

# **Hazen School District No. 2**

**Prairie County, Arkansas**

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

**June 30, 2010**

LEGISLATIVE JOINT AUDITING COMMITTEE



HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
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**Sen. Bill Pritchard**  
Senate Chair  
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**Sen. David Wyatt**  
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**Rep. Toni Bradford**  
House Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Hazen School District No. 2 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

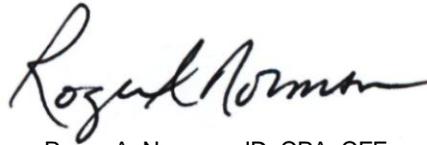
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2010, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first name "Roger" being the most prominent.

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

Little Rock, Arkansas  
February 14, 2011  
EDSD31910

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

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Hazen School District No. 2 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 14, 2011. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting 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 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 2010-1 and 2010-2 to be material weaknesses.

#### Compliance and Other Matters

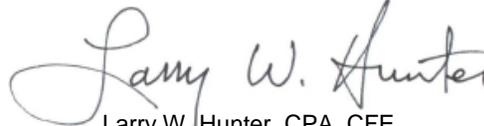
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements,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

We noted certain matters that we reported to management of the District in a separate letter dated February 14, 2011.

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

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 14, 2011

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

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

### Compliance

We have audited the Hazen School District No. 2's (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 its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in item 2010-3 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding equipment and real property management that are applicable to its State Fiscal Stabilization Fund Cluster. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

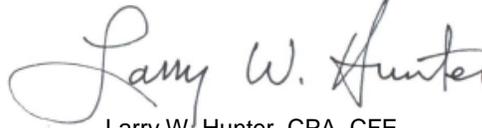
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-3 to be a material weakness.

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

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

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter". The signature is written in black ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 14, 2011

**Sen. Bill Pritchard**  
Senate Chair  
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House Chair  
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# Arkansas



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

## 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.

Bids were not obtained for computer purchases totaling \$173,244 as required by Ark. Code Ann. § 6-21-304.

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.

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Deputy Legislative Auditor

Little Rock, Arkansas  
February 14, 2011

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2010

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 334,951	\$ 113,232	\$ 17,993	\$ 28,024
Investments	1,498,475			58,654
Accounts receivable		9,834		
Property taxes receivable	239,636			
<b>TOTAL ASSETS</b>	<b>\$ 2,073,062</b>	<b>\$ 123,066</b>	<b>\$ 17,993</b>	<b>\$ 86,678</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 22,858	\$ 2,625		
Due student groups				\$ 27,024
<b>Total Liabilities</b>	<b>22,858</b>	<b>2,625</b>		<b>27,024</b>
Fund Balances:				
Reserved:				
Scholarships				59,654
Unreserved:				
Designated:				
Debt service			\$ 17,993	
Undesignated	2,050,204	120,441		
<b>Total Fund Balances</b>	<b>2,050,204</b>	<b>120,441</b>	<b>17,993</b>	<b>59,654</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,073,062</b>	<b>\$ 123,066</b>	<b>\$ 17,993</b>	<b>\$ 86,678</b>

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, 2010

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 1,867,024		
State assistance	2,714,555	\$ 2,684	
Federal assistance	5,215	1,254,114	
Activity revenues	86,441		
Meal sales		64,456	
Investment income	25,540		
Other revenues	38,154	4,002	
<b>TOTAL REVENUES</b>	<b>4,736,929</b>	<b>1,325,256</b>	
<b>EXPENDITURES</b>			
Regular programs	2,232,545	241,994	
Special education	214,927	118,866	
Workforce education	144,176	3,319	
Compensatory education	26,604	250,011	
Other instructional programs	108,146		
Student support services	271,334	11,148	
Instructional staff support services	308,891	138,685	
General administration support services	153,454	5,226	
School administration support services	358,404		
Central services support services	120,233		
Operation and maintenance of plant services	547,412	2,800	
Student transportation services	233,710	89,198	
Other support services	2,535		
Food services operations	131	337,811	
Community services operations	9,471		
Facilities acquisition and construction services	2,600	111,080	\$ 359,068
Non-programmed costs		2,191	
Activity expenditures	76,134		
Debt Service:			
Principal retirement	9,668		105,000
Interest and fiscal charges	3,251		35,620
<b>TOTAL EXPENDITURES</b>	<b>4,823,626</b>	<b>1,312,329</b>	<b>499,688</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(86,697)</b>	<b>12,927</b>	<b>(499,688)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			517,534
Transfers out	(517,534)		
Sale of capital assets	84,887		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(432,647)</b>		<b>517,534</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(519,344)</b>	<b>12,927</b>	<b>17,846</b>
<b>FUND BALANCES - JULY 1</b>	<b>2,569,548</b>	<b>107,514</b>	<b>147</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 2,050,204</b>	<b>\$ 120,441</b>	<b>\$ 17,993</b>

