

Stuttgart School District No. 22

Arkansas County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2014



STUTTGART SCHOOL DISTRICT NO. 22
ARKANSAS COUNTY, ARKANSAS
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JUNE 30, 2014

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Arkansas

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Rep. Sue Scott
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Stuttgart School District No. 22 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 Stuttgart School District No. 22 (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, 2014, 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, 2014, 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 March 4, 2015 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
March 4, 2015
EDSD00414

Arkansas

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



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
House Vice Chair

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

Stuttgart School District No. 22 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 Stuttgart School District No. 22 (the "District"), as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 4, 2015. 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, 2014, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

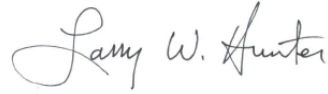
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, 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 March 4, 2015.

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

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 4, 2015

Arkansas

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

Stuttgart School District No. 22 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Stuttgart School District No. 22 (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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit 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 compliance and, accordingly, we express no opinion on the response.

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.

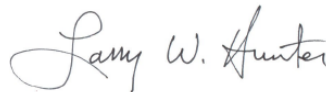
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001, that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit 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 compliance and, accordingly, we express no opinion on the response.

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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 4, 2015

Arkansas



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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Stuttgart School District No. 22 and School Board Members
Legislative Joint Auditing Committee

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

1. The District discovered, and we verified, two bank accounts established by activity fund sponsors in violation of Ark. Code Ann. § 6-13-701. These accounts were neither maintained nor accounted for in accordance with guidelines and procedures established by the Arkansas Department of Education, and the superintendent or the superintendent's appointee was not the official custodian of funds. Examination of records provided by the sponsors of the two funds revealed the following deficiencies:
 - Disbursements to hotels, businesses, and individuals were made without adequate documentation.
 - All receipts were not provided.
2. We noted the following deficiencies related to cash receipts:
 - Custodial transfers of monies are not verified by both parties prior to the issuance of a receipt.
 - Cash/Check composition was not indicated on all receipts issued for operating, food service, and activity fund accounts.

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 4, 2015

STUTTGART SCHOOL DISTRICT NO. 22
 ARKANSAS COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2014

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash			\$ 1,937,916	\$ 100,528
Investments	\$ 3,348,040		4,064,572	
Accounts receivable	8,240	\$ 259,331		100
Due from other funds			833,519	
TOTAL ASSETS	\$ 3,356,280	\$ 259,331	\$ 6,836,007	\$ 100,628
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 112,256	\$ 5,112	\$ 531,920	\$ 500
Due student groups				53,482
Due to other funds	635,517	198,002		
Total Liabilities	747,773	203,114	531,920	53,982
Fund Balances:				
Restricted	112,412	56,217	3,661,880	46,646
Assigned	156,462		2,642,207	
Unassigned	2,339,633			
Total Fund Balances	2,608,507	56,217	6,304,087	46,646
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,356,280	\$ 259,331	\$ 6,836,007	\$ 100,628

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

STUTT GART SCHOOL DISTRICT NO. 22
 ARKANSAS COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 6,322,450		
State assistance	8,288,894	\$ 7,524	
Federal assistance	18,175	2,038,020	
Activity revenues	94,682		
Meal sales		142,521	
Investment income	19,021	40	\$ 17,172
Other revenues	162,705	6,895	
TOTAL REVENUES	14,905,927	2,195,000	17,172
EXPENDITURES			
Regular programs	5,854,881	32,055	
Special education	435,809	325,412	
Career education programs	339,260	25,854	
Adult/continuing education program	247		
Compensatory education programs	26,659	339,650	
Other instructional programs	677,582		
Student support services	542,978	82,372	
Instructional staff support services	844,200	353,442	
General administration support services	502,546	73,432	
School administration support services	1,086,258		
Central services support services	641,800	48,997	140
Operation and maintenance of plant services	1,736,470		
Student transportation services	473,885	12,450	
Other support services	29,788		
Food services operations	15,740	1,009,606	
Community services operations	41,909	4,235	
Facilities acquisition and construction services	30,679		1,303,193
Non-programmed costs	44,983	3,131	
Activity expenditures	137,427		
Debt Service:			
Principal retirement			355,000
Interest and fiscal charges			499,263
TOTAL EXPENDITURES	13,463,101	2,310,636	2,157,596
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,442,826	(115,636)	(2,140,424)
OTHER FINANCING SOURCES (USES)			
Transfers in			2,604,262
Transfers out	(2,604,262)		
Refund to grantor	(37,713)	(474)	
TOTAL OTHER FINANCING SOURCES (USES)	(2,641,975)	(474)	2,604,262
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,199,149)	(116,110)	463,838
FUND BALANCES - JULY 1 (RESTATE D)	3,807,656	172,327	5,840,249
FUND BALANCES - JUNE 30	\$ 2,608,507	\$ 56,217	\$ 6,304,087

