

Stephens School District No. 13

Ouachita County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2011



STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2011

Independent Auditor's Report
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*
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133
Management Letter

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet - Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Regulatory Basis	B
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis	C
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	3
Federal Award Programs - Summary Schedule of Prior Audit Findings	4
Schedule of Selected Information for the Last Five Years - Regulatory Basis (Unaudited)	5

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Stephens School District No. 13 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Stephens School District No. 13 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2011, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the financial statements, the District changed the classifications of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 Capital Assets (Schedule 1), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4), and Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) 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 (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with a large initial "R" and "N".

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

Little Rock, Arkansas
March 13, 2012
EDSD28011

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



Roger A. Norman, JD, CPA, CFE
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*

Stephens School District No. 13 and School Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Stephens School District No. 13 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 13, 2012. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices 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 financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting 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 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 2011-1 to be a material weakness.

Compliance and Other Matters

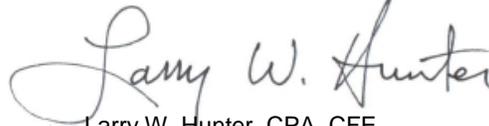
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements,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

We noted certain matters that we reported to management of the District in a separate letter dated March 13, 2012.

The District's response to the findings identified in our audit, excluding the management letter findings, is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 13, 2012

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Stephens School District No. 13 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Stephens School District No. 13 (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, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in item 2011-2 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding procurement and suspension and debarment that are applicable to its ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the 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, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, 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 2011-3, 2011-4, and 2011-5.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

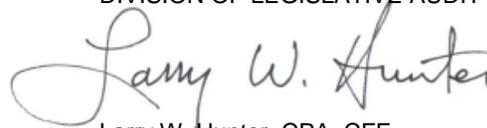
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-2 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-3, 2011-4, and 2011-5 to be significant deficiencies.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 13, 2012

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Stephens School District No. 13 and School Board Members
Legislative Joint Auditing Committee

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

1. Ark. Code Ann. § 6-21-304 requires bids to be obtained prior to the purchase of applicable items in which the estimated price shall equal or exceed \$10,000. The District did not obtain bids for twelve handicap water fountains at a cost of \$19,950 and two digital signs at a cost of \$23,000.
2. The District replaced the roof at the elementary school at a cost of \$182,270 without utilizing an architect as required by Ark. Code Ann. § 17-15-302.

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

DIVISION OF 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 13, 2012

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2011

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 546,865	\$ 21,227		\$ 9,158
Investments	300,000			
Accounts receivable	5,698	31,632	\$ 185,981	
Property taxes receivable	41,128			
Due from other funds	157,128			
Accrued Interest	1,333			
TOTAL ASSETS	\$ 1,052,152	\$ 52,859	\$ 185,981	\$ 9,158
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 176,565	\$ 5,236	\$ 27,725	\$ 1,307
Due student groups				7,851
Due to other funds			157,128	
Total Liabilities	176,565	5,236	184,853	9,158
Fund Balances:				
Restricted	141,396	47,623	1,128	
Assigned	10,855			
Unassigned	723,336			
Total Fund Balances	875,587	47,623	1,128	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,052,152	\$ 52,859	\$ 185,981	\$ 9,158

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

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,060,646		\$ 58,760
State assistance	1,905,198	\$ 1,655	1,128
Federal assistance		975,166	773,886
Activity revenues	35,825		
Meal sales		19,047	
Investment income	7,947	233	
Other revenues	58,210	24,250	
TOTAL REVENUES	3,067,826	1,020,351	833,774
EXPENDITURES			
Regular programs	1,181,866	151,262	
Special education	211,200	47,386	
Workforce education programs	23,963		
Compensatory education programs	29,888	262,732	228,785
Other instructional programs	125,128		
Student support services	137,720	43,111	
Instructional staff support services	131,255	223,998	
General administration support services	197,179	9,208	
School administration support services	200,958		
Central services support services	165,668		
Operation and maintenance of plant services	344,669		
Student transportation services	220,021	5,053	72,000
Other support services	2,261		
Food services operations		261,827	
Facilities acquisition and construction services		28,140	495,315
Activity expenditures	32,734		
Debt Service:			
Principal retirement			20,000
Interest and fiscal charges			38,760
TOTAL EXPENDITURES	3,004,510	1,032,717	854,860
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	63,316	(12,366)	(21,086)
OTHER FINANCING SOURCES (USES)			
Transfers in		2,866	
Transfers out	(2,866)		
Refund to grantor		(13)	
TOTAL OTHER FINANCING SOURCES (USES)	(2,866)	2,853	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	60,450	(9,513)	(21,086)
FUND BALANCES - JULY 1 (RESTATED)	815,137	57,136	22,214
FUND BALANCES - JUNE 30	\$ 875,587	\$ 47,623	\$ 1,128

