

Stephens School District No. 13

Ouachita County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2012

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

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Rep. Kim Hammer
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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, 2012, 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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2013 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 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), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information 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. The 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 (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole.

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) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information has 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.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
February 4, 2013
EDSD28012

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
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House Vice Chair

Arkansas



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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, 2012, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 4, 2013. 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, 2012, 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 2012-1 to be a material weakness.

Compliance and Other Matters

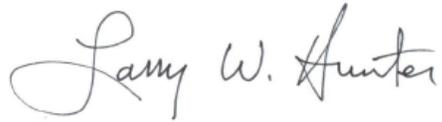
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, 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 February 4, 2013.

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

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 4, 2013

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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

INDEPENDENT AUDITOR'S REPORT

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, 2012. 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.

In our opinion, 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, 2012. However, the results of our auditing procedures disclosed 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 item 2012-2.

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.

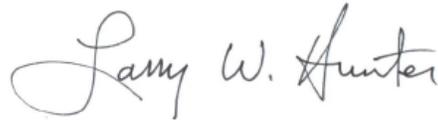
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2. 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.

The District's response to the finding identified in our audit 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

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 4, 2013

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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 item that came to our attention during this audit. The purpose of such comment 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. This matter was discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

The District overstated property taxes receivable by \$20,189. The financial statements were corrected during the audit fieldwork.

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

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Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 4, 2013

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2012

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 988,032		\$ 166,412	\$ 10,889
Investments	300,000			
Accounts receivable		\$ 200,911		
Property taxes receivable	11,861			
Due from other funds	158,568			
TOTAL ASSETS	\$ 1,458,461	\$ 200,911	\$ 166,412	\$ 10,889
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 290,309	\$ 4,946		
Due student groups				\$ 10,889
Due to other funds		158,568		
Total Liabilities	290,309	163,514		10,889
Fund Balances:				
Restricted	194,518	37,397	\$ 13,704	
Assigned	13,594		152,708	
Unassigned	960,040			
Total Fund Balances	1,168,152	37,397	166,412	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,458,461	\$ 200,911	\$ 166,412	\$ 10,889

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, 2012

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 919,628		\$ 208,227
State assistance	1,972,707	\$ 1,646	1,129
Federal assistance		799,474	122,198
Activity revenues	66,616		
Meal sales		17,640	
Investment income	5,345	1,381	
Other revenues	122,703	20,351	
TOTAL REVENUES	3,086,999	840,492	331,554
EXPENDITURES			
Regular programs	1,106,836	55,935	
Special education	101,687	84,092	
Workforce education programs	29,250		
Compensatory education programs		194,627	
Other instructional programs	206,005		
Student support services	79,499	67,394	
Instructional staff support services	209,698	161,823	29,198
General administration support services	183,652	29,385	
School administration support services	145,378		
Central services support services	153,482		
Operation and maintenance of plant services	304,019		93,000
Student transportation services	207,556	3,852	
Other support services	3,495		
Food services operations		222,884	
Non-programmed costs		29,287	
Activity expenditures	63,877		
Debt Service:			
Principal retirement			20,000
Interest and fiscal charges			26,045
TOTAL EXPENDITURES	2,794,434	849,279	168,243
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	292,565	(8,787)	163,311
OTHER FINANCING SOURCES (USES)			
Refund to grantor		(1,439)	
Proceeds from refunding bond issue			925,000
Payment to refunding bond escrow agent			(889,760)
Net bond issuance costs			(33,267)
TOTAL OTHER FINANCING SOURCES (USES)		(1,439)	1,973
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	292,565	(10,226)	165,284
FUND BALANCES - JULY 1	875,587	47,623	1,128
FUND BALANCES - JUNE 30	<u>\$ 1,168,152</u>	<u>\$ 37,397</u>	<u>\$ 166,412</u>

