

Pulaski County Special School District

Pulaski County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2016

LEGISLATIVE JOINT AUDITING COMMITTEE



PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
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Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Pulaski County Special School District 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 Pulaski County Special School District (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
March 9, 2017
EDSD32316

Arkansas

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



Rep. Richard Womack
House Chair
Rep. Mary Bentley
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Pulaski County Special School District 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 Pulaski County Special School District (the "District"), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 9, 2017. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2016, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

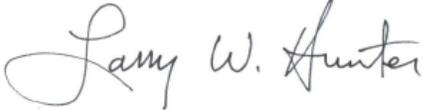
District's Response to Findings

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

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 9, 2017

Arkansas

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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Pulaski County Special School District and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Pulaski County Special School District (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

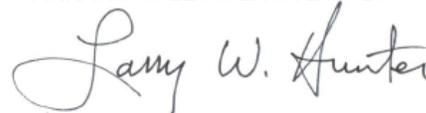
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 9, 2017

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2016

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 19,336,067	\$ 410,362	\$ 57,618,699	\$ 288,970
Investments			15,000,000	
Accounts receivable	1,608,400	1,680,511	390,078	
Advance to Jacksonville/North Pulaski School District	4,500,000		85,352	
Due from other funds	787,538			
TOTAL ASSETS	\$ 26,232,005	\$ 2,090,873	\$ 73,094,129	\$ 288,970
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 6,269,129	\$ 370,207	\$ 2,742,059	
Due student groups				\$ 288,970
Due to other funds		787,538		
Deferred revenue		63,382		
Total Liabilities	6,269,129	1,221,127	2,742,059	288,970
Fund Balances:				
Restricted	16,029,154	1,012,920	55,012,642	
Assigned	1,617,541		15,339,428	
Unassigned	2,316,181	(143,174)		
Total Fund Balances	19,962,876	869,746	70,352,070	
TOTAL LIABILITIES AND FUND BALANCES	\$ 26,232,005	\$ 2,090,873	\$ 73,094,129	\$ 288,970

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

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 98,781,250		\$ 11,663,595
State assistance	77,702,715	\$ 49,697	128,595
Federal assistance	273,388	18,009,248	
Activity revenues	1,710,601		
Meal sales		1,181,249	
Investment income	109,707	29	50,876
Other revenues	2,204,117	41,895	7,462
TOTAL REVENUES	180,781,778	19,282,118	11,850,528
EXPENDITURES			
Regular programs	59,385,982	1,236,799	65,689
Special education	13,175,537	2,010,807	
Career education programs	3,699,343	117,849	
Adult/continuing education program	982,949	200,997	
Compensatory education programs	2,666,553	889,819	
Other instructional programs	10,396,111	130,230	
Student support services	9,300,981	1,150,141	1,812
Instructional staff support services	6,124,101	5,134,145	519,303
General administration support services	5,921,562	125,758	
School administration support services	11,513,445		
Central services support services	8,355,880		1,201,211
Operation and maintenance of plant services	18,665,009	37,188	932,022
Student transportation services	12,939,360	2,288	
Other support services	137,493		473,021
Food services operations	27,829	8,040,619	
Community services operations	453,261	102,598	
Facilities acquisition and construction services	2,631,267		9,416,014
Non-programmed costs	1,014,483	260,523	
Activity expenditures	1,712,070		
Debt Service:			
Principal retirement	63,368		4,265,657
Interest and fiscal charges	2,546		5,648,093
TOTAL EXPENDITURES	169,169,130	19,439,761	22,522,822
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	11,612,648	(157,643)	(10,672,294)
OTHER FINANCING SOURCES (USES)			
Transfers in		392,562	11,388,577
Transfers out	(11,781,139)		
Proceeds from refunding bond issues			98,785,000
Net bond issuance costs			(1,389,535)
Payments to refunding bond escrow agents			(97,718,491)
Proceeds from construction bond issues			55,975,000
Transitional reimbursement	1,358,606	8,973	366,921
Compensation for loss of capital assets	154,694		
Transitional cost	(1,119,152)		(315,663)
Refunds to grantors		(78,080)	
TOTAL OTHER FINANCING SOURCES (USES)	(11,386,991)	323,455	67,091,809
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	225,657	165,812	56,419,515
FUND BALANCES - JULY 1 (RESTATED)	19,737,219	703,934	13,932,555
FUND BALANCES - JUNE 30	\$ 19,962,876	\$ 869,746	\$ 70,352,070