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

STUTTGART SCHOOL DISTRICT NO. 22
 ARKANSAS 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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 5,955,000	\$ 6,322,450	\$ 367,450			
State assistance	7,993,019	8,288,894	295,875	\$ 7,818	\$ 7,524	\$ (294)
Federal assistance	2,741	18,175	15,434	2,009,238	2,038,020	28,782
Activity revenues		94,682	94,682			
Meal sales				173,631	142,521	(31,110)
Investment income	14,000	19,021	5,021	65	40	(25)
Other revenues	110,000	162,705	52,705		6,895	6,895
TOTAL REVENUES	14,074,760	14,905,927	831,167	2,190,752	2,195,000	4,248
EXPENDITURES						
Regular programs	5,956,557	5,854,881	101,676	35,655	32,055	3,600
Special education	499,538	435,809	63,729	316,517	325,412	(8,895)
Career education programs	327,294	339,260	(11,966)	27,614	25,854	1,760
Adult/continuing education program		247	(247)			
Compensatory education programs	35,844	26,659	9,185	495,739	339,650	156,089
Other instructional programs	700,936	677,582	23,354			
Student support services	534,963	542,978	(8,015)	91,034	82,372	8,662
Instructional staff support services	870,596	844,200	26,396	251,417	353,442	(102,025)
General administration support services	476,305	502,546	(26,241)	80,557	73,432	7,125
School administration support services	1,092,949	1,086,258	6,691	36,200		36,200
Central services support services	474,702	641,800	(167,098)	27,598	48,997	(21,399)
Operation and maintenance of plant services	1,753,229	1,736,470	16,759			
Student transportation services	406,467	473,885	(67,418)	11,374	12,450	(1,076)
Other support services	13,000	29,788	(16,788)			
Food services operations	16,275	15,740	535	886,555	1,009,606	(123,051)
Community services operations	26,710	41,909	(15,199)	5,197	4,235	962
Facilities acquisition and construction services	19,965	30,679	(10,714)			
Non-programmed costs	71,006	44,983	26,023	3,605	3,131	474
Activity expenditures		137,427	(137,427)			
TOTAL EXPENDITURES	13,276,336	13,463,101	(186,765)	2,269,062	2,310,636	(41,574)

STUTT GART SCHOOL DISTRICT NO. 22
 ARKANSAS 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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 798,424	\$ 1,442,826	\$ 644,402	\$ (78,310)	\$ (115,636)	\$ (37,326)
OTHER FINANCING SOURCES (USES)						
Transfers in	6,828,378		(6,828,378)	26,475		(26,475)
Transfers out	(7,705,984)	(2,604,262)	5,101,722			
Refund to grantor		(37,713)	(37,713)		(474)	(474)
TOTAL OTHER FINANCING SOURCES (USES)	(877,606)	(2,641,975)	(1,764,369)	26,475	(474)	(26,949)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(79,182)	(1,199,149)	(1,119,967)	(51,835)	(116,110)	(64,275)
FUND BALANCES - JULY 1	3,897,102	3,807,656	(89,446)	98,440	172,327	73,887
FUND BALANCES - JUNE 30	\$ 3,817,920	\$ 2,608,507	\$ (1,209,413)	\$ 46,605	\$ 56,217	\$ 9,612

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

STUTTGART SCHOOL DISTRICT NO. 22
ARKANSAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 Stuttgart School District (District). There are no component units.