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 868,072	\$ 919,628	\$ 51,556			
State assistance	1,872,052	1,972,707	100,655	\$ 1,600	\$ 1,646	\$ 46
Federal assistance				1,161,010	799,474	(361,536)
Activity revenues		66,616	66,616			
Meal sales				18,700	17,640	(1,060)
Investment income	10,000	5,345	(4,655)	200	1,381	1,181
Other revenues	3,500	122,703	119,203		20,351	20,351
TOTAL REVENUES	2,753,624	3,086,999	333,375	1,181,510	840,492	(341,018)
EXPENDITURES						
Regular programs	1,186,303	1,106,836	79,467	68,442	55,935	12,507
Special education	175,745	101,687	74,058	91,360	84,092	7,268
Workforce education programs	25,550	29,250	(3,700)			
Compensatory education programs				328,184	194,627	133,557
Other instructional programs	167,514	206,005	(38,491)			
Student support services	94,325	79,499	14,826	78,410	67,394	11,016
Instructional staff support services	268,151	209,698	58,453	218,532	161,823	56,709
General administration support services	198,453	183,652	14,801	10,000	29,385	(19,385)
School administration support services	147,454	145,378	2,076			
Central services support services	150,588	153,482	(2,894)			
Operation and maintenance of plant services	307,583	304,019	3,564	103,000		103,000
Student transportation services	229,366	207,556	21,810	42,385	3,852	38,533
Other support services	2,500	3,495	(995)			
Food services operations					222,884	(222,884)
Community services operations				2,000		2,000
Facilities acquisition and construction services				8,324		8,324
Non-programmed costs				29,088	29,287	(199)
Activity expenditures		63,877	(63,877)			
TOTAL EXPENDITURES	2,953,532	2,794,434	159,098	979,725	849,279	130,446

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (199,908)	\$ 292,565	\$ 492,473	\$ 201,785	\$ (8,787)	\$ (210,572)
OTHER FINANCING SOURCES (USES)						
Transfers in	1,468,636		(1,468,636)			
Transfers out	(1,259,559)		1,259,559			
Refund to grantor					(1,439)	(1,439)
TOTAL OTHER FINANCING SOURCES (USES)	209,077		(209,077)		(1,439)	(1,439)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	9,169	292,565	283,396	201,785	(10,226)	(212,011)
FUND BALANCES - JULY 1	913,614	875,587	(38,027)	47,623	47,623	
FUND BALANCES - JUNE 30	<u>\$ 922,783</u>	<u>\$ 1,168,152</u>	<u>\$ 245,369</u>	<u>\$ 249,408</u>	<u>\$ 37,397</u>	<u>\$ (212,011)</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, 2012

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.

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.

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
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 2011 calendar year taxes collected by June 30, 2012 and 36 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected to accrue property 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.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	1,172,957	1,277,624
Total Deposits	\$ 1,422,957	\$ 1,527,624

The above total deposits do not include cash of \$42,376 which was held in the Ouachita County Treasury. 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 \$200,911 at June 30, 2012 was comprised of the following:

Description	Governmental Fund Major Speical Revenue
Federal assistance	\$ 195,559
Other	5,352
Totals	\$ 200,911

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2012:

A. 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, 2012: \$3,140

2. Future minimum rental payments for the succeeding year:

Year Ended June 30,	Amount
2013	\$ 3,140

Rental payments for the operating leases described above were approximately \$6,280 for the year ended June 30, 2012.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4: COMMITMENTS (Continued)

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, 2012	Maturities To June 30, 2012
11/1/11	2/1/36	1.25 - 3.6%	\$ 925,000	\$ 905,000	\$ 20,000

Changes in Long-term Debt

	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012
Bonds payable	\$ 870,000	\$ 925,000	\$ 890,000 *	\$ 905,000

*Includes \$870,000 early retirement of debt - See Note 6.

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 25,000	\$ 27,975	\$ 52,975
2014	30,000	27,662	57,662
2015	30,000	27,288	57,288
2016	30,000	26,912	56,912
2017	30,000	26,163	56,163
2018-2022	170,000	118,288	288,288
2023-2027	175,000	91,725	266,725
2028-2032	210,000	59,700	269,700
2033-2036	205,000	18,720	223,720
Totals	\$ 905,000	\$ 424,433	\$ 1,329,433

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$295,255 at June 30, 2012 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 12,401	\$ 4,946	\$ 17,347
Payroll withholdings and matching	277,908		277,908
Totals	\$ 290,309	\$ 4,946	\$ 295,255

