

# **Lee County School District No. 1**

**Lee County, Arkansas**

## **Regulatory Basis Financial Statements and Other Reports**

**June 30, 2017**

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LEGISLATIVE JOINT AUDITING COMMITTEE



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## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

Lee County School District of Lee County

Dear Superintendent:

Form SF-SAC (Data Collection Form) and the Single Audit reporting package for your District are required to be submitted online using the Federal Audit Clearinghouse (FAC) Internet Data Entry System. Below you will find the instructions to be utilized by your District's certifying official (the person designated by your District during audit fieldwork) for completing the District's responsibilities in this process.

The *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR 200) requires your District to prepare a **corrective action plan** that addresses each audit finding reflected in your audit report in Schedule 3, Schedule of Findings and Questioned Costs, Sections II and III. The corrective action plan should provide the following **for each finding**:

- the reference number the auditor has assigned to each finding on Schedule 3;
- the name(s) of the contact person(s) responsible for corrective action;
- the corrective action planned; and
- the anticipated completion date.

If you do not have any audit findings listed on Schedule 3, you **do not** need to prepare a corrective action plan. If you do not agree with the audit findings or believe corrective action is not required, then the corrective action plan should include an explanation and specific reasons. You should submit your corrective action plan via email to Arkansas Legislative Audit (ALA) at the following address: [dcf@arklegaudit.gov](mailto:dcf@arklegaudit.gov). The plan should be in an attachment to your email and prepared in Microsoft Word or Excel. The plan can be a PDF document, however all PDFs must be text searchable, unencrypted and unlocked. If you fail to meet these requirements, your District's reporting package will not be accepted by the FAC. Instructions on how to create an acceptable PDF are in Appendix III, beginning on page 76, of the *Internet Data Entry System (IDES) Instructions*, which can be accessed on the FAC website or by utilizing the following internet address:

<https://harvester.census.gov/facides/Files/IDES%20Instructions%20UG%202016.pdf>.

The corrective action plan should be submitted within 3 days of receipt of this letter. **Please include the words "Corrective Action Plan" in the heading of the document and in the subject line of your email.** Once we receive your corrective action plan, we will attach it and a PDF version of your audit to the online Data Collection Form, **which we will prepare**. After we attach your audit report and corrective action plan to the online data collection form, you will receive an email from the FAC stating that the certification process is ready for your action. The District's certifying official will need to log into the submission **using his/her email address and the password that he/she established**. You do not need to log into the submission until you receive an email requesting that you do so. After logging in, to review and certify the form:

- Click the **Continue/Certify** button on the left-hand side of the **Account Home** page.
- Click the **Select** link (last column) associated with fiscal year 2017 and the name of your District.
- Select the drop-down menu for **Audit Form** on the left-hand side of the **Report Home** page.
- Click on **View/Print Form SF-SAC**. A window will appear which will allow you to open or save the file. The Data Collection Form will appear in Excel format by default.

- Review the applicable tabs of the document. **IMPORTANT:** If you discover any errors or necessary changes during your review of the form, please contact your audit supervisor and he will make the necessary changes for your District. Return to the **Report Home** page by clicking on the "X" in the upper right-hand corner of the Excel document after you have completed your review.
- Click the **STEP 3a. Auditee Certification** button on the **Report Home** page.
- Read the two certification statements and select the appropriate statement.
- After selecting the applicable statement, you will see the remaining certification criteria. Please carefully read the criteria, and check the checkbox next to each item to signify that you agree.
- The certifying official should then enter his/her title in the **Title of Certifying Official** field.
- Click the **Agree to Auditee Certification Statement** button to complete the certification.

After you complete the above process, you will then be returned to the Report Home page. Please do not click the **STEP 4 Submit to FAC for Processing** button. ALA will complete this step and submit the form on behalf of your District. **IMPORTANT:** Log out by clicking the **[X Sign Out]** button in the top right-hand corner of the page (in the American flag picture).