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

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 99,082,904	\$ 98,781,250	\$ (301,654)			
State assistance	77,979,959	77,702,715	(277,244)	\$ 51,000	\$ 49,697	\$ (1,303)
Federal assistance	204,314	273,388	69,074	18,551,292	18,009,248	(542,044)
Activity revenues		1,710,601	1,710,601			
Meal sales	22,277		(22,277)	1,319,933	1,181,249	(138,684)
Investment income	90,628	109,707	19,079	43	29	(14)
Other revenues	1,402,036	2,204,117	802,081		41,895	41,895
TOTAL REVENUES	178,782,118	180,781,778	1,999,660	19,922,268	19,282,118	(640,150)
EXPENDITURES						
Regular programs	59,537,315	59,385,982	151,333	12,875	1,236,799	(1,223,924)
Special education	15,294,672	13,175,537	2,119,135	2,163,438	2,010,807	152,631
Career education programs	4,608,412	3,699,343	909,069	240,160	117,849	122,311
Adult/continuing education program	953,375	982,949	(29,574)	212,269	200,997	11,272
Compensatory education programs	3,586,698	2,666,553	920,145	1,075,428	889,819	185,609
Other instructional programs	10,485,995	10,396,111	89,884	170,899	130,230	40,669
Student support services	10,889,627	9,300,981	1,588,646	1,656,945	1,150,141	506,804
Instructional staff support services	6,804,109	6,124,101	680,008	6,909,980	5,134,145	1,775,835
General administration support services	2,264,699	5,921,562	(3,656,863)	212,550	125,758	86,792
School administration support services	11,070,183	11,513,445	(443,262)			
Central services support services	8,276,184	8,355,880	(79,696)			
Operation and maintenance of plant services	20,117,301	18,665,009	1,452,292	2,027	37,188	(35,161)
Student transportation services	14,022,656	12,939,360	1,083,296	3,500	2,288	1,212
Other support services	205,507	137,493	68,014			
Food services operations	12,000	27,829	(15,829)	8,227,463	8,040,619	186,844
Community services operations	290,212	453,261	(163,049)	126,116	102,598	23,518
Facilities acquisition and construction services	909,275	2,631,267	(1,721,992)			
Non-programmed costs	2,116,349	1,014,483	1,101,866	294,916	260,523	34,393
Activity expenditures		1,712,070	(1,712,070)			
Debt Service:						
Principal retirement		63,368	(63,368)			
Interest and fiscal charges		2,546	(2,546)			
TOTAL EXPENDITURES	171,444,569	169,169,130	2,275,439	21,308,566	19,439,761	1,868,805

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 7,337,549	\$ 11,612,648	\$ 4,275,099	\$ (1,386,298)	\$ (157,643)	\$ 1,228,655
OTHER FINANCING SOURCES (USES)						
Transfers in	209,940,366		(209,940,366)	693,021	392,562	(300,459)
Transfers out	(217,223,329)	(11,781,139)	205,442,190			
Transitional reimbursement		1,358,606	1,358,606		8,973	8,973
Compensation for loss of capital assets		154,694	154,694			
Transitional cost		(1,119,152)	(1,119,152)			
Refunds to grantors					(78,080)	(78,080)
TOTAL OTHER FINANCING SOURCES (USES)	(7,282,963)	(11,386,991)	(4,104,028)	693,021	323,455	(369,566)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	54,586	225,657	171,071	(693,277)	165,812	859,089
FUND BALANCES - JULY 1	20,278,895	19,737,219	(541,676)	913,409	703,934	(209,475)
FUND BALANCES - JUNE 30	\$ 20,333,481	\$ 19,962,876	\$ (370,605)	\$ 220,132	\$ 869,746	\$ 649,614

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

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On June 20, 2011, the Arkansas Department of Education (ADE) assumed control of the Pulaski County Special School District (District) and dissolved the local school board and replaced the superintendent. On March 10, 2016, the State Board of Education approved the removal of the District from state control effective upon the election and training of the local school board. The local school board was elected in November 2016. 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 District. There are no component units.