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

6: DEBT REFUNDINGS

On November 1, 2011, the District issued \$925,000 in refunding bonds with interest rates of 1.25 to 3.6 percent to advance refund \$870,000 of outstanding bonds dated November 1, 2006 with interest rates of 3.8 to 4.6 percent. Bond proceeds of \$889,760, after payment of net bond issuance costs of \$33,267, were remitted to an escrow agent to provide for all future debt service payments on the 2006 bonds. The escrow agent used the bond proceeds to purchase U. S. Government securities that were placed in an irrevocable trust. The 2006 bonds were called on February 1, 2012. The remaining bond proceeds of \$1,973 were utilized for subsequent debt payments. The debt refunding will result in a savings of \$75,439 over a period of 25 fiscal years. The 2011 bond issue did not extend the debt requirements beyond the original maturity date of the fiscal year 2036 for the District.

The 2011 refunding bond issue required the annual debt savings to be used solely for new construction, capital repairs, renovation of academic facilities, or the purchase of academic equipment. The debt savings through fiscal year 2036 vary from \$550 to \$11,731 per year.

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, 2012, 2011, and 2010 were \$289,691, \$360,793, and \$330,413, 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, 2012, 2011, and 2010 were \$1,230, \$1,671, and \$1,863, respectively, equal to the required contributions for each year.

8: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$925,000 issued on November 1, 2011. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$1,329,433, payable through February 1, 2036. Principal and interest paid for the current year and total property taxes pledged for debt service were \$45,844 and \$298,550, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 15.36 percent.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 \$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.

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 \$49,463 for the year ended June 30, 2012.

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	\$ 257			\$ 257
Educational programs - national school lunch state categorical funding	110,446			110,446
Professional development	21,162			21,162
Capital projects			\$ 11,731	11,731
Child nutrition programs		\$ 24,774		24,774
Debt service			1,973	1,973
Medical services		12,024		12,024
Special education programs	25,304	3		25,307
Title I programs		100		100
Other purposes	37,349	496		37,845
Total Restricted	194,518	37,397	13,704	245,619
Assigned to:				
Capital projects			152,708	152,708
Student activities	13,594			13,594
Total Assigned	13,594		152,708	166,302
Unassigned	960,040			960,040
Totals	\$ 1,168,152	\$ 37,397	\$ 166,412	\$ 1,371,961

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012
 (Unaudited)

Schedule 1

	Balance June 30, 2012
<i>Nondepreciable capital assets:</i>	
Land	\$ 83,986
<i>Depreciable capital assets:</i>	
Buildings	1,772,410
Improvements/infrastructure	271,297
Equipment	1,613,628
Total depreciable capital assets	3,657,335
Less accumulated depreciation for:	
Buildings	1,746,250
Improvements/infrastructure	108,464
Equipment	1,129,000
Total accumulated depreciation	2,983,714
Total depreciable capital assets, net	673,621
Capital assets, net	\$ 757,607

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012

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	\$ 73,328
National School Lunch Program - Cash Assistance	10.555	5206	142,985
Total State Department of Education			216,313
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	5206000	10,677
TOTAL CHILD NUTRITION CLUSTER			226,990
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	126,361
ARRA - Special Education - Grants to States, Recovery Act	84.391	5206	201
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			126,562
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	5206	390,211
Improving Teacher Quality State Grants	84.367	5206	56,607
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	5206	122,198
ARRA - Education Jobs Fund, Recovery Act	84.410	5206	2,399
Total U. S. Department of Education			571,415
TOTAL OTHER PROGRAMS			571,415
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 924,967

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, 2012

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, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2012, the District received Medicaid funding of \$12,741 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, 2012

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2012-1. 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 general ledger 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: Deficiencies in the internal control activities will continually be addressed by the District to ensure proper initiation, authorization, record keeping, and processing of the District's financial data on a day to day basis. The District has experienced a change in the accounting personnel over the past three years that has an effect on the consistency in proper record keeping. The District has secured the services of Mrs. Judy Clampit in helping the District with its accounting procedures and activities.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT -
CFDA NUMBER 84.394
PASS-THROUGH NUMBER 5206
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