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

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.

STUTTGART SCHOOL DISTRICT NO. 22
 ARKANSAS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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	10-25
Buildings	50
Equipment	5-25

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 2013 calendar year taxes collected by June 30, 2014 and 28 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, 2014 equaled or exceeded the 28 percent calculation.

STUTTGART SCHOOL DISTRICT NO. 22
ARKANSAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

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

G. Interfund Receivables and Payables

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

H. Fund Balance Classifications

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

I. Budget and Budgetary Accounting

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

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

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

J. Stabilization Arrangements

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

STUTTGART SCHOOL DISTRICT NO. 22
 ARKANSAS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Minimum Fund Balance Policies

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

L. Fund Balance Classification Policies and Procedures

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The District's Board of Education has not adopted a formal policy addressing this authorization.

The District's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the District's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The District does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

M. Encumbrances

The District does not utilize encumbrance accounting.

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)	\$ 759,729	\$ 762,728
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	8,691,227	9,211,044
Total Deposits	\$ 9,450,956	\$ 9,973,772

The above total deposits do not include cash on hand of \$100. The above total deposits include certificates of deposit of \$7,412,612 reported as investments and classified as nonparticipating contracts.

STUTTGART SCHOOL DISTRICT NO. 22
 ARKANSAS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 were comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types
	General	Special Revenue	
State assistance	\$ 3,034		
Federal assistance	3,168	\$ 259,331	
Activity fund accounts			\$ 100
Other	2,038		
Totals	\$ 8,240	\$ 259,331	\$ 100

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2014:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
Stuttgart High HVAC	August 15, 2014	\$ 911,858

B. Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2014	Maturities To June 30, 2014
11/1/12	2/1/42	2 - 3.5%	\$ 16,280,000	\$ 15,445,000	\$ 835,000

Changes in Long-term Debt

	Balance July 1, 2013	Issued	Retired	Balance June 30, 2014
Bonds payable	\$ 15,800,000	\$ 0	\$ 355,000	\$ 15,445,000

STUTTGART SCHOOL DISTRICT NO. 22
 ARKANSAS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

4: COMMITMENTS (Continued)

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

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2015	\$ 360,000	\$ 491,163	\$ 851,163
2016	370,000	483,962	853,962
2017	380,000	476,563	856,563
2018	385,000	465,162	850,162
2019	395,000	453,613	848,613
2020-2024	2,175,000	2,082,212	4,257,212
2025-2029	2,525,000	1,734,913	4,259,913
2030-2034	2,945,000	1,317,569	4,262,569
2035-2039	3,485,000	793,418	4,278,418
2039-2042	2,425,000	172,025	2,597,025
Totals	<u>\$ 15,445,000</u>	<u>\$ 8,470,600</u>	<u>\$ 23,915,600</u>

Security for Debt Payments

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

5: ACCOUNTS PAYABLE

Accounts payable at June 30, 2014 were comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types
	Major			
	General	Special Revenue	Other Aggregate	
Vendor payables	<u>\$ 112,256</u>	<u>\$ 5,112</u>	<u>\$ 531,920</u>	<u>\$ 500</u>

6: INTERFUND TRANSFERS

The District transferred \$2,604,262 from the general fund to the other aggregate funds for debt related payments of \$854,262 and \$1,750,000 for capital projects.

STUTTGART SCHOOL DISTRICT NO. 22
ARKANSAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 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, 2014, 2013, and 2012 were \$1,328,447, \$1,308,073, and \$1,308,269, respectively, equal to the required contributions for each year. The 2013 and 2012 fiscal year contributions were restated to reflect the correct amounts.

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain non-teaching school employees. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, 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, 2014, 2013, and 2012 were \$963, \$791, and \$759, respectively, equal to the required contributions for each year.