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

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA 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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,020,182	\$ 1,060,646	\$ 40,464			
State assistance	1,699,409	1,905,198	205,789	\$ 1,800	\$ 1,655	\$ (145)
Federal assistance				1,827,166	975,166	(852,000)
Activity revenues		35,825	35,825			
Meal sales				24,000	19,047	(4,953)
Investment income	10,000	7,947	(2,053)		233	233
Other revenues	25,800	58,210	32,410		24,250	24,250
TOTAL REVENUES	2,755,391	3,067,826	312,435	1,852,966	1,020,351	(832,615)
EXPENDITURES						
Regular programs	1,222,676	1,181,866	40,810	60,581	151,262	(90,681)
Special education	194,798	211,200	(16,402)	66,052	47,386	18,666
Workforce education programs	58,050	23,963	34,087			
Compensatory education programs	50,000	29,888	20,112	640,117	262,732	377,385
Other instructional programs	113,741	125,128	(11,387)			
Student support services	114,549	137,720	(23,171)	85,058	43,111	41,947
Instructional staff support services	137,756	131,255	6,501	117,910	223,998	(106,088)
General administration support services	203,111	197,179	5,932	8,856	9,208	(352)
School administration support services	157,757	200,958	(43,201)			
Central services support services	160,455	165,668	(5,213)			
Operation and maintenance of plant services	334,784	344,669	(9,885)	2,700		2,700
Student transportation services	187,100	220,021	(32,921)	72,000	5,053	66,947
Other support services	650	2,261	(1,611)			
Food services operations				237,764	261,827	(24,063)
Community services operations				1,412		1,412
Facilities acquisition and construction services				654,151	28,140	626,011
Activity expenditures		32,734	(32,734)			
TOTAL EXPENDITURES	2,935,427	3,004,510	(69,083)	1,946,601	1,032,717	913,884

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA 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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (180,036)	\$ 63,316	\$ 243,352	\$ (93,635)	\$ (12,366)	\$ 81,269
OTHER FINANCING SOURCES (USES)						
Transfers in	1,470,668		(1,470,668)		2,866	2,866
Transfers out	(1,470,668)	(2,866)	1,467,802			
Refund to grantor					(13)	(13)
TOTAL OTHER FINANCING SOURCES (USES)	0	(2,866)	(2,866)		2,853	2,853
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(180,036)	60,450	240,486	(93,635)	(9,513)	84,122
FUND BALANCES - JULY 1	876,455	815,137	(61,318)	106,468	57,136	(49,332)
FUND BALANCES - JUNE 30	<u>\$ 696,419</u>	<u>\$ 875,587</u>	<u>\$ 179,168</u>	<u>\$ 12,833</u>	<u>\$ 47,623</u>	<u>\$ 34,790</u>

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

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Stephens School District (District). There are no component units.