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, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,828,620	\$ 1,867,024	\$ 38,404			
State assistance	2,649,502	2,714,555	65,053	\$ 2,500	\$ 2,684	\$ 184
Federal assistance		5,215	5,215	1,481,676	1,254,114	(227,562)
Activity revenues		86,441	86,441			
Meal sales				75,150	64,456	(10,694)
Investment income		25,540	25,540			
Other revenues	21,600	38,154	16,554		4,002	4,002
<b>TOTAL REVENUES</b>	<b>4,499,722</b>	<b>4,736,929</b>	<b>237,207</b>	<b>1,559,326</b>	<b>1,325,256</b>	<b>(234,070)</b>
EXPENDITURES						
Regular programs	2,257,625	2,232,545	25,080	412,782	241,994	170,788
Special education	195,889	214,927	(19,038)	102,560	118,866	(16,306)
Workforce education	141,289	144,176	(2,887)	3,319	3,319	
Compensatory education	61,150	26,604	34,546	356,898	250,011	106,887
Other instructional programs	93,324	108,146	(14,822)			
Student support services	286,208	271,334	14,874	11,995	11,148	847
Instructional staff support services	252,367	308,891	(56,524)	141,647	138,685	2,962
General administration support services	134,659	153,454	(18,795)	6,081	5,226	855
School administration support services	351,725	358,404	(6,679)			
Central services support services	115,411	120,233	(4,822)			
Operation and maintenance of plant services	592,395	547,412	44,983		2,800	(2,800)
Student transportation services	226,600	233,710	(7,110)	91,500	89,198	2,302
Other support services	6,500	2,535	3,965			
Food services operations	250	131	119	328,450	337,811	(9,361)
Community services operations	11,063	9,471	1,592	1,000		1,000
Facilities acquisition and construction services	1,500	2,600	(1,100)	194,800	111,080	83,720
Non-programmed costs	12,920		12,920		2,191	(2,191)
Activity expenditures		76,134	(76,134)			
Debt Service:						
Principal retirement		9,668	(9,668)			
Interest and fiscal charges		3,251	(3,251)			
<b>TOTAL EXPENDITURES</b>	<b>4,740,875</b>	<b>4,823,626</b>	<b>(82,751)</b>	<b>1,651,032</b>	<b>1,312,329</b>	<b>338,703</b>

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, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (241,153)	\$ (86,697)	\$ 154,456	\$ (91,706)	\$ 12,927	\$ 104,633
OTHER FINANCING SOURCES (USES)						
Transfers in	2,358,485		(2,358,485)	25,105		(25,105)
Transfers out	(3,024,059)	(517,534)	2,506,525	(25,105)		25,105
Sale of capital assets		84,887	84,887			
TOTAL OTHER FINANCING SOURCES (USES)	(665,574)	(432,647)	232,927	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(906,727)	(519,344)	387,383	(91,706)	12,927	104,633
FUND BALANCES - JULY 1	3,378,909	2,569,548	(809,361)	120,519	107,514	(13,005)
FUND BALANCES - JUNE 30	<u>\$ 2,472,182</u>	<u>\$ 2,050,204</u>	<u>\$ (421,978)</u>	<u>\$ 28,813</u>	<u>\$ 120,441</u>	<u>\$ 91,628</u>

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, 2010

**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 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 the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

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.

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

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

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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

**F. Property Taxes**

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

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

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

**G. Fund Balance Designations**

1. Reserved fund balance – represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Designated fund balance – represents that portion of the fund balance which indicates tentative plans for financial resource utilization in a future period.
3. Undesignated fund balance – indicates that portion of the fund balance not reserved or designated.

**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.

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.

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**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 pledging bank or pledging bank's trust department in the District's name	1,551,329	1,674,387
Total Deposits	\$ 2,051,329	\$ 2,174,387

The above total deposits include certificates of deposit of \$1,557,129 reported as investments and classified as nonparticipating contracts.

