

Hazen School District No. 2

Prairie County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2013

LEGISLATIVE JOINT AUDITING COMMITTEE



HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
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JUNE 30, 2013

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Sen. Bryan B. King
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Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Hazen School District No. 2 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 Hazen School District No. 2 (the "District"), as of and for the year ended June 30, 2013, 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 Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the reporting requirements of the State of Arkansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2013, 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, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
February 5, 2014
EDSD31913

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



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Hazen School District No. 2 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 Hazen School District No. 2 (the "District"), as of and for the year ended June 30, 2013, 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 5, 2014. 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, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002 to be material weaknesses.

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 dated February 5, 2014.

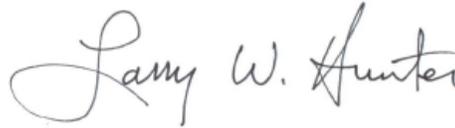
District's Response to Findings

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

Purpose of this Report

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 5, 2014

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Hazen School District No. 2 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Hazen School District No. 2 (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, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

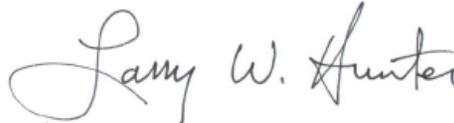
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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 5, 2014

Sen. Bryan B. King
Senate Chair
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LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Hazen School District No. 2 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.

There was no formally documented and approved Disaster Recovery or Business Continuity Plan. This situation could cause the entity to be without computer processing for an extended period of time in the event of a disaster or major interruption and could place undue financial and personnel burdens on the resources of the entity.

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 5, 2014

HAZEN SCHOOL DISTRICT NO. 2
 PRAIRIE COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2013

Exhibit A

	Governmental Funds		
	Major		Fiduciary Fund Types
	General	Special Revenue	
ASSETS			
Cash	\$ 216,656	\$ 11,809	\$ 49,748
Investments	1,344,673		72,458
Accounts receivable	9,875	47,506	
TOTAL ASSETS	\$ 1,571,204	\$ 59,315	\$ 122,206
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 43,975	\$ 159	\$ 2,375
Due student groups			45,873
Total Liabilities	43,975	159	48,248
Fund Balances:			
Restricted	128,201	59,156	73,958
Assigned	60,752		
Unassigned	1,338,276		
Total Fund Balances	1,527,229	59,156	73,958
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,571,204	\$ 59,315	\$ 122,206

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

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,893,772		
State assistance	3,205,908	\$ 2,588	
Federal assistance	8,622	741,379	
Activity revenues	98,768		
Meal sales		73,103	
Investment income	7,909		
Other revenues	85,049	11,592	
TOTAL REVENUES	5,300,028	828,662	
EXPENDITURES			
Regular programs	2,396,905	1,652	
Special education	283,817	148,006	
Career education programs	165,196	4,453	
Compensatory education programs	91,903	197,703	
Other instructional programs	118,508		
Student support services	353,124	11,044	
Instructional staff support services	329,889	103,729	
General administration support services	149,460		
School administration support services	278,097		
Central services support services	139,889		
Operation and maintenance of plant services	466,275		
Student transportation services	235,918		
Other support services	21,640		
Food services operations		388,762	
Community services operations	4,611		
Facilities acquisition and construction services	3,000		
Activity expenditures	103,983		
Debt Service:			
Principal retirement			\$ 66,176
Interest and fiscal charges			41,488
TOTAL EXPENDITURES	5,142,215	855,349	107,664
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	157,813	(26,687)	(107,664)
OTHER FINANCING SOURCES (USES)			
Transfers in			107,664
Transfers out	(107,664)		
TOTAL OTHER FINANCING SOURCES (USES)	(107,664)		107,664
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	50,149	(26,687)	
FUND BALANCES - JULY 1	1,477,080	85,843	
FUND BALANCES - JUNE 30	\$ 1,527,229	\$ 59,156	\$ 0