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at acquisition value when received. The District maintains a threshold level of \$5,000 for capitalizing equipment. Library holdings are not capitalized.

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

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

F. Property Taxes

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

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

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

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

G. Interfund Receivables and Payables

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

H. Fund Balance Classifications

1. 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 Arkansas Department of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Minimum Fund Balance Policies

The Arkansas Department 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 Arkansas Department of Education has not adopted a formal policy addressing this authorization.

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

M. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 53,377,918	\$ 60,050,384
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	39,276,180	44,370,585
Total Deposits	\$ 92,654,098	\$104,420,969

The above total deposits include certificates of deposit of \$15,000,000 reported as investments and classified as nonparticipating contracts.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

3: ACCOUNTS RECEIVABLE

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

Description	Governmental Funds		
	General	Special Revenue	Other Aggregate
State assistance	\$ 54,205		
Federal assistance		\$1,659,463	
Meal sales		6,716	
Investment income			\$ 17,242
Transitional reimbursement	1,358,606	8,973	366,921
Other	195,589	5,359	5,915
Totals	\$1,608,400	\$1,680,511	\$ 390,078

4: COMMITMENTS

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Oak Grove renovations	September 2016	\$ 84,934
Mills and Robinson High Schools turf fields and track	February 2017	1,458,288
Mills High School buildings	August 2018	21,510,975
Robinson Middle School building	August 2018	665,628
Harris Elementary adaptive reuse facility	September 2016	10,968
Transportation North repairs	October 2016	100,612

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, 2016	Maturities To June 30, 2016
10/1/10	2/1/19	1 - 2.5%	\$ 1,700,000	\$ 630,000	\$ 1,070,000
10/15/10	2/1/35	2.25 - 4.125%	12,245,000	10,890,000	1,355,000
4/1/12	2/1/35	3 - 4%	21,860,000	21,860,000	
11/1/12	2/1/35	2 - 3.375%	3,755,000	3,550,000	205,000
9/1/15	2/1/35	3 - 3.5%	69,705,000	67,860,000	1,845,000
10/15/15	2/1/35	3 - 3.5%	55,975,000	55,975,000	
3/15/16	2/1/32	2 - 3%	29,080,000	29,080,000	
Totals			\$ 194,320,000	\$ 189,845,000	\$ 4,475,000

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

4: COMMITMENTS (Continued)

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

Changes in Long-term Debt

	Balance July 1, 2015	Issued	Retired	Balance June 30, 2016
Bonds payable	\$135,800,000	\$154,760,000	\$100,715,000	\$189,845,000
Installment contracts	419,025		419,025	
Totals	<u>\$136,219,025</u>	<u>\$154,760,000</u>	<u>\$101,134,025</u>	<u>\$189,845,000</u>

*Includes \$96,805,000 early retirement of debt - See Note 6

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2017	\$ 3,215,000	\$ 4,155,111	\$ 7,370,111
2018	4,330,000	4,230,116	8,560,116
2019	7,355,000	4,179,031	11,534,031
2020	8,695,000	4,048,806	12,743,806
2021	8,935,000	3,878,231	12,813,231
2022-2026	48,810,000	22,668,440	71,478,440
2027-2031	57,020,000	14,746,250	71,766,250
2032-2035	51,485,000	4,684,169	56,169,169
Totals	<u>\$ 189,845,000</u>	<u>\$ 62,590,154</u>	<u>\$ 252,435,154</u>

Security for Debt Payments

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

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Description	Governmental Funds		
	General	Special Revenue	Other Aggregate
Vendor payables	\$ 5,023,171	\$ 370,207	\$ 2,426,396
Transitional cost	1,119,152		315,663
Payroll withholdings and matching	126,806		
Totals	<u>\$ 6,269,129</u>	<u>\$ 370,207</u>	<u>\$ 2,742,059</u>

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

6: DEBT REFUNDINGS

On September 1, 2015, the District issued refunding bonds of \$69,705,000 with interest rates of 3 to 3.5 percent to refund \$67,935,000 of outstanding bonds dated June 15, 2009. The interest rates of the bonds refunded were 4.9 percent. Net bond proceeds of \$68,602,975 were remitted to an escrow agent to provide for all future debt service payments for the bonds refunded. These bonds were called on October 15, 2015. The remaining proceeds of \$88,844 (after payment of \$1,013,181 net bond issuance costs) will be utilized for subsequent debt payments. The issuance of these bonds will result in a savings of \$8,198,184 to the District over the life of the bonds.

