total budget for each budget cell without prior approval from the ADE and the submission of budget amendments or adjustments.

Condition: The School Based Mental Health Grant expenditures of the Special Education Program for function 2111 and object 63000 (Supervision of Attendance and Social Work Services/Purchased Professional and Technical Services) and function 1260 and object 65000 (Separate Day School - Private/Other Purchased Services) exceeded the budgeted amounts by \$3,305 and \$1,188, respectively, more than the 10 percent variance allowed. The expenditures did not exceed the total of the overall budget.

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

Effect: The District did not record the Special Education School Based Mental Health Grant expenditures within the approved budget categories.

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

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

Views of responsible officials and planned corrective actions: The District had hired a new Special Education Director at the beginning of the 2014 fiscal year. The Special Education Director submitted several invoices for payment after June 30, 2014 for payment. These expenditures belonged in the 2014 fiscal year and not the 2015 fiscal year. The Superintendent has communicated the proper purchasing procedures of the District with the Special Education Director.

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

SIGNIFICANT DEFICIENCIES (Continued)

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS) - CFDA NUMBERS 10.553 AND 10.555
PASS-THROUGH NUMBER 27-05-000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-004. Procurement and Suspension and Debarment

Criteria or specific requirement: In accordance with 7 CFR § 3016.35 of the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, the District must not make or permit any applicable transaction to any vendor which is suspended or debarred or otherwise excluded from participation in federal assistance programs. The District is required to verify the vendor is not suspended or debarred or otherwise excluded. This verification can be accomplished by (a) checking the System for Award Management (SAM), (b) collecting a certification from the vendor, or (c) adding a clause or condition to the applicable transaction with the vendor. Additionally, the Arkansas Department of Education issued a memorandum to all school districts on December 17, 2009 stipulating verification procedures to be followed regarding suspension and debarment when federal funds are utilized for applicable transactions.

Condition: The District failed to establish internal controls, including retention of verification documentation, in the child nutrition programs to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. Although goods and services had been properly received or rendered, the District did not verify that applicable vendors had not been suspended or debarred by the Federal Government. However, no vendors with which the District conducted business were identified during the audit period as suspended or debarred parties.

Context: Examination of controls related to the procurement and suspension and debarment and the examination of procurement contracts that were equal to or exceeded \$25,000.

Effect: Without adequate internal controls, payments could be made from the child nutrition programs to suspended or debarred vendors with federal funds, which could require repayment of funds to the grantor.

Cause: Lack of internal controls and adequate management oversight.

Recommendation: The District should establish an internal control system to ensure applicable transactions are not conducted with suspended or debarred parties.

Views of responsible officials and planned corrective actions: The District Superintendent will ensure to obtain and maintain documentation for suspended or debarred parties when purchasing with District funds.

SHERIDAN SCHOOL DISTRICT NO. 37
GRANT COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - GRANTS TO STATES

2013 - Finding 2013-002: Special Education - Grants to States - CFDA Number 84.027

Condition: Although standard payroll documentation supporting the employees' work in the special education program was available for audit inspection, periodic time certifications were not prepared for four employees who worked solely with the special education program.

Recommendation: The District should prepare periodic time certifications for all applicable employees.

Current Status: A similar finding was observed in the current audit period. See finding 2014-002 at Schedule 3.

SHERIDAN SCHOOL DISTRICT NO. 37
 GRANT COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Unaudited)

General Fund	Year Ended June 30,				
	2014	2013	2012	2011	2010
Total Assets	\$ 4,595,644	\$ 3,686,291	\$ 3,775,729	\$ 3,785,911	\$ 4,153,695
Total Liabilities	171,380	240,088	162,935	898,713	724,637
Total Fund Balances	4,424,264	3,446,203	3,612,794	2,887,198	3,429,058
Total Revenues	29,338,342	28,583,730	30,667,757	29,424,787	29,285,532
Total Expenditures	29,158,225	28,298,146	27,762,750	26,347,338	26,024,084
Total Other Financing Sources (Uses)	797,220	(452,175)	(2,179,411)	(3,619,309)	(2,998,452)
 Special Revenue Fund					
Total Assets	277,836	209,326	370,963	224,449	629,720
Total Liabilities	199,616	135,452	64,756	8,705	403,839
Total Fund Balances	78,220	73,874	306,207	215,744	225,881
Total Revenues	3,420,578	3,696,143	4,137,122	4,867,194	4,949,552
Total Expenditures	3,508,560	3,997,037	4,244,768	5,032,468	5,225,087
Total Other Financing Sources (Uses)	93,052	68,561	198,109	191,518	198,497
 Other Aggregate Funds					
Total Assets	5,990,832	7,408,251	10,067,013	9,500,400	4,731,974
Total Liabilities		464,874	1,645,522	123,555	
Total Fund Balances	5,990,832	6,943,377	8,421,491	9,376,845	4,731,974
Total Revenues	3,462,741	2,308,808	2,312,532	2,061,841	507,353
Total Expenditures	3,725,014	4,077,277	5,249,188	5,788,042	1,335,756
Total Other Financing Sources (Uses)	(690,272)	290,355	1,981,302	8,334,691	2,805,969