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

HAZEN SCHOOL DISTRICT NO. 2
 PRAIRIE 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, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,603,807	\$ 1,893,772	\$ 289,965			
State assistance	3,238,614	3,205,908	(32,706)	\$ 2,500	\$ 2,588	\$ 88
Federal assistance		8,622	8,622	692,938	741,379	48,441
Activity revenues	100,850	98,768	(2,082)			
Meal sales				53,455	73,103	19,648
Investment income	20,200	7,909	(12,291)			
Other revenues	92,300	85,049	(7,251)		11,592	11,592
TOTAL REVENUES	5,055,771	5,300,028	244,257	748,893	828,662	79,769
EXPENDITURES						
Regular programs	2,403,186	2,396,905	6,281	3,955	1,652	2,303
Special education	307,853	283,817	24,036	118,167	148,006	(29,839)
Career education programs	163,454	165,196	(1,742)		4,453	(4,453)
Compensatory education programs	103,361	91,903	11,458	199,920	197,703	2,217
Other instructional programs	115,310	118,508	(3,198)			
Student support services	324,856	353,124	(28,268)	8,818	11,044	(2,226)
Instructional staff support services	352,806	329,889	22,917	128,913	103,729	25,184
General administration support services	136,722	149,460	(12,738)	6,085		6,085
School administration support services	272,168	278,097	(5,929)			
Central services support services	162,671	139,889	22,782			
Operation and maintenance of plant services	372,947	466,275	(93,328)			
Student transportation services	199,126	235,918	(36,792)			
Other support services	8,500	21,640	(13,140)			
Food services operations				349,141	388,762	(39,621)
Community services operations	2,456	4,611	(2,155)	1,200		1,200
Facilities acquisition and construction services		3,000	(3,000)			
Non-programmed costs				9,995		9,995
Activity expenditures	45,765	103,983	(58,218)			
TOTAL EXPENDITURES	4,971,181	5,142,215	(171,034)	826,194	855,349	(29,155)

HAZEN SCHOOL DISTRICT NO. 2
 PRAIRIE 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, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 84,590	\$ 157,813	\$ 73,223	\$ (77,300)	\$ (26,687)	\$ 50,613
OTHER FINANCING SOURCES (USES)						
Transfers in	6,755,657		(6,755,657)	21,048		(21,048)
Transfers out	(6,836,887)	(107,664)	6,729,223	(21,048)		21,048
TOTAL OTHER FINANCING SOURCES (USES)	(81,230)	(107,664)	(26,434)	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	3,360	50,149	46,789	(77,300)	(26,687)	50,613
FUND BALANCES - JULY 1	1,610,585	1,477,080	(133,505)	78,600	85,843	7,243
FUND BALANCES - JUNE 30	\$ 1,613,945	\$ 1,527,229	\$ (86,716)	\$ 1,300	\$ 59,156	\$ 57,856

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

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a six 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 Hazen 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:

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

Fiduciary Fund types include the following:

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

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

C. Measurement Focus and Basis of Accounting

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

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.

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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:

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

F. Property Taxes

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

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2012 calendar year taxes collected by June 30, 2013 and 32 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, 2013 equaled or exceeded the 32 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.

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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.

H. 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.

I. 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.

J. Minimum Fund Balance Policies

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

K. 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.

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Fund Balance Classification Policies and Procedures (Continued)

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.

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 500,000	\$ 500,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	1,195,344	1,523,655
Total Deposits	\$ 1,695,344	\$ 2,023,655

The above total deposits include certificates of deposit of \$1,417,131 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$57,381 at June 30, 2013 was comprised of the following:

Description	Governmental Funds		Total
	Major	Special Revenue	
General			
State assistance	\$ 7,160		\$ 7,160
Federal assistance		\$ 47,506	47,506
Activity fund accounts	500		500
Other	2,215		2,215
Totals	\$ 9,875	\$ 47,506	\$ 57,381

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2013:

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, 2013	Maturities To June 30, 2013
11/1/03	2/1/22	2.25 - 4.35%	\$ 1,045,000	\$ 580,000	\$ 465,000
1/20/05	1/20/15	4.95%	<u>100,000</u>	<u>24,039</u>	<u>75,961</u>
Totals			<u>\$ 1,145,000</u>	<u>\$ 604,039</u>	<u>\$ 540,961</u>

Changes in Long-term Debt

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013
Bonds payable	\$ 635,000		\$ 55,000	\$ 580,000
Notes payable	<u>35,215</u>		<u>11,176</u>	<u>24,039</u>
Totals	<u>\$ 670,215</u>	<u>\$ 0</u>	<u>\$ 66,176</u>	<u>\$ 604,039</u>