On March 15, 2016, the District issued refunding bonds of \$29,080,000 with interest rates of 2 to 3 percent to refund \$13,395,000 of outstanding bonds dated February 15, 2010 and \$15,475,000 of outstanding bonds dated January 1, 2011. The interest rates of the bonds refunded were 2 to 4.25 percent and 2.5 to 4.5 percent, respectively. Bond proceeds of \$29,080,000 and net premium of \$35,516, totaling \$29,115,516, were remitted to an escrow agent to provide for all future debt service payments for the bonds refunded. These bonds were called on April 15, 2016. The issuance of these bonds will result in a savings of \$2,873,536 to the District over the life of the bonds.

7: INTERFUND TRANSFERS

The District transferred \$11,388,577 from the general fund to the other aggregate funds for debt refunding savings of \$463,691 required to be utilized for capital expenditures and to supplement future capital projects by \$10,924,886. Additionally, \$392,562 was transferred from the general fund to the special revenue fund to supplement the District's food services operations.

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

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries. The District's contributions to ATRS for the year ended June 30, 2016 were \$15,285,852, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2015 (actuarial valuation date and measurement date) was \$121,882,186.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy

APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the year ended June 30, 2016 were \$17,547, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2015 (actuarial valuation date and measurement date) was \$126,878.

9: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$194,320,000 issued from October 1, 2010 through March 15, 2016. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$252,435,154, payable through February 1, 2035. Principal and interest paid for the current year and total property taxes pledged for debt service were \$9,372,050 and \$40,161,762, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 23.34 percent.

10: 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 student athletics, buildings, contents, vehicles, and legal liability.

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.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

10: RISK MANAGEMENT (Continued)

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

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

11: 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 \$5,273,854 for the year ended June 30, 2016.

12: 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	\$ 117,877		
Educational programs -			
national school lunch state			
categorical funding	1,029,489		
English-language learners	28,789		
Professional development	81,022		
Secondary workforce center	253,790		
M-to-M program	10,653,306		
Magnet and M-to-M transportation	1,555,310		
Impact Aid	343,332		
STEM - Project Lead Way	76,954		
Arkansas Better Chance program	414,120		
Arkansas school recognition program	162,101		
Capital projects			\$ 55,009,061
ROTC		\$ 109,490	
Debt service			3,581
Medical services		588,602	
Special education programs	1,135,807	174,278	
High quality preschool program		96,569	
Other purposes	177,257	43,981	
Total Restricted	<u>16,029,154</u>	<u>1,012,920</u>	<u>55,012,642</u>
Assigned to:			
Capital projects			15,339,428
Student activities	966,833		
Federal indirect costs	597,417		
United Way	51,744		
Other purposes	1,547		
Total Assigned	<u>1,617,541</u>		<u>15,339,428</u>
Unassigned	<u>2,316,181</u>	<u>(143,174)</u>	
Totals	<u>\$ 19,962,876</u>	<u>\$ 869,746</u>	<u>\$ 70,352,070</u>

13: DEFICIT FUND BALANCES

The deficit unassigned fund balance of \$143,174 in the special revenue fund, as displayed in the table at Note 12 above, is the result of journal entries to eliminate child nutrition program inventories from the balance sheet for regulatory basis reporting purposes.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

14: FISCAL DISTRESS STATUS

On May 16, 2011, the State Board of Education classified the District in fiscal distress. The District, in conjunction with the Arkansas Department of Education, has adopted a plan to implement effective cost of reduction measures. As disclosed in Note 1, the Arkansas Department of Education assumed control of the District on June 20, 2011. On March 10, 2016, the State Board of Education removed the District from the fiscal distress classification.