If you would like further information regarding the certification process, instructions can be accessed at the internet address reflected in the first page of this letter. The certification process is explained in section 6.0 (beginning on page 51).

You are no longer required to send a copy of your audit report and corrective action plan to pass-through entities. As per 2 CFR § 200.512, all federal agencies, pass-through entities and others interested in a reporting package and data collection form must obtain it by accessing the FAC.

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
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# Arkansas

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House Chair  
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House Vice Chair

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Lee County School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

#### Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Lee County School District No. 1 (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

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

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

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

### ***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2017, or the changes in financial position for the year then ended.

### ***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2017, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

### ***Other Matters***

#### ***Supplementary and Other Information***

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

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

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2018 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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
February 22, 2018  
EDSD21317

# Arkansas

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



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## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

#### INDEPENDENT AUDITOR'S REPORT

Lee County School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund and the aggregate remaining fund information of the Lee County School District No. 1 (the "District"), as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 22, 2018. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2017, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

#### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be a material weakness.

#### Compliance and Other Matters

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



We noted certain matters that we reported to management of the District in a separate letter February 22, 2018.

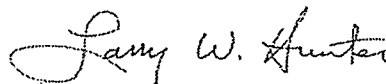
#### **District's Response to Findings**

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. The District's response was not subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

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

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "Larry W. Hunter". The signature is written in a cursive style with a large, stylized "L" and "H".

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 22, 2018

# Arkansas

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## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

#### INDEPENDENT AUDITOR'S REPORT

Lee County School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

#### Report on Compliance for Each Major Federal Program

We have audited the Lee County School District No. 1 (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect of each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### *Management's Responsibility*

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

#### *Auditor's Responsibility*

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

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

#### *Opinion on Each Major Federal Program*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

#### Report on Internal Control Over Compliance

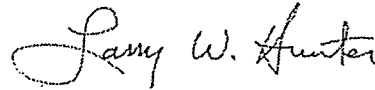
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

ARKANSAS LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 22, 2018

# Arkansas

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## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### MANAGEMENT LETTER

Lee County School District No. 1 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. Our examination of cash revealed the District's general ledger cash balance at June 30, 2017 was understated by \$68,442. Additionally, the District's bank reconciliation balance at June 30, 2017 was \$62,226 less than the general ledger balance. Significant corrections to the cash balance and bank reconciliation were made to correct the following errors:

- Reversal of journal entry totaling \$21,101 that was recorded to clear outstanding checks. Entry increased cash in error.
- Checks totaling \$5,875 were manually voided by the District, but not voided in the Arkansas Public School Computer Network (APSCN). They were included as outstanding on the District bank reconciliation in error.
- Checks totaling \$124,793 that had previously cleared the bank or were voided in APSCN by journal entry were included as outstanding on the District bank reconciliation in error.
- Prior year errors not corrected by the District totaled \$26,165 and \$18,344 in the operating and special revenue funds, respectively.

A similar finding was reported in the previous two audits.

2. Our examination of payroll expenditures revealed the following:

- \$698, \$568, \$147, \$141, \$114, and \$114 in underpayments to six employees.
- \$87 and \$2,373 in overpayments to an employee and a former employee, respectively.

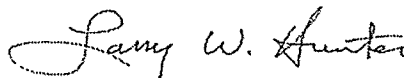
Of these amounts, one underpayment of \$114 was directly related to the Title I program.

A similar finding was reported in the previous two audits.

3. The Board approved and directed District personnel to issue "high priority" bonus payments to two individuals (one current and one former employee) although the Arkansas Department of Education determined they were not eligible for the bonus. The former employee was paid through accounts payable as a vendor and received \$4,292. The current employee was paid through payroll and received a gross amount of \$2,510. These payments were processed on October 5, 2017.
4. Funds totaling \$750 were improperly disbursed for the civic organization dues of the Superintendent and one other District employee, in conflict with Ark. Const. art. 14 § 2 and the "public purpose" doctrine. Neither employees' contracts specified that expenses for civic dues would be paid, nor could we find evidence of board approval.
5. The District failed to make accurate and timely federal tax deposits for the quarters ending June 30, 2014 through March 31, 2016, which resulted in an underpayment of taxes of \$47,828, penalties of \$90,928, and interest of \$8,707.