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$9,834 at June 30, 2010 was comprised of the following:

Description	Governmental Fund Major Special Revenue
Federal assistance	\$ 9,834

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2010:

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, 2010	Maturities To June 30, 2010
11/1/03	2/1/22	2.25 - 4.35%	\$ 1,045,000	\$ 735,000	\$ 310,000
2/10/03	2/1/11	2.3 - 3.3%	440,000	60,000	380,000
1/20/05	1/20/15	4.95%	100,000	56,010	43,990
Totals			\$ 1,585,000	\$ 851,010	\$ 733,990

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**4: COMMITMENTS (Continued)**

Long-term Debt Issued and Outstanding (Continued)

Changes in Long-term Debt

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Bonds payable	\$ 900,000		\$ 105,000	\$ 795,000
Notes payable	65,678		9,668	56,010
<b>Totals</b>	<b>\$ 965,678</b>	<b>\$ 0</b>	<b>\$ 114,668</b>	<b>\$ 851,010</b>

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

Year Ended June 30,	Principal	Interest	Total
2011	\$ 120,146	\$ 34,532	\$ 154,678
2012	60,649	30,275	90,924
2013	66,176	27,973	94,149
2014	66,729	25,330	92,059
2015	67,310	22,659	89,969
2016-2020	320,000	74,023	394,023
2021-2022	150,000	9,788	159,788
<b>Totals</b>	<b>\$ 851,010</b>	<b>\$ 224,580</b>	<b>\$ 1,075,590</b>

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$25,483 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 22,858	\$ 2,625	\$ 25,483

**6: INTERFUND TRANSFERS**

The District transferred \$517,534 from the general fund to the other aggregate funds for debt related payments and capital expenditures of \$158,466 and \$359,068, respectively.

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**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, 2010, 2009, and 2008 were \$473,234, \$392,627, and \$398,045, 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, 2010, 2009, and 2008 were \$1,212, \$1,221, and \$1,221, respectively, equal to the required contributions for each year.

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS**

ADDITIONS	
Donations	\$ 8,500
Interest	1,485
	9,985
TOTAL ADDITIONS	
	9,985
DEDUCTIONS	
Scholarships	3,000
	3,000
CHANGE IN FUND BALANCE	
	6,985
FUND BALANCE - JULY 1	
	52,669
FUND BALANCE - JUNE 30	
	\$ 59,654

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

The District participates in the Arkansas School Boards Association – Workers’ Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers’ compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

Additionally, the District participates in the Arkansas School Boards Association – Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating, and settling claims that have been filed against member districts. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

**10: ON-BEHALF PAYMENTS**

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District’s employees, totaled \$67,936 for the year ended June 30, 2010.

HAZEN SCHOOL DISTRICT NO. 2  
 PRAIRIE COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2010  
 (Unaudited)

Schedule 1

	Balance June 30, 2010
<i>Nondepreciable capital assets:</i>	
Land	\$ 52,749
<i>Depreciable capital assets:</i>	
Buildings	3,848,824
Improvements/infrastructure	142,869
Equipment	1,312,252
Total depreciable capital assets	5,303,945
Less accumulated depreciation for:	
Buildings	2,309,327
Improvements/infrastructure	107,538
Equipment	868,262
Total accumulated depreciation	3,285,127
Total depreciable capital assets, net	2,018,818
Capital assets, net	\$ 2,071,567

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 2)	10.555		\$ 703
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	59-03	76,964
National School Lunch Program - Cash Assistance	10.555	59-03	176,318
Total State Department of Education			253,282
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	5903	20,107
TOTAL CHILD NUTRITION CLUSTER			274,092
<b>TITLE I, PART A CLUSTER</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	59-03	255,529
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	59-03	36,377
TOTAL TITLE I, PART A CLUSTER			291,906
<b>SPECIAL EDUCATION CLUSTER (IDEA)</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	59-03	145,391
ARRA - Special Education - Grants to States, Recovery Act	84.391	59-03	106,159
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			251,550
<b>STATE FISCAL STABILIZATION FUND CLUSTER</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	59-03	345,871
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	59-03	8,592
TOTAL STATE FISCAL STABILIZATION FUND CLUSTER			354,463

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>OTHER PROGRAMS</u>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Human Services:			
Child and Adult Care Food Program	10.558	A0634	<u>\$ 2,649</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	59-03	5,676
State Grants for Innovative Programs	84.298	59-03	9,413
Improving Teacher Quality State Grants	84.367	59-03	<u>59,618</u>
Total U. S. Department of Education			<u>74,707</u>
<u>U. S. Department of Health and Human Services:</u>			
Passed Through State Department of Human Services:			
Child Care and Development Block Grant	93.575	59-03	<u>1,000</u>
TOTAL OTHER PROGRAMS			<u>78,356</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,250,367</u>

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 includes the federal grant activity of Hazen School District No. 2 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.
- Note 2: 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 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2010, the District received Medicaid funding of \$4,002 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, 2010

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

MATERIAL WEAKNESSES

2010-1. Internal Control

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

Condition: A deficiency 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. The District has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting.