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

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.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Change in Accounting Principle

The District adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

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)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	627,250	940,906
Total Deposits	\$ 877,250	\$ 1,190,906

The above total deposits include certificates of deposit of \$300,000 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$223,311 at June 30, 2011 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
State assistance	\$ 5,698		\$ 1,128	\$ 6,826
Federal assistance		\$ 25,840	184,853	210,693
Meal sales		3,328		3,328
Other		2,464		2,464
Totals	\$ 5,698	\$ 31,632	\$ 185,981	\$ 223,311

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2011:

A. Construction Contract

<u>Project Name</u>	<u>Estimated Completion Date</u>	<u>Contract Balance</u>
High School Electrical/HVAC renovation project	June 1, 2012	\$ <u>26,623</u>

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

General description of leases and leasing arrangements: Three copiers

1. Future minimum rental payments (aggregate) at June 30, 2011: \$9,420
2. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 6,280
2013	<u>3,140</u>
Total	<u>\$ 9,420</u>

Rental payments for the operating leases described above were approximately \$6,280 for the year ended June 30, 2011.

B. Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2011</u>	<u>Maturities To June 30, 2011</u>
11/1/06	2/1/36	3.8-4.6%	\$ <u>910,000</u>	\$ <u>870,000</u>	\$ <u>40,000</u>

Changes in Long-term Debt

	<u>Balance July 1, 2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2011</u>
Bonds payable	\$ <u>890,000</u>	\$ <u>0</u>	\$ <u>20,000</u>	\$ <u>870,000</u>

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

4: COMMITMENTS (Continued)

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

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

Year Ended June 30,	Principal	Interest	Total
2012	\$ 20,000	\$ 37,575	\$ 57,575
2013	20,000	26,816	46,816
2014	25,000	26,055	51,055
2015	25,000	35,105	60,105
2016	25,000	34,155	59,155
2017-2021	140,000	155,160	295,160
2022-2026	165,000	124,410	289,410
2027-2031	200,000	86,020	286,020
2032-2036	250,000	35,420	285,420
Totals	<u>\$ 870,000</u>	<u>\$ 560,716</u>	<u>\$ 1,430,716</u>

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$210,833 at June 30, 2011 was comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types	Total
	Major				
	General	Special Revenue	Other Aggregate		
Vendor payables	\$ 40,406	\$ 5,236	\$ 27,725	\$ 1,307	\$ 74,674
Payroll withholdings and matching	70,252				70,252
Due to grantors	65,907				65,907
Totals	<u>\$ 176,565</u>	<u>\$ 5,236</u>	<u>\$ 27,725</u>	<u>\$ 1,307</u>	<u>\$ 210,833</u>

6: INTERFUND TRANSFERS

The District transferred \$2,866 from the general fund to the special revenue fund to supplement its food services operations.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

7: RETIREMENT PLANS

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and 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, 2011, 2010, and 2009 were \$360,793, \$330,413, and \$324,143, respectively, equal to the required contributions for each year.

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 nonteachers hired before July 1, 1989. 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, 2011, 2010, and 2009 were \$1,671, \$1,863, and \$1,789, respectively, equal to the required contributions for each year.

8: PRIOR YEAR RESTATEMENT

To comply with GASB Statement no. 54, the beginning fund balance of the special revenue fund was decreased by \$22,214 and the beginning fund balance of the other aggregate funds was increased by the same amount to reclassify certain financial resources with a primary purpose of capital outlay.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

9: RISK MANAGEMENT

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

The District carries commercial insurance for student accident coverage. 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.

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 \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

10: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District’s employees, totaled \$68,207 for the year ended June 30, 2011.

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted for:				
Alternative learning environment	\$ 3,104			\$ 3,104
Educational programs - national school lunch state categorical funding	59,410			59,410
Professional development	20,301			20,301
Debt service			\$ 1,128	1,128
Medical services		\$ 42,290		42,290
Special education programs	26,659	2,974		29,633
Other purposes	31,922	2,359		34,281
Total Restricted	<u>141,396</u>	<u>47,623</u>	<u>1,128</u>	<u>190,147</u>
Assigned to:				
Student activities	<u>10,855</u>			<u>10,855</u>
Unassigned	<u>723,336</u>			<u>723,336</u>
Totals	<u>\$ 875,587</u>	<u>\$ 47,623</u>	<u>\$ 1,128</u>	<u>\$ 924,338</u>