15: JACKSONVILLE/NORTH PULASKI SCHOOL DISTRICT DETACHMENT

The State Board approved the creation of the Jacksonville School District (JNPSD) by detachment from the Pulaski County Special School District (PCSSD) starting July 1, 2016. On April 16, 2015, the JNPSD board selected Tony Wood as superintendent for the 2015-16 school year. The parties agree that JNPSD can fund operations of JNPSD schools on revenue from the 40.7 mills levied on the real, personal, and utility property assessed within the boundaries of the District, other sources of local revenue common to Arkansas school districts, various sources of state financial aid to which the District will be entitled, and various sources of federal aid to which the District will be entitled. On July 1, 2016, JNPSD shall purchase the real property assets for the purchase price of \$10,809,050 upon State Board approval. JNPSD will be allotted a total number of school buses based on the per student basis.

On July 1, 2016, and subsequent periods, the following key actions will be performed per the detachment agreement:

1. PCSSD shall pay \$4.5 million to JNPSD as an advance payment on any and all monies due under the agreement between PCSSD and JNPSD.
2. Unrestricted fund balance – Twenty-three and one half percent of all fund balances arising from unrestricted revenue sources, above the \$4.5 million paid in advance, shall be distributed from PCSSD to JNPSD as JNPSD's share of the June 30, 2016, unrestricted legal fund balance.
3. Restricted fund balance – Fund balances arising from restricted revenue sources shall be distributed from PCSSD to JNPSD on the basis of funding source requirements applicable to each such revenue source. If no applicable requirements exist, it shall be distributed on a per-student basis.
4. Building fund balance – The building fund balances at June 30, 2016, less any and all amounts resulting from second lien bond issues during the 2015-16 fiscal year, and less any amounts necessary to fulfill contractual commitments existing on June 30, 2016, shall be divided on a per student basis.
5. 2016-2017 Desegregation Revenue – During the 2016-17 fiscal year, PCSSD shall pay JNPSD 26% of state desegregation revenue of \$20,804,500, or \$5,409,170.
6. 2017-2018 Desegregation Revenue – During the 2017-18 fiscal year, PCSSD shall pay JNPSD 26% of state desegregation revenue of \$20,804,500, or \$5,409,170.
7. Reimbursement of Donaldson Scholars Academy Payments – JNPSD's share of the final payment of \$3,333,333 to the Donaldson Scholars Academy for the 2016-17 fiscal year, calculated as \$666,667, will be deducted from each state desegregation payment.
8. Allocation of Student Counts – Allocation will be based on the residence of the student. Arkansas Department of Education will be provided the allocated numbers, and they remit payments to each district based on those allocations.
9. PCSSD Legal transfers pursuant to 2014 Global Desegregation Settlement – JNPSD shall accept a per-student share of the PCSSD responsibility for approving legal transfers to Little Rock and North Little Rock School Districts as required of PCSSD by the desegregation settlement agreement dated November 21, 2013, and approved by the Court on January 13, 2014.
10. PCSSD shall transfer 15% of the June 30, 2016, IT millage fund (Fund 5000 Dedicated M & O) to JNPSD on July 1, 2016.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

16: SUBSEQUENT EVENTS

The Pulaski County Special School District shall pay \$2,859,216 to JNPSD in September 2016 to satisfy the financial obligations of both districts under the detachment agreement noted above in Note 15 and subsequent agreements.

The Pulaski County Special School District Board was elected in November of 2016 and seated on December 13, 2016. At their first meeting, the Board drew for terms and elected officers.

17: COMPENSATION FOR LOSS OF CAPITAL ASSETS

The District received insurance proceeds totaling \$132,744 for water damage at Chenal Elementary, \$17,895 for damage to various vehicles, and \$4,055 for vandalism at Homer Adkins Pre-K.

18: PRIOR YEAR RESTATEMENT

The beginning balances of the general fund and the other aggregate funds were decreased and increased, respectively, by \$6,567,779, due to a transfer between the general and other aggregate funds recorded by the District, but not included in the prior year audit balances.

19: CONSTRUCTION BONDS

On October 15, 2015, the District issued construction bonds of \$55,975,000 with interest rates of 3 to 3.5 percent. The final maturity date is February 1, 2035. The construction bond proceeds will be used for equipping school facilities, constructing a new Mills High School, converting and renovating the existing Mills High School to a Middle School, and other capital projects in the District.

20: TRANSITIONAL REIMBURSEMENT/TRANSITIONAL COST

As a result of the detachment of JNPSD, JNPSD has agreed to reimburse transitional expenses incurred by the Pulaski County School District (PCSSD). The total reimbursement to the general, special revenue, and other aggregate funds were \$1,358,606, \$8,973, and \$366,921, respectively.