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.

ARKANSAS LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 22, 2018

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2017

Exhibit A

	Governmental Funds			
	Major			Fiduciary
	General	Special Revenue	Other Aggregate	Fund Types
<b>ASSETS</b>				
Cash	\$ 1,397,965		\$ 1,283,142	\$ 19,528
Investments	27,639			
Accounts receivable	9,752	\$ 616,543		
Due from other funds	473,489	2,500		
<b>TOTAL ASSETS</b>	<u>\$ 1,908,845</u>	<u>\$ 619,043</u>	<u>\$ 1,283,142</u>	<u>\$ 19,528</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 195,795	\$ 7,344		
Due student groups				\$ 19,528
Due to other funds	2,500	473,489		
<b>Total Liabilities</b>	<u>198,295</u>	<u>480,833</u>		<u>19,528</u>
<b>Fund Balances:</b>				
Restricted	102,111	138,210	\$ 430,092	
Assigned	15,718		853,050	
Unassigned	1,592,721			
<b>Total Fund Balances</b>	<u>1,710,550</u>	<u>138,210</u>	<u>1,283,142</u>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,908,845</u>	<u>\$ 619,043</u>	<u>\$ 1,283,142</u>	<u>\$ 19,528</u>

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



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LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 3,907,836		
State assistance	3,694,200	\$ 3,590	
Federal assistance	25,014	2,506,921	
Activity revenues	60,818		
Meal sales		33,207	
Investment income	3,265		
Other revenues	118,965		
TOTAL REVENUES	7,810,098	2,543,718	
EXPENDITURES			
Regular programs	3,218,186		
Special education	190,971	264,219	
Career education programs	107,015		
Compensatory education programs		392,152	
Other instructional programs	322,235		
Student support services	213,013	221,262	
Instructional staff support services	455,975	934,613	
General administration support services	253,908		
School administration support services	346,029		
Central services support services	420,268	144,151	
Operation and maintenance of plant services	1,291,586	6,751	\$ 584
Student transportation services	520,951		
Other support services	18,276		
Food services operations		617,468	
Non-programmed costs		32,591	
Activity expenditures	65,263		
Debt Service:			
Interest and fiscal charges			31,793
TOTAL EXPENDITURES	7,423,676	2,613,207	32,377
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	386,422	(69,489)	(32,377)
OTHER FINANCING SOURCES (USES)			
Transfers in			79,902
Transfers out	(79,902)		
TOTAL OTHER FINANCING SOURCES (USES)	(79,902)		79,902
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	306,520	(69,489)	47,525
FUND BALANCES - JULY 1	1,404,030	207,699	1,235,617
FUND BALANCES - JUNE 30	\$ 1,710,550	\$ 138,210	\$ 1,283,142

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

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE 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, 2017