2012-2. Procurement and Suspension and Debarment

Criteria or specific requirement: In accordance with 34 CFR 80.35 of the Uniform Administrative Requirements for Grants and Cooperative Agreements to States and Local Governments and 34 CFR part 85, Government-wide Debarment and Suspension (Nonprocurement), the District must not make or permit any applicable transaction to any vendor which is suspended or debarred or otherwise excluded from participation in federal assistance programs. The District is required to verify the vendor is not suspended or debarred or otherwise excluded. This verification can be accomplished by (a) checking the *Excluded Parties List System (EPLS)*, (b) collecting a certification from the vendor, or (c) adding a clause or condition to the applicable transaction with the vendor. Additionally, the Arkansas Department of Education (ADE) issued a memorandum to all school districts on December 17, 2009, stipulating verification procedures to be followed regarding suspension and debarment when federal funds are utilized for applicable transactions.

Condition: The District failed to establish internal controls, including retention of verification documentation, to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. The goods and services had been properly received or rendered, and District personnel indicated the *EPLS* web site was used to verify that applicable vendors had not been suspended or debarred by the Federal Government; however, supporting documentation was not maintained of the *EPLS* web site verification as required by ADE Commissioner's Memo FIN-10-047. No vendors with which the District conducted business were identified during the audit period as suspended or debarred parties.

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

Effect: Without adequate internal controls, including retention of verification documentation, payments could be made to suspended or debarred vendors with federal funds, which could require repayment to the grantor.

Cause: Lack of internal controls, verification documentation, and adequate management oversight.

Recommendation: Establish an internal control system, including retention of verification documentation, to ensure applicable transactions are not conducted with suspended or debarred parties.

Views of responsible officials and planned corrective actions: The District will ensure vendors are not suspended or debarred in the future by researching and filing a *EPLS* verification.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) EDUCATION STATE GRANTS, RECOVERY ACT

2011 - Finding 2011-2: ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act - CFDA Number 84.394

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.

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.

Current Status: Corrective action was taken.

2011 - Finding 2011-3: ARRA - State Fiscal Stabilization Fund (SFSF) Education State Grants, Recovery Act - CFDA number 84.394

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.

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.

Current Status: Corrective action was taken.

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

2011 - Finding 2011-4: Title I Grants to Local Educational Agencies - CFDA Number 84.010

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 prior audit.

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

Current Status: Corrective action was taken.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT

2011 - Finding 2011-5: ARRA - Title I Grants to Local Educational Agencies, Recovery Act - CFDA Number 84.389

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.

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

Current Status: Corrective action was taken.

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, 2012
 (Unaudited)

General Fund	Year Ended June 30,				
	2012	2011	2010	2009	2008
Total Assets	\$ 1,458,461	\$ 1,052,152	\$ 881,672	\$ 1,236,892	\$ 1,530,775
Total Liabilities	290,309	176,565	66,535	28,832	89,760
Total Fund Balances	1,168,152	875,587	815,137	1,208,060	1,441,015
Total Revenues	3,086,999	3,067,826	3,313,025	3,734,838	3,822,111
Total Expenditures	2,794,434	3,004,510	3,633,452	3,639,861	3,652,074
Total Other Financing Sources (Uses)		(2,866)	(72,496)	(327,932)	(137,559)
Special Revenue Fund					
Total Assets	200,911	52,859	129,782	120,006	131,828
Total Liabilities	163,514	5,236	50,432	4,011	6,760
Total Fund Balances	37,397	47,623	79,350	115,995	125,068
Total Revenues	840,492	1,020,351	1,109,316	890,202	964,230
Total Expenditures	849,279	1,032,717	1,144,343	967,711	1,034,283
Total Other Financing Sources (Uses)	(1,439)	2,853	(1,618)	68,436	88,289
Other Aggregate Funds					
Total Assets	166,412	185,981	20,000	1,929	20,819
Total Liabilities		184,853	20,000		109
Total Fund Balances	166,412	1,128		1,929	20,710
Total Revenues	331,554	833,774	143,967		20,711
Total Expenditures	168,243	854,860	205,392	278,277	224,328
Total Other Financing Sources (Uses)	1,973		59,496	259,496	49,270