PCSSD has agreed to purchase various assets from JNPSD. The total purchases from the general and other aggregate funds totaled \$1,119,152 and \$315,663, respectively.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)

Schedule 1

	Balance June 30, 2016
<i>Nondepreciable capital assets:</i>	
Land	\$ 8,806,063
Construction in progress	5,336,883
Total nondepreciable capital assets	14,142,946
 <i>Depreciable capital assets:</i>	
Buildings	215,829,217
Improvements/infrastructure	32,187,262
Equipment	32,002,490
Total depreciable capital assets	280,018,969
 Less accumulated depreciation for:	
Buildings	60,713,834
Improvements/infrastructure	3,911,023
Equipment	15,888,385
Total accumulated depreciation	80,513,242
 Total depreciable capital assets, net	 199,505,727
 Capital assets, net	 \$ 213,648,673

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
CHILD NUTRITION CLUSTER				
<u>U. S. Department of Agriculture</u>				
Direct Program:				
National School Lunch Program (Note 3)	10.555			\$ 89,034
Passed Through Arkansas Department of Education:				
School Breakfast Program	10.553	6003		1,692,642
National School Lunch Program	10.555	6003		4,120,382
Total Arkansas Department of Education				<u>5,813,024</u>
Passed Through Arkansas Department of Human Services:				
National School Lunch Program (Note 4)	10.555	6003000		466,087
TOTAL CHILD NUTRITION CLUSTER				<u>6,368,145</u>
SPECIAL EDUCATION CLUSTER (IDEA)				
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Special Education - Grants to States	84.027	6003		3,196,725
Special Education - Preschool Grants	84.173	6003		43,510
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				<u>3,240,235</u>
OTHER PROGRAMS				
<u>U. S. Department of Defense</u>				
Direct Programs:				
ROTC (Note 5)	12.AR060081			82,078
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools				
Total U. S. Department of Defense	12.556			72,514
				<u>154,592</u>
<u>U. S. Department of Education</u>				
Direct Program:				
Impact Aid	84.041			273,388
Passed Through Arkansas Department of Career Education:				
Adult Education - Basic Grants to States	84.002	6003		200,997
Career and Technical Education - Basic Grants to States	84.048	6003		124,479
Total Arkansas Department of Career Education				<u>325,476</u>
Passed Through Arkansas Department of Education:				
Title I Grants to Local Educational Agencies	84.010	6003		4,481,756
Education for Homeless Children and Youth	84.196	6003		58,751
Twenty-First Century Community Learning Centers	84.287	6003		139,591
English Language Acquisition State Grants	84.365	6003		50,636
Improving Teacher Quality State Grants	84.367	6003		861,806
School Improvement Grants	84.377	6003		76,135
Total Arkansas Department of Education				<u>5,668,675</u>
Total U. S. Department of Education				<u>6,267,539</u>
<u>U. S. Department of Health and Human Services</u>				
Passed Through Arkansas Department of Education:				
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079	6003		10,096
TOTAL OTHER PROGRAMS				<u>6,432,227</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 0</u>	<u>\$ 16,040,607</u>

The accompanying notes are an integral part of this schedule.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

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 Pulaski County Special School District (District) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.
- Note 5: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 6: The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- Note 7: During the year ended June 30, 2016, the District received Medicaid funding of \$373,562 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

<input checked="" type="radio"/>	Material weakness(es) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
<input checked="" type="radio"/>	Significant deficiency(ies) identified?	<input checked="" type="checkbox"/>	yes	<input type="checkbox"/>	none reported

Noncompliance material to financial statements noted?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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FEDERAL AWARDS

Internal control over major federal programs:

<input checked="" type="radio"/>	Material weakness(es) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
<input checked="" type="radio"/>	Significant deficiency(ies) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster (IDEA)
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between type A and type B programs:	<u>\$</u>	<u>750,000</u>
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Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/>	yes	<input type="checkbox"/>	no
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PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2016-001. Internal Control

Criteria or specific requirement: An effective internal control system is the responsibility of management and requires sound accounting policies and proper oversight that will, among other things, help to ensure the proper initiating, authorization, recording, processing, and reporting of transactions consistent with management's assertions embodied in the financial statements.