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 66,729	\$ 25,330	\$ 92,059
2015	67,310	22,659	89,969
2016	60,000	19,850	79,850
2017	60,000	17,450	77,450
2018	65,000	14,960	79,960
2019-2022	<u>285,000</u>	<u>31,550</u>	<u>316,550</u>
Totals	<u>\$ 604,039</u>	<u>\$ 131,799</u>	<u>\$ 735,838</u>

5: ACCOUNTS PAYABLE

The accounts payable balance of \$46,509 at June 30, 2013 was comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types	Total
	Major	Special Revenue		
	General			
Vendor payables	<u>\$ 43,975</u>	<u>\$ 159</u>	<u>\$ 2,375</u>	<u>\$ 46,509</u>

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6: INTERFUND TRANSFERS

The District transferred \$107,664 from the general fund to the other aggregate funds for debt related payments.

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, 2013, 2012, and 2011 were \$501,589, \$489,696, and \$488,751, 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, 2013, 2012, and 2011 were \$775, \$1,405, and \$764, respectively, equal to the required contributions for each year.

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 6,500
Interest	<u>533</u>
TOTAL ADDITIONS	<u>7,033</u>
DEDUCTIONS	
Scholarships	<u>500</u>
CHANGE IN FUND BALANCE	6,533
FUND BALANCE - JULY 1	<u>67,425</u>
FUND BALANCE - JUNE 30	<u><u>\$ 73,958</u></u>

9: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$1,045,000 issued from November 1, 2003. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$710,000 payable through February 1, 2022. Principal and interest paid for the current year and total property taxes pledged for debt service were \$81,230 and \$227,026, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 35.78 percent.

10: RISK MANAGEMENT

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

The District carries commercial insurance for board liability and student, employee, and board member 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.

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

11: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$86,423 for the year ended June 30, 2013.

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

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 11,893		\$ 11,893
Educational programs - national school lunch state categorical funding	28,100		28,100
Professional development	15,650		15,650
Child nutrition programs		\$ 24,260	24,260
Medical services		31,874	31,874
Special education programs		2,948	2,948
Other purposes	72,558	74	72,632
Total Restricted	<u>128,201</u>	<u>59,156</u>	<u>187,357</u>
Assigned to:			
Student activities	40,324		40,324
Other purposes	20,428		20,428
Total Assigned	<u>60,752</u>		<u>60,752</u>
Unassigned	<u>1,338,276</u>		<u>1,338,276</u>
Totals	<u>\$ 1,527,229</u>	<u>\$ 59,156</u>	<u>\$ 1,586,385</u>

13: SUBSEQUENT EVENTS

On November 1, 2013, the District issued refunding and construction bonds of \$6,155,000 to advance refund the 2003 bonds and provide financing for capital improvements.

HAZEN SCHOOL DISTRICT NO. 2
 PRAIRIE COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2013
 (Unaudited)

Schedule 1

	Balance June 30, 2013
<i>Nondepreciable capital assets:</i>	
Land	\$ 52,749
<i>Depreciable capital assets:</i>	
Buildings	3,874,824
Improvements/infrastructure	220,418
Equipment	1,423,534
Total depreciable capital assets	5,518,776
Less accumulated depreciation for:	
Buildings	2,500,315
Improvements/infrastructure	131,844
Equipment	1,027,126
Total accumulated depreciation	3,659,285
Total depreciable capital assets, net	1,859,491
Capital assets, net	\$ 1,912,240

HAZEN SCHOOL DISTRICT NO. 2
 PRAIRIE COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2013

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>CHILD NUTRITION CLUSTER</u>			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 2,497
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	59-03	73,146
National School Lunch Program - Cash Assistance	10.555	59-03	186,045
Total State Department of Education			<u>259,191</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	5903000	19,566
TOTAL CHILD NUTRITION CLUSTER			<u>281,254</u>
 <u>OTHER PROGRAMS</u>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	59-03	211,154
Special Education - Grants to States	84.027	59-03	161,515
Rural Education	84.358	59-03	8,228
Improving Teacher Quality State Grants	84.367	59-03	56,764
ARRA - Education Jobs Fund, Recovery Act	84.410	59-03	5,776
Total U. S. Department of Education			<u>443,437</u>
 <u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Temporary Assistance for Needy Families	93.558	0000200280	8,622
TOTAL OTHER PROGRAMS			<u>452,059</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 733,313</u>

The accompanying notes are an integral part of this schedule.