8: PRIOR YEAR RESTATEMENT

The beginning general fund balance at July 1, 2013 was increased by \$63,076 and the beginning balance of the fiduciary fund types (due to student groups) was decreased by the same amount due to a correction of the classification of certain activity accounts.

STUTTGART SCHOOL DISTRICT NO. 22
ARKANSAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 59,725
Interest	<u>19</u>
TOTAL ADDITIONS	59,744
DEDUCTIONS	
Scholarships	<u>58,600</u>
CHANGE IN FUND BALANCE	1,144
FUND BALANCE - JULY 1	<u>45,502</u>
FUND BALANCE - JUNE 30	<u>\$ 46,646</u>

10: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$16,280,000 issued on November 1, 2012. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$23,915,600, payable through February 1, 2042. Principal and interest paid for the current year and total property taxes pledged for debt service were \$853,263 and \$1,610,597, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 52.98 percent.

11: 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 buildings, contents, board liability, and student accidents. 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 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.

STUTTGART SCHOOL DISTRICT NO. 22
ARKANSAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

12: 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 \$285,431 for the year ended June 30, 2014.

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 9,250		
Educational programs - national school lunch state categorical funding	38,212		
English-language learners	12,560		
Professional development	8,390		
Capital projects			\$3,661,880
Child nutrition programs		\$ 42,398	
Medical services		532	
Special education programs	14,270	727	
Other purposes	29,730	12,560	
Total Restricted	<u>112,412</u>	<u>56,217</u>	<u>3,661,880</u>
Assigned to:			
Capital projects			2,642,207
Student activities	155,736		
Other purposes	726		
Total Assigned	<u>156,462</u>		<u>2,642,207</u>
Unassigned	<u>2,339,633</u>		
Totals	<u>\$2,608,507</u>	<u>\$ 56,217</u>	<u>\$6,304,087</u>

14: SUBSEQUENT EVENTS

- (a) On October 2, 2014, the District executed a lease purchase agreement of \$39,316 for computers.
- (b) On November 1, 2014, the District issued construction bonds of \$5,040,000 with interest rates of 1 to 3.7 percent.

STUTT GART SCHOOL DISTRICT NO. 22
 ARKANSAS COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Unaudited)

Schedule 1

	Balance June 30, 2014
<i>Nondepreciable capital assets:</i>	
Land	\$ 307,546
<i>Depreciable capital assets:</i>	
Buildings	18,896,683
Improvements/infrastructure	179,735
Equipment	6,072,130
Total depreciable capital assets	25,148,548
Less accumulated depreciation for:	
Buildings	8,062,952
Improvements/infrastructure	115,732
Equipment	4,614,744
Total accumulated depreciation	12,793,428
Total depreciable capital assets, net	12,355,120
Capital assets, net	\$ 12,662,666

STUTTGART SCHOOL DISTRICT NO. 22
 ARKANSAS COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2014

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	01-04	\$ 134,169
National School Lunch Program - Cash Assistance	10.555	01-04	544,496
Total State Department of Education			678,665
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	0104000	77,758
TOTAL CHILD NUTRITION CLUSTER			756,423
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	01-04	370,490
Special Education - Preschool Grants	84.173	01-04	24,013
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			394,503
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program	10.582	01-04	36,360
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	01-04	569,359
Education Technology State Grants	84.318	01-04	27,917
Rural Education	84.358	01-04	33,853
Improving Teacher Quality State Grants	84.367	01-04	123,766
Total State Department of Education			754,895
Passed Through State Department of Career Education:			
Career and Technical Education - Basic Grants to States	84.048	01-04	25,854
Total U. S. Department of Education			780,749
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Temporary Assistance for Needy Families	93.558	0000200639	15,007
TOTAL OTHER PROGRAMS			832,116
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,983,042

The accompanying notes are an integral part of this schedule.