Condition: Financial accounting duties pertaining to activity funds were not adequately segregated among employees at the offices at the individual campuses located throughout the District to properly receipt, record, and safeguard assets of the District. Specifically, the key weakness at the level of the individual campuses is that one employee is responsible for maintaining the accounting records, without adequate compensating controls.

Context: A lack of controls and inadequate segregation of financial accounting duties could result in unauthorized transactions or misappropriation of District assets.

Effect: The District's ability to initiate, authorize, record, process, and report activity fund 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 weakness 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 at the multiple campuses did not effectively address the deficiency 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 activity fund transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets at the individual campuses throughout the District.

Views of responsible officials and planned corrective actions: District management concurs with the recommendation and will implement corrective procedures to the extent possible.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Schedule 4

FINANCIAL STATEMENT FINDINGS

2015 - Finding 2015-001: Internal Control

Condition: Financial accounting duties pertaining to activity funds were not adequately segregated among employees at the offices at the individual campuses located throughout the District to properly receipt, record, and safeguard assets of the District. Specifically, the key weakness at the level of the individual campuses is that one employee is responsible for maintaining the accounting records, without adequate compensating controls.

Current Status: Lack of segregation of financial accounting duties pertaining to the activity funds continued during the audit period. See Finding 2016-001 at Schedule 3.

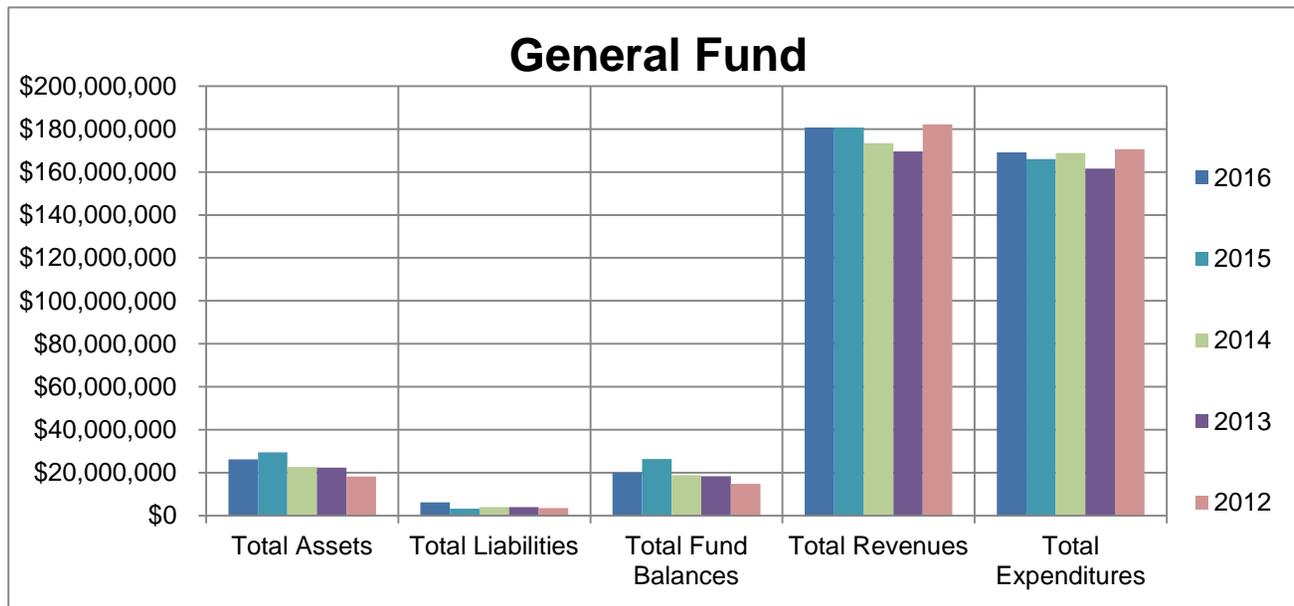
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the prior audit.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)