Exhibit C

	General			Variance Favorable (Unfavorable)	Special Revenue			Variance Favorable (Unfavorable)
	Budget	Actual			Budget	Actual		
<b>REVENUES</b>								
Property taxes (including property tax relief trust distribution)	\$ 3,203,000	\$ 3,907,836	\$	704,836				
State assistance	3,817,244	3,694,200		(123,044)	\$ 3,500	\$ 3,590	\$	90
Federal assistance		25,014		25,014	2,744,456	2,506,921		(237,535)
Activity revenues		60,818		60,818				
Meal sales					43,200	33,207		(9,993)
Investment income	2,070	3,265		1,195				
Other revenues	78,000	118,965		40,965	1,500			(1,500)
<b>TOTAL REVENUES</b>	<b>7,100,314</b>	<b>7,810,098</b>		<b>709,784</b>	<b>2,792,656</b>	<b>2,543,718</b>		<b>(248,938)</b>
<b>EXPENDITURES</b>								
Regular programs	3,261,824	3,218,186		43,638				
Special education	211,642	190,971		20,671	177,700	264,219		(86,519)
Career education programs	100,221	107,015		(6,794)				
Compensatory education programs	7,000			7,000	464,354	392,152		72,202
Other instructional programs	322,468	322,235		233				
Student support services	202,835	213,013		(10,178)	255,789	221,262		34,527
Instructional staff support services	519,509	455,975		63,534	1,042,643	934,613		108,030
General administration support services	269,849	253,908		15,941				
School administration support services	349,715	346,029		3,686				
Central services support services	266,331	420,268		(153,937)	151,947	144,151		7,796
Operation and maintenance of plant services	1,026,772	1,291,586		(264,814)		6,751		(6,751)
Student transportation services	589,297	520,951		68,346				
Other support services	8,429	18,276		(9,847)				
Food services operations					624,919	617,468		7,451
Community services operations					2,500			2,500
Non-programmed costs					39,437	32,591		6,846
Activity expenditures								
<b>TOTAL EXPENDITURES</b>	<b>7,135,892</b>	<b>7,423,676</b>		<b>(65,263)</b>	<b>2,759,289</b>	<b>2,613,207</b>		<b>146,082</b>

## LEE COUNTY SCHOOL DISTRICT NO. 1

Exhibit C

LEE 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, 2017

	General		Variance Favorable (Unfavorable)	Special Revenue		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (35,578)	\$ 386,422	\$ 422,000	\$ 33,367	\$ (69,489)	\$ (102,856)
OTHER FINANCING SOURCES (USES)						
Transfers in	8,545,438		(8,545,438)			
Transfers out	(8,619,250)	(79,902)	8,539,348			
TOTAL OTHER FINANCING SOURCES (USES)	(73,812)	(79,902)	(6,090)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(109,390)	306,520	415,910	33,367	(69,489)	(102,856)
FUND BALANCES - JULY 1	1,334,305	1,404,030	69,725	200,649	207,699	7,050
FUND BALANCES - JUNE 30	\$ 1,224,915	\$ 1,710,550	\$ 485,635	\$ 234,016	\$ 138,210	\$ (95,806)

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

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LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Education, a seven member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Lee County 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, inclusion of the net pension liability in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.



LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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 financial statements.

D. Revenue Recognition Policies

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

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at acquisition value when received. The District maintains a threshold level of \$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	20-50
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 2016 calendar year taxes collected by June 30, 2017 and 16 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2017 equaled or exceeded the 16 percent calculation.

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.

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

G. Interfund Receivables and Payables

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

H. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

I. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis. Additionally, the District routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

J. Stabilization Arrangements

The District's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

K. Minimum Fund Balance Policies

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

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

**L. Fund Balance Classification Policies and Procedures**

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to be used for 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 expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balances when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

**M. Encumbrances**

The District does not utilize encumbrance accounting.

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 277,639	\$ 277,680
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	<u>1,895,179</u>	<u>2,606,287</u>
Total Deposits	<u>\$ 2,172,818</u>	<u>\$ 2,883,967</u>

The above total deposits do not include cash of \$555,456 which was held in the County Treasury. The above total deposits include certificates of deposit of \$27,639 reported as investments and classified as nonparticipating contracts.

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**3: ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2017 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 9,272	
Federal assistance		\$ 615,564
Other	480	979
Totals	<u>\$ 9,752</u>	<u>\$ 616,543</u>

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2017:

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

General description of lease and leasing arrangements:

On August 16, 2015 the District executed a lease for 18 copiers. The agreement stipulated monthly payments of \$2,005 for 60 months.

1. Future minimum rental payments (aggregate) at June 30, 2017: \$74,185
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2018	\$ 24,060
2019	24,060
2020	24,060
2021	2,005
Total	<u>\$ 74,185</u>

Rental payments for the operating lease described above were approximately \$24,060 for the year ended June 30, 2017.