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

Schedule 1

	Balance June 30, 2011
<i>Nondepreciable capital assets:</i>	
Land	\$ 83,986
<i>Depreciable capital assets:</i>	
Buildings	1,772,410
Improvements/infrastructure	271,098
Equipment	1,500,975
Total depreciable capital assets	3,544,483
Less accumulated depreciation for:	
Buildings	1,744,837
Improvements/infrastructure	91,831
Equipment	978,919
Total accumulated depreciation	2,815,587
Total depreciable capital assets, net	728,896
Capital assets, net	\$ 812,882

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	5206	\$ 77,060
National School Lunch Program - Cash Assistance	10.555	5206	146,863
Total State Department of Education			223,923
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	5206000	8,009
TOTAL CHILD NUTRITION CLUSTER			231,932
TITLE I, PART A CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	5206	362,625
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	5206000	272,350
TOTAL TITLE I, PART A CLUSTER			634,975
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	5206	115,779
ARRA - Special Education - Grants to States, Recovery Act	84.391	5206000	91,950
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			207,729
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	5206	3,188
Rural Education	84.358	5206	220
Improving Teacher Quality State Grants	84.367	5206	83,270
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	5206000	538,316
ARRA - Education Jobs Fund, Recovery Act	84.410	5206000	68,077
Total U.S. Department of Education			693,071
TOTAL OTHER PROGRAMS			693,071
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,767,706

The accompanying notes are an integral part of this schedule.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

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 Stephens School District No. 13 (District) under programs of the federal government for the year ended June 30, 2011. 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 this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2011, the District received Medicaid funding of \$13,554 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2011-1. Internal Control

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

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

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

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

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

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

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

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESS

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT - CFDA
NUMBER 84.394
PASS-THROUGH NUMBER 5206000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-2. Procurement and Suspension and Debarment

Criteria or specific requirement: The American Recovery and Reinvestment Act (ARRA) of 2009 prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. The construction contracts for all applicable projects, financed by ARRA funds, are to contain a Buy-American Clause.

Condition: The District paid a construction company \$248,377 for electrical/HVAC work at the Stephens High School and did not include the Buy-American clause in the applicable contract.

Context: Examination of the contract for electrical/HVAC work at the Stephens High School.

Effect: The District did not ensure that the Buy-American clause was part of the electrical contract.

Cause: Lack of internal controls and management oversight resulted in the Buy-American clause not being properly included in the contract.

Recommendation: The District should ensure that all applicable contracts contain the required Buy-American clause and contact the Arkansas Department of Education for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: The District will ensure that all applicable construction contracts contain the required Buy-American clause.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

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

SIGNIFICANT DEFICIENCIES

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT - CFDA
NUMBER 84.394
PASS-THROUGH NUMBER 5206000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-3. Davis-Bacon Act

Criteria or specific requirement: The Davis-Bacon Act requires all contractors and subcontractors performing on construction contracts in excess of \$2,000, financed by Federal funds, to pay their laborers and mechanics not less than the prevailing wage rates as determined by the Department of Labor. Non-federal entities are to include in the applicable construction contracts a requirement that the contractor or subcontractor comply with the provisions of the Davis-Bacon Act and the Department of Labor regulations. Such requirements included the submission of weekly certified payrolls, for each week in which any contract work is performed, to the non-federal entities.

Condition: The District paid a construction company \$248,377, previously identified in finding 2011-2, for electrical/HVAC work at the Stephens High School. The contract did not include the notification requirement that the contractor or subcontractor comply with the provisions of the Davis-Bacon Act and the Department of Labor regulations. However, weekly certified payrolls were submitted as the work on the project was performed.

Context: Examination of the contract for electrical/HVAC work at the Stephens High School.

Effect: The District did not comply with the notification requirements regarding compliance with the Davis-Bacon Act.

Cause: Lack of internal controls and management oversight resulted in the notification requirements regarding compliance with the Davis-Bacon Act not being properly included in the contract.

Recommendation: The District should ensure that all applicable construction contracts contain the required notification regarding compliance with the Davis-Bacon Act. The District should contact the Arkansas Department of Education for further directives regarding this matter.