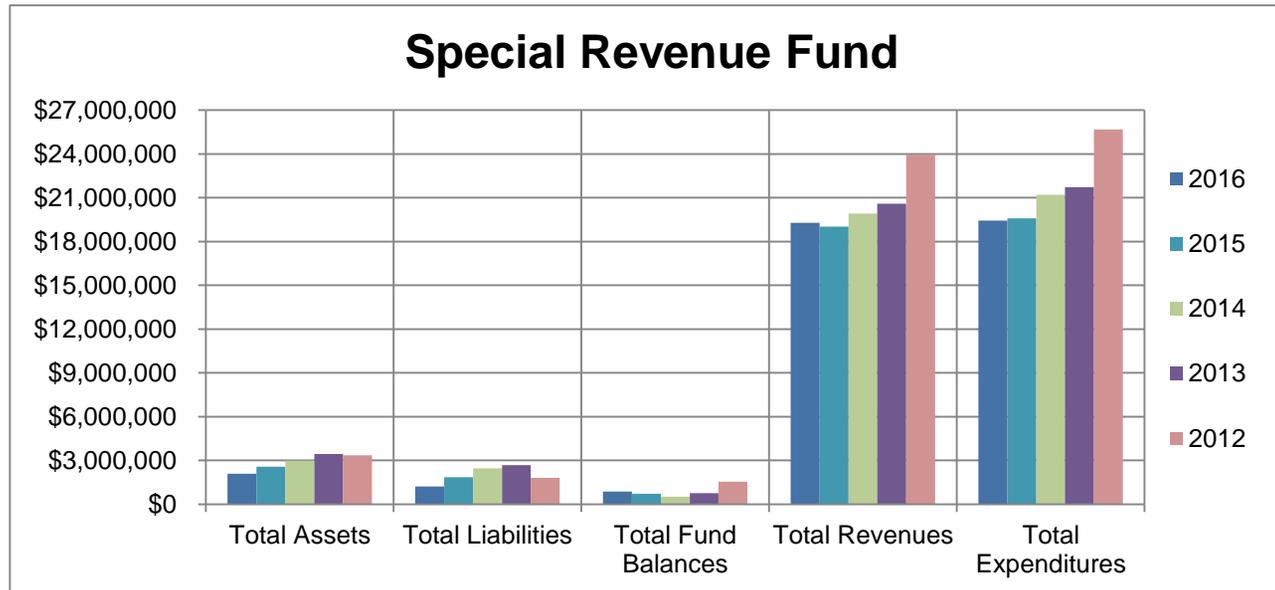
Schedule 5

<u>General Fund</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 26,232,005	\$ 29,542,798	\$ 22,707,070	\$ 22,414,939	\$ 18,274,273
Total Liabilities	6,269,129	3,237,800	3,965,424	4,004,890	3,535,691
Total Fund Balances	19,962,876	26,304,998	18,741,646	18,410,049	14,738,582
Total Revenues	180,781,778	180,764,676	173,419,703	169,647,624	182,205,779
Total Expenditures	169,169,130	166,022,425	168,901,828	161,624,927	170,647,947
Total Other Financing Sources (Uses)	(11,386,991)	(7,178,899)	(4,186,278)	(4,351,230)	70,168



PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 2,090,873	\$ 2,558,136	\$ 2,980,126	\$ 3,444,405	\$ 3,350,016
Total Liabilities	1,221,127	1,854,202	2,453,284	2,683,726	1,806,885
Total Fund Balances	869,746	703,934	526,842	760,679	1,543,131
Total Revenues	19,282,118	19,028,903	19,920,536	20,585,996	23,959,260
Total Expenditures	19,439,761	19,594,200	21,207,618	21,729,050	25,678,631
Total Other Financing Sources (Uses)	323,455	744,614	1,053,245	360,602	591,827



PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets	\$ 73,094,129	\$ 8,499,044	\$ 10,664,947	\$ 14,454,726	\$ 17,939,791
Total Liabilities	2,742,059	1,134,268	1,656,550	1,078,153	2,020,468
Total Fund Balances	70,352,070	7,364,776	9,008,397	13,376,573	15,919,323
Total Revenues	11,850,528	12,160,804	11,953,221	11,803,942	14,781,444
Total Expenditures	22,522,822	20,498,709	19,705,620	18,660,578	32,703,706
Total Other Financing Sources (Uses)	67,091,809	6,694,284	3,384,223	4,313,886	1,735,936