**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, 2017	Maturities To June 30, 2017
3/1/16	2/1/43	1.2 - 3.5%	<u>\$ 1,305,000</u>	<u>\$ 1,305,000</u>	<u>\$ 0</u>

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**4: COMMITMENTS (Continued)**

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

Changes in Long-term Debt

	Balance July 1, 2016	Issued	Retired	Balance June 30, 2017
Bonds payable	\$ 1,305,000	\$ 0	\$ 0	\$ 1,305,000

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2018	\$ 5,000	\$ 34,225	\$ 39,225
2019	40,000	34,165	74,165
2020	40,000	33,685	73,685
2021	45,000	33,205	78,205
2022	45,000	32,665	77,665
2023-2027	220,000	152,225	372,225
2028-2032	240,000	128,090	368,090
2033-2037	275,000	92,925	367,925
2038-2042	320,000	47,150	367,150
2043	75,000	2,625	77,625
Totals	\$ 1,305,000	\$ 590,960	\$ 1,895,960

Security for Debt Payments

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

**5: ACCOUNTS PAYABLE**

Accounts payable at June 30, 2017 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	\$ 195,795	\$ 7,344

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**6: INTERFUND TRANSFERS**

The District transferred \$26,852 and \$53,050 from the general fund to other aggregate funds for debt related payments and capital projects, respectively.

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

**Funding Policy**

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries. The District's contributions to ATRS for the year ended June 30, 2017 were \$730,084, equal to the required contributions.

**Net Pension Liability**

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2016 (actuarial valuation date and measurement date) was \$7,709,116.

**Arkansas Public Employees Retirement System**

**Plan Description**

The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain non-teaching school employees. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201, by calling 1-800-682-7377, or by visiting the APERS website at [www.apers.org](http://www.apers.org).

**Funding Policy**

APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the year ended June 30, 2017 were \$1,685, equal to the required contributions.



LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**7: RETIREMENT PLANS (Continued)**

Arkansas Public Employees Retirement System (Continued)

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2016 (actuarial valuation date and measurement date) was \$14,492.

**8: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$1,305,000 issued on March 1, 2016. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$1,895,960, payable through February 1, 2043. Principal and interest paid for the current year and total property taxes pledged for debt service were \$31,373 and \$179,512, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 17.48 percent.

**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 board liability and student accident coverage.

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.

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

The District participates in the Arkansas Public School Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member districts, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

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

**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 \$163,047 for the year ended June 30, 2017.

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Educational programs - national school lunch state categorical funding	\$ 60,596		\$ 430,092
Capital projects			
Child nutrition programs		\$ 113,868	
Medical services		16,842	
Special education programs	6,839		
Other purposes	34,676	7,500	
Total Restricted	<u>102,111</u>	<u>138,210</u>	<u>430,092</u>
Assigned to:			
Capital projects			853,050
Student activities	15,718		
Total Assigned	<u>15,718</u>		<u>853,050</u>
Unassigned	<u>1,592,721</u>		
Totals	<u>\$1,710,550</u>	<u>\$ 138,210</u>	<u>\$1,283,142</u>

**12: FISCAL DISTRESS STATUS**

On May 8, 2014, the State Board of Education classified the District in fiscal distress. The District, in conjunction with the Arkansas Department of Education, implemented cost reduction measures. Effective September 14, 2017, the District was removed from fiscal distress status by the State Board of Education.

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Unaudited)

Schedule 1

	Balance June 30, 2017
<i>Nondepreciable capital assets:</i>	
Land	\$ 427,358
<i>Depreciable capital assets:</i>	
Buildings	8,681,176
Improvements/infrastructure	99,016
Equipment	4,313,418
Total depreciable capital assets	<u>13,093,610</u>
Less accumulated depreciation for:	
Buildings	5,659,165
Improvements/infrastructure	75,753
Equipment	3,907,072
Total accumulated depreciation	<u>9,641,990</u>
Total depreciable capital assets, net	<u>3,451,620</u>
Capital assets, net	<u><u>\$ 3,878,978</u></u>