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

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 Hazen School District No. 2 (District) under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: During the year ended June 30, 2013, the District received Medicaid funding of \$2,523 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2013-001. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, the responsibilities of receipting, posting of receipts, depositing, check preparation, and reconciliation procedures were not segregated. In addition, the adjusting journal entries were not reviewed and approved by someone other than the employee preparing them.

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: To the extent possible, the District will segregate financial duties and adopt, establish, and maintain sound accounting policies that will initiate, authorize, record process, and report transactions.

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

2013-002. Misstatements not Detected by Internal Control System

Criteria or specific requirement: Financial accounting records should be accurate to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting.

Condition: The District's internal control did not prevent or detect material errors in the financial accounting records. Such records are utilized in the preparation of the District's financial statements. Significant errors in the general fund were as follows:

- The District understated investments by \$601,411.
- The District overstated cash by \$267,304, and had no explanation for the required adjustment.
- The District recorded \$43,838 as outstanding checks on the bank reconciliation that were not outstanding.
- The District recorded \$10,473 as accounts receivable that was never received.
- The District failed to receipt and record state revenues of \$11,664.
- The District failed to record \$9,480 of accounts payable.
- The District's beginning fund balance was \$7,162 more than the prior year ending fund balance with no explanation provided.

The financial statements were corrected during the audit fieldwork. A similar finding was reported in the previous audit.

Context: Identification of misstatements not initially detected by the entity's internal control.

Effect: Misstatements were not detected by the District's internal control.

Cause: Financial accounting records had not been properly monitored.

Recommendation: The District should exercise due care to ensure general ledger accounts are properly recorded and monitored.

Views of responsible officials and planned corrective actions: In order for the District to ensure financial data is properly recorded in APSCN, the District Bookkeeper will attend workshops offered by the AAEA and AASBO in order to gain knowledge of steps to take in order to ensure cash, investments, and revenues are properly recorded. Additionally, the District Bookkeeper will contact the APSCN Financial Field Representative for assistance when needed.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - SPECIAL EDUCATION - GRANTS TO STATES, RECOVERY ACT

2012 - Finding 2012-3: ARRA - Special Education - Grants To States, Recovery Act - CFDA Number 84.391

Condition: The District's ARRA - CEIS special education grant expenditures exceeded the budget in object 66000 (Supplies and Materials) of function 1297 (Co-ordinated Early Intervening Services) by a total of \$416 more than the 10 percent allowed.

Recommendation: The District should implement procedures to ensure costs are incurred within the applicable budget categories and consult with the Arkansas Department Education for further guidance regarding this matter.

Current Status: Corrective action was taken.

HAZEN SCHOOL DISTRICT NO. 2
PRAIRIE COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2013
(Unaudited)

General Fund	Year Ended June 30,				
	2013	2012	2011	2010	2009
Total Assets	\$ 1,571,204	\$ 1,539,458	\$ 1,873,562	\$ 2,073,062	\$ 2,775,267
Total Liabilities	43,975	62,378	51,429	22,858	205,719
Total Fund Balances	1,527,229	1,477,080	1,822,133	2,050,204	2,569,548
Total Revenues	5,300,028	4,829,243	4,900,966	4,736,929	4,748,100
Total Expenditures	5,142,215	5,097,704	5,002,727	4,823,626	4,514,234
Total Other Financing Sources (Uses)	(107,664)	(76,592)	(126,310)	(432,647)	(829,204)
 Special Revenue Fund					
Total Assets	59,315	138,741	125,971	123,066	120,519
Total Liabilities	159	52,898	3,716	2,625	13,005
Total Fund Balances	59,156	85,843	122,255	120,441	107,514
Total Revenues	828,662	791,964	887,025	1,325,256	774,713
Total Expenditures	855,349	828,376	870,669	1,312,329	758,505
Total Other Financing Sources (Uses)					9,502
 Other Aggregate Funds					
Total Assets			16,355	17,993	196,351
Total Liabilities			14,541		196,204
Total Fund Balances			1,814	17,993	147
Total Revenues		60,066	83,048		
Total Expenditures	107,664	138,472	240,079	499,688	819,555
Total Other Financing Sources (Uses)	107,664	76,592	126,310	517,534	819,702