Views of responsible officials and planned corrective actions: The District will ensure that all applicable construction contracts contain the required prevailing wage clause.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

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
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010
PASS-THROUGH NUMBER 5206
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-4. Allowable Costs/Cost Principles

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

Condition: Although standard payroll documentation supporting the employee's work in the Title I (non-ARRA) program was available for audit inspection, periodic time certifications were not prepared for one employee who worked solely with the program. A similar finding was reported in the previous audit.

Context: Examination of documentation substantiating time worked by employees.

Effect: The District was unable to provide required documentation substantiating the time charged to the Title I (non-ARRA) program.

Cause: Lack of internal controls and management oversight resulted in the lack of supporting documentation pertaining to time charged to Federal programs.

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

Views of responsible officials and planned corrective actions: Periodic time certifications will be kept on employees paid from Title I monies.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

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
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT - CFDA NUMBER 84.389
PASS-THROUGH NUMBER 5206000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-5. Equipment and Real Property Management

Criteria or specific requirement: Proper records should be maintained for equipment acquired with Federal awards. Additionally, the District should ensure that disposition of such equipment is in accordance with Federal requirements, including the federal awarding agency is appropriately compensated for its share of any property sold or converted to non-federal use.

Condition: The District could not locate three computers purchased in the current audit period at a cost of \$5,392 from the Title I ARRA program.

Context: Observation of equipment recorded on subsidiary records, review of available documentation for dispositions, and interview of technology coordinator.

Effect: The District's equipment subsidiary records were not accurate and equipment was not properly safeguarded.

Cause: The District failed to properly account for all equipment items to ensure accurate equipment subsidiary records.

Recommendation: Proper records should be maintained for equipment acquired with Federal awards and proper safeguards should be implemented.

Views of responsible officials and planned corrective actions: Better internal controls will be established to safeguard assets for equipment acquired with federal awards.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010

2010 - Finding 2010-3: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: Although standard payroll documentation supporting the employees' work in the Title I program was available for audit inspection, monthly personnel activity reports were not prepared for an employee who worked multiple activities and periodic time certifications were not prepared for an employee who worked solely on this program.

Recommendation: The District should prepare monthly personnel activity reports or periodic time certifications for all applicable employees.

Current Status: Exceptions were noted in the current audit period regarding preparing of periodic time certifications. See Finding 2011-4 at Schedule 3.

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

Schedule 5

	Year Ended June 30,				
	2011	2010	2009	2008	2007
<u>General Fund</u>					
Total Assets	\$ 1,052,152	\$ 881,672	\$ 1,236,892	\$ 1,530,775	\$ 1,455,510
Total Liabilities	176,565	66,535	28,832	89,760	46,973
Total Fund Balances	875,587	815,137	1,208,060	1,441,015	1,408,537
Total Revenues	3,067,826	3,313,025	3,734,838	3,822,111	3,921,238
Total Expenditures	3,004,510	3,633,452	3,639,861	3,652,074	4,044,863
Total Other Financing Sources (Uses)	(2,866)	(72,496)	(327,932)	(137,559)	(67,635)
<u>Special Revenue Fund</u>					
Total Assets	52,859	129,782	120,006	131,828	145,746
Total Liabilities	5,236	50,432	4,011	6,760	38,914
Total Fund Balances	47,623	79,350	115,995	125,068	106,832
Total Revenues	1,020,351	1,109,316	890,202	964,230	916,615
Total Expenditures	1,032,717	1,144,343	967,711	1,034,283	963,878
Total Other Financing Sources (Uses)	2,853	(1,618)	68,436	88,289	67,635
<u>Other Aggregate Funds</u>					
Total Assets	185,981	20,000	1,929	20,819	176,174
Total Liabilities	184,853	20,000		109	1,117
Total Fund Balances	1,128		1,929	20,710	175,057
Total Revenues	833,774	143,967		20,711	
Total Expenditures	854,860	205,392	278,277	224,328	245,797
Total Other Financing Sources (Uses)		59,496	259,496	49,270	420,854