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, were adversely affected by the identified weakness in the above internal control component.

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

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report 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: The District will adopt sound accounting policies and segregate duties to the extent possible in order to 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.

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

MATERIAL WEAKNESSES (Continued)

2010-2. Misstatements not Detected by Internal Control System

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

Condition: The District's internal control system 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. The most significant errors included an overstated adjustment for prior year property taxes receivable of \$622,467 in the general fund, and other aggregate fund investments of \$58,654 being incorrectly recorded in the general fund. The financial statements were subsequently corrected by adjusting entries during audit fieldwork. A similar finding was reported in the previous audit.

Context: Examination of adjustments to the accounting records.

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

Cause: Financial accounting records had not been properly monitored.

Recommendation: To achieve accurate financial accounting records, District management should implement procedures to ensure all assets are properly classified and recorded and financial records are properly monitored.

Views of responsible officials and planned corrective actions: The District will exercise due care to achieve accurate financial accounting records and will implement procedures to ensure all assets are properly classified and recorded and financial records are properly monitored. APSCN training manuals and procedural outlines will be reviewed, and the designated APSCN Financial Field Representative will be contacted if necessary, by the District Treasurer/Bookkeeper in order to achieve this corrective action plan and prevent oversight in the future. The District has corrected the prior year taxes receivable error, and the 40% pullback for the recognition of taxes receivable was receipted correctly for the current audit year (2010).

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

MATERIAL WEAKNESS

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
STATE FISCAL STABILIZATION FUND CLUSTER - CFDA NUMBERS 84.394 AND 84.397  
PASS-THROUGH NUMBER 59-03  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2010

2010-3. Equipment and Real Property Management

Criteria or specific requirement: Equipment acquired with federal funds should be properly recorded in the District's equipment subsidiary records in accordance with the District's capitalization policy.

Condition: The District did not properly maintain records for equipment acquired with federal awards. Computer purchases of \$80,364 were not recorded in the District's equipment subsidiary records and additional computer purchases of \$92,880 were incorrectly included in the District's equipment subsidiary records as being purchased from the general fund.

Context: Review of current year equipment purchases and analysis of District's subsidiary equipment records.

Effect: The District's equipment subsidiary records were not accurate.

Cause: District personnel failed to properly monitor the capitalization of equipment purchases in the equipment subsidiary records.

Recommendation: Equipment purchases should be properly recorded in the District's subsidiary records.

Views of responsible officials and planned corrective actions: The District will exercise due care to ensure all equipment purchases are properly recorded in the District's subsidiary records. Computer purchases of \$80,364 that were not recorded in the District's equipment subsidiary records at the time of audit have been entered into the Fixed Assets Module in APSCN. Additional computer purchases of \$92,800 that were incorrectly included in the District's equipment subsidiary records as being purchased from the general fund at the time of audit have been corrected to reflect being purchased from the correct federal fund.

HAZEN SCHOOL DISTRICT NO. 2  
PRAIRIE COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 4

There were no findings in the prior audit.

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, 2010  
(Unaudited)

<b>General Fund</b>	Year Ended June 30,				
	2010	2009	2008	2007	2006
Total Assets	\$ 2,073,062	\$ 2,775,267	\$ 3,170,990	\$ 2,599,583	\$ 604,518
Total Liabilities	22,858	205,719	6,104	25,622	8,682
Total Fund Balances	2,050,204	2,569,548	3,164,886	2,573,961	595,836
Total Revenues	4,736,929	4,748,100	5,447,385	5,919,267	2,884,945
Total Expenditures	4,823,626	4,514,234	4,669,112	4,530,469	2,780,249
Total Other Financing Sources (Uses)	(432,647)	(829,204)	(187,348)	589,327	(98,014)
 <b>Special Revenue Fund</b>					
Total Assets	123,066	120,519	82,479	99,946	71,649
Total Liabilities	2,625	13,005	675		
Total Fund Balances	120,441	107,514	81,804	99,946	71,649
Total Revenues	1,325,256	774,713	722,560	768,178	438,004
Total Expenditures	1,312,329	758,505	786,489	776,120	408,701
Total Other Financing Sources (Uses)		9,502	45,787	36,239	16,664
 <b>Other Aggregate Funds</b>					
Total Assets	17,993	196,351			
Total Liabilities		196,204			
Total Fund Balances	17,993	147			
Total Revenues					
Total Expenditures	499,688	819,555	141,561	144,091	92,898
Total Other Financing Sources (Uses)	517,534	819,702	141,561	144,091	81,350