STUTTGART SCHOOL DISTRICT NO. 22
ARKANSAS COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

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 Stuttgart School District No. 22 (District) under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2014, the District received Medicaid funding of \$33,642 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

STUTTGART SCHOOL DISTRICT NO. 22
 ARKANSAS COUNTY, ARKANSAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.027 and 84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

STUTTGART SCHOOL DISTRICT NO. 22
ARKANSAS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - PRESCHOOL GRANTS - CFDA NUMBER 84.173
PASS-THROUGH NUMBER 01-04
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-001. Reporting

Criteria or specific requirement: The Arkansas Department of Education (ADE) requires the District to submit a budget and an annual financial report for its special education program. Expenditures may not exceed the total budgeted amounts for each budget cell (function/object) by more than 10 percent of the total budget without prior approval from the ADE and the submission of budget amendments.

Condition: The District's early childhood special education expenditures exceeded the budget in one budget cell (function 1212, Itinerant Speech Pathologist, and object 61120, Classified Salaries) by \$6,026 more than the 10 percent variance allowed. Total expenditures did not exceed the total overall budget.

Context: Comparison of actual expenditures to the special education program annual financial report.

Effect: Expenditures in one category exceeded the budgeted amount by more than the 10 percent variance allowed, without prior approval.

Cause: Lack of management oversight in the preparation of the budget and monitoring of budgeted expenditures to actual expenditures.

Recommendation: The District should implement procedures to ensure expenditures do not exceed the applicable budget categories and contact the ADE for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: The Special Education Director and the Assistant Business Manager periodically review the budget and expenditures to ensure the budget has not been exceeded. The oversight occurred due to a misunderstanding of the federal guidance for Special Education. The District understood the guidance to refer to the budget as a whole when allowing for 10 percent overage and not a line item. The District has taken corrective actions by becoming more familiar with the guidelines in place for Special Education. Both the Special Education Director and Assistant Business Manager will continue to review the budget comparison to expenditures and are now aware of the requirements for each line item to not exceed the 10 percent allowance for the entire budget. If a line item exceeds the 10 percent allowed, a budget amendment will be requested.

STUTT GART SCHOOL DISTRICT NO. 22
ARKANSAS COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

There were no findings in the prior audit.

STUTTGART SCHOOL DISTRICT NO. 22
 ARKANSAS COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Unaudited)

Schedule 5

	Year Ended June 30,				
	2014	2013	2012	2011	2010
<u>General Fund</u>					
Total Assets	\$ 3,356,280	\$ 3,744,679	\$ 3,822,652	\$ 4,899,268	\$ 3,792,235
Total Liabilities	747,773			631,627	481,824
Total Fund Balances	2,608,507	3,744,580	3,822,652	4,267,641	3,310,411
Total Revenues	14,905,927	14,610,713	13,173,260	13,966,251	13,706,671
Total Expenditures	13,463,101	13,083,385	12,558,726	12,637,196	13,126,740
Total Other Financing Sources (Uses)	(2,641,975)	(1,605,400)	(1,059,523)	(264,803)	(981,544)
<u>Special Revenue Fund</u>					
Total Assets	259,331	324,173	413,544	366,044	449,605
Total Liabilities	203,114	151,846	199,678	99,090	
Total Fund Balances	56,217	172,327	213,866	266,954	449,605
Total Revenues	2,195,000	2,259,834	3,606,758	3,652,936	2,519,375
Total Expenditures	2,310,636	2,298,241	3,842,071	3,835,587	2,591,422
Total Other Financing Sources (Uses)	(474)	(3,132)	182,225		(6,662)
<u>Other Aggregate Funds</u>					
Total Assets	6,836,007	5,840,249	571,730	679,975	41,385
Total Liabilities	531,920				
Total Fund Balances	6,304,087	5,840,249	571,730	679,975	41,385
Total Revenues	17,172	8,145	103	355	103,697
Total Expenditures	2,157,596	920,210	985,646	277,620	1,091,288
Total Other Financing Sources (Uses)	2,604,262	6,180,584	877,298	915,855	988,206