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>				
<u>U. S. Department of Agriculture</u>				
Direct Program:				
National School Lunch Program (Note 3)	10.555			\$ 5,882
Passed Through Arkansas Department of Education:				
School Breakfast Program	10.553	3904		157,702
National School Lunch Program	10.555	3904		369,618
Total Arkansas Department of Education				527,320
Passed Through Arkansas Department of Human Services:				
National School Lunch Program (Note 4)	10.555	3904000		18,128
<b>TOTAL CHILD NUTRITION CLUSTER</b>				<b>551,330</b>
<b>OTHER PROGRAMS</b>				
<u>U. S. Department of Agriculture</u>				
Passed Through Arkansas Department of Education:				
Fresh Fruit and Vegetable Program	10.582	3904		11,651
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Title I Grants to Local Educational Agencies	84.010	3904		1,324,694
Special Education - Grants to States	84.027	3904		353,291
Rural Education	84.358	3904		16,009
Supporting Effective Instruction State Grant	84.367	3904		189,066
Total Arkansas Department of Education				1,883,060
Passed Through Arkansas Department of Career Education:				
Career and Technical Education - Basic Grants to States	84.048	3904		2,197
Total U. S. Department of Education				1,885,257
<b>TOTAL OTHER PROGRAMS</b>				<b>1,896,908</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 0</b>	<b>\$ 2,448,238</b>

The accompanying notes are an integral part of this schedule.

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 Lee County School District No. 1 (District) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.
- Note 5: The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
- Note 6: During the year ended June 30, 2017, the District received Medicaid funding of \$47,744 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 3

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

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

Internal control over financial reporting:

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

**FEDERAL AWARDS**

Internal control over major federal programs:

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

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

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

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.367	Supporting Effective Instruction State Grant

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2017-001. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five internal 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 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 records were not adequately segregated among employees. Specifically, certain key weaknesses included the following: significant journal entries were prepared by the same individual without independent approval, the receipting, depositing, posting procedures were performed by the same employee, without compensating controls. Additionally, payroll checks were prepared by the same employee responsible for changes in 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 objectives 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 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.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

# **Lee County School District No. "1"**

175 Walnut Street, Marianna, AR 72360

PHONE 870-295-7100

FAX 870-295-7125

Schedule 4

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017**

### **FINANCIAL STATEMENT FINDINGS**

#### **2016- FINDING 2016-001: INTERNAL CONTROL**

**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 records were not adequately segregated among employees. Specifically, certain key weakness included the following: receipting, depositing, and posting procedures were performed by the same employee, without compensating controls. Additionally, significant journal entries were prepared by the same individuals without independent approval.

**CURRENT STATUS:** The District has tried to implement compensating controls to ensure adequate segregation of duties given the limited number of personnel in the finance department. See Finding 2017-001 at Schedule 3.

#### **2016- FINDING 2016-002: MISSTATEMENTS NOT DETECTED BY INTERNAL CONTROL SYSTEM**

**CONDITION:** The District's internal control system did not prevent or detect material errors in the financial statement accounting records, which are utilized in the preparation of the district financial statements. Significant errors in the general fund included an understatement of accounts payable and accrued liabilities of \$269,177 and an overstatement of revenues (property taxes) of 85,273. The financial statements were subsequently corrected by adjusting entries during audit field work.

**CURRENT STATUS:** The District financial personnel, the financial consultant, and superintendent have diligently exercised due care to ensure all applicable general ledger accounts are properly stated.

#### **2015- FINDING 2015-001: INTERNAL CONTROL**

**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 records were not adequately segregated among employees. Specifically, certain key weakness included the following: receipting, depositing, and posting procedures were performed by the same employee, without compensating controls. Additionally, payroll and non-payroll checks were prepared by the same employee responsible for changes in payroll amounts and preparation of checks, without compensating controls.

**CURRENT STATUS:** The District has tried to implement compensating controls to ensure adequate segregation of duties given the limited number of personnel in the finance department. See Finding 2017-001 at Schedule 3.

## **Lee County School District No. "1"**

175 Walnut Street, Marianna, AR 72360

PHONE 870-295-7100

FAX 870-295-7125

Schedule 4

### **FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

U.S. DEPARTMENT OF EDUCATION

PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION

IMPROVING TEACHER QUALITY STATE GRANTS - CFDA NUMBER 84.367

#### **2016 - FINDING 2016-003: SPECIAL TESTS AND PROVISIONS**

CONDITION: The District did not contact applicable private school officials for possible participation in the program.

CURRENT STATUS: The finding has been corrected. In FY 2017 all applicable private schools were contacted.



LEE COUNTY SCHOOL DISTRICT NO. 1

LEE COUNTY, ARKANSAS

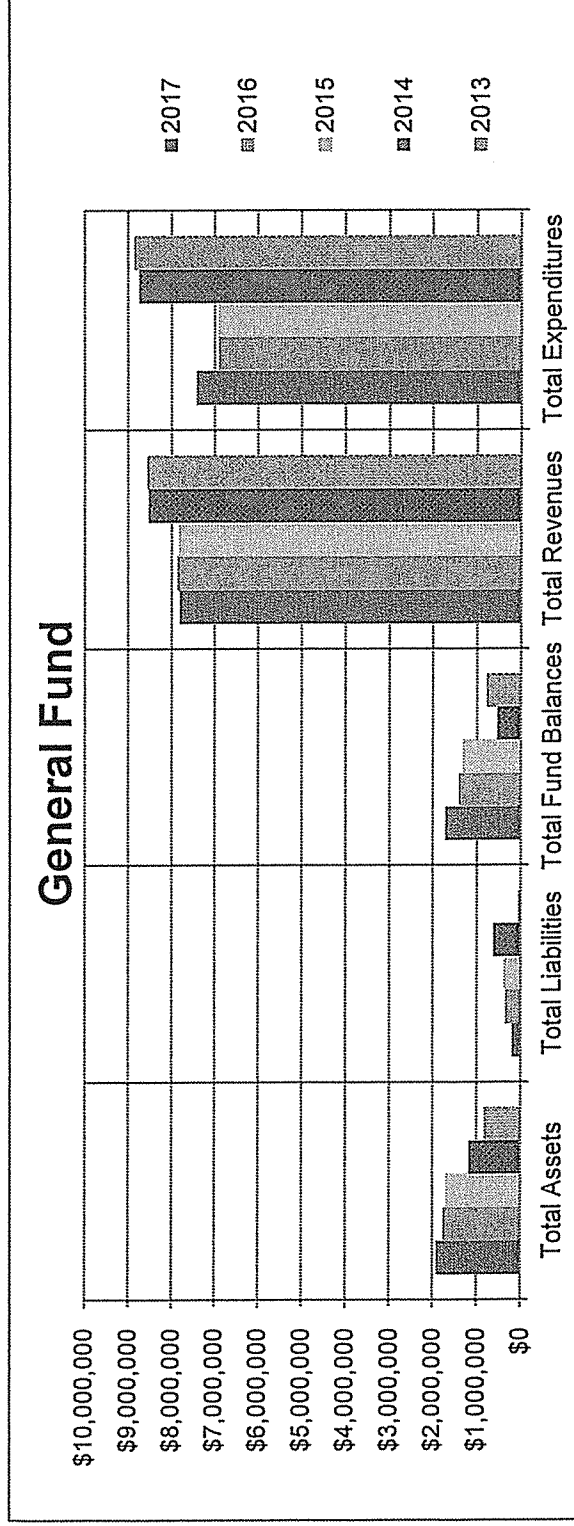
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS

FOR THE YEAR ENDED JUNE 30, 2017

(Unaudited)

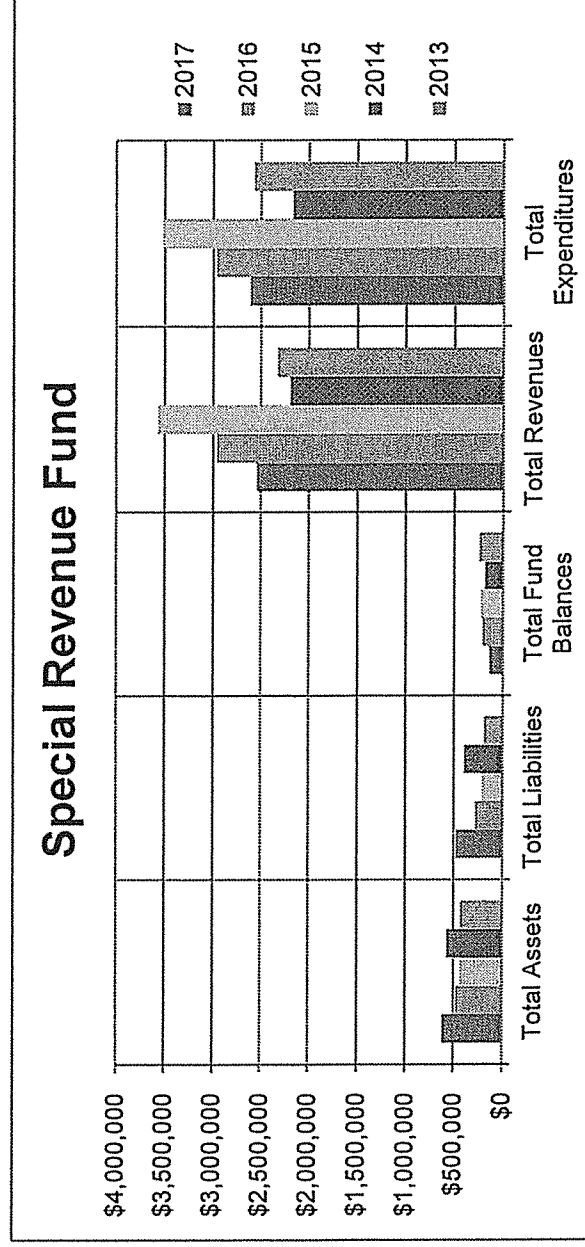
Schedule 5

General Fund	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 1,908,845	\$ 1,746,432	\$ 1,684,073	\$ 1,172,563	\$ 839,664
Total Liabilities	198,295	342,402	371,370	627,476	60,043
Total Fund Balances	1,710,550	1,404,030	1,312,703	545,087	779,621
Total Revenues	7,810,098	7,865,961	7,819,810	8,533,832	8,554,809
Total Expenditures	7,423,676	6,904,768	6,896,813	8,750,347	8,852,954
Total Other Financing Sources (Uses)	(79,902)	(869,866)	(155,381)	(18,019)	(64,245)



LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 619,043	\$ 482,097	\$ 430,555	\$ 574,098	\$ 423,946
Total Liabilities	480,833	274,398	212,402	390,989	186,479
Total Fund Balances	138,210	207,699	218,153	183,109	237,467
Total Revenues	2,543,718	2,953,876	3,559,748	2,193,921	2,325,280
Total Expenditures	2,613,207	2,964,330	3,524,704	2,173,059	2,568,177
Total Other Financing Sources (Uses)				(75,220)	(18,672)



LEE COUNTY SCHOOL DISTRICT NO. 1  
LEE COUNTY, ARKANSAS  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Unaudited)

	Year Ended June 30,				
	2017	2016	2015	2014	2013
<b>Other Aggregate Funds</b>					
Total Assets	\$ 1,283,142	\$ 1,235,617	\$ 639,566	\$ 1,179,532	
Total Liabilities			900		
Total Fund Balances	1,283,142	1,235,617	638,666	1,179,532	
Total Revenues				3,800	200
Total Expenditures	32,377	262,600	696,247	192,507	82,917
Total Other Financing Sources (Uses)	79,902	859,551	155,381	1,368,239	82,917

