

Brinkley School District No. B

Monroe County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2011



BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
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Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
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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

Brinkley School District No. B 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 Brinkley School District No. B (the "District"), as of and for the year ended June 30, 2011, 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, 2011, 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, 2011, 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.

As discussed in Note 1 to the financial statements, the District changed the classifications of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2012 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 cursive script that reads "Roger A. Norman".

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

Little Rock, Arkansas
March 13, 2012
EDSD25811

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

Brinkley School District No. B 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 Brinkley School District No. B (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 13, 2012. 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, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified 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 2011-1 and 2011-2 to be material weaknesses.

Compliance and Other Matters

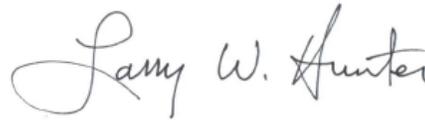
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, 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 March 13, 2012.

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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 13, 2012

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
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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

Brinkley School District No. B and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Brinkley School District No. B (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, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-3 and 2011-4.

Internal Control Over Compliance

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

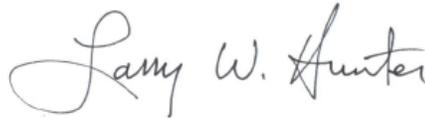
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2011-3 and 2011-4. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's responses to the findings identified in our audit 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
March 13, 2012

Sen. Bill Pritchard
Senate Chair
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Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Brinkley School District No. B 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. Arkansas Department of Education (ADE) guidelines require school districts to accrue property taxes earned during the fiscal year but not received until the next fiscal year. The District did not properly accrue property taxes resulting in an error of \$26,160. The financial statements were corrected during audit fieldwork.
2. The District did not obtain bids prior to the purchase of weight room equipment costing \$19,396. State law requires the obtaining of bids prior to the purchase of applicable items in which the estimated purchase price shall equal or exceed \$10,000.
3. Ark. Code Ann. § 6-20-2305(f) states that in order for a school district to be entitled to state funds, the District's salary schedule must reflect the District's actual practices. We noted that one teacher/football coach with a 66-day contract was not paid in accordance with the certified salary schedule. Based on the salary schedule and the teacher's/coach's experience level, he should have received a contract totaling \$12,733; instead, a contract totaling \$16,485 was issued. We also noted two classified employees were not paid in accordance with the classified salary schedule.
4. Without prior Board resolution, as required by Ark. Code Ann. § 6-24-107(b), the District purchased services totaling \$600 from a District employee.
5. On June 30, 2011, the District executed a debt agreement of \$33,225 for retirement contributions. This agreement was not registered with the Arkansas Department of Education. State law requires the registration of all long-term debt for the calculation of the District's debt ratio.

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

Handwritten signature of Larry W. Hunter in cursive.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 13, 2012

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2011

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 322,040	\$ 38,109	\$ 12,907	\$ 22,522
Accounts receivable	5,820	93,489		
Property taxes receivable	141,350			
Due from other funds	18,894			
TOTAL ASSETS	\$ 488,104	\$ 131,598	\$ 12,907	\$ 22,522
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 46,484	\$ 30,985		
Due student groups				\$ 10,287
Due to other funds		18,894		
Total Liabilities	46,484	49,879		10,287
Fund Balances:				
Restricted	116,337	81,719		12,235
Assigned	23,072		\$ 12,907	
Unassigned	302,211			
Total Fund Balances	441,620	81,719	12,907	12,235
TOTAL LIABILITIES AND FUND BALANCES	\$ 488,104	\$ 131,598	\$ 12,907	\$ 22,522

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

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,967,134		
State assistance	3,719,921	\$ 3,103	\$ 14,233
Federal assistance	6,675	1,218,602	94,989
Activity revenues	45,391		
Meal sales		149,252	
Investment income	1,045		
Other revenues	44,767	14,721	20,108
TOTAL REVENUES	5,784,933	1,385,678	129,330
EXPENDITURES			
Regular programs	2,454,594	297,728	
Special education	176,718	133,498	
Workforce education programs	219,860		
Compensatory education programs	131,877	205,912	
Other instructional programs	383,521		
Student support services	373,597	72,967	
Instructional staff support services	411,863	310,314	
General administration support services	284,449	17,325	
School administration support services	308,243		
Central services support services	241,045	500	905
Operation and maintenance of plant services	689,080	8,218	171,333
Student transportation services	192,982	2,971	
Other support services	9,206		
Food services operations	104,382	507,026	
Community services operations		349	
Facilities acquisition and construction services			34,760
Activity expenditures	70,893		
Debt Service:			
Principal retirement		8,306	75,000
Interest and fiscal charges			65,862
TOTAL EXPENDITURES	6,052,310	1,565,114	347,860
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(267,377)	(179,436)	(218,530)
OTHER FINANCING SOURCES (USES)			
Transfers in		11,081	132,081
Transfers out	(143,162)		
Value of installment contract		33,225	
Refund to grantor		(35,628)	
TOTAL OTHER FINANCING SOURCES (USES)	(143,162)	8,678	132,081
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(410,539)	(170,758)	(86,449)
FUND BALANCES - JULY 1	852,159	252,477	99,356
FUND BALANCES - JUNE 30	<u>\$ 441,620</u>	<u>\$ 81,719</u>	<u>\$ 12,907</u>

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

BRINKLEY SCHOOL DISTRICT NO. B
MONROE 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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,781,076	\$ 1,967,134	\$ 186,058			
State assistance	3,650,295	3,719,921	69,626		\$ 3,103	\$ 3,103
Federal assistance	27,000	6,675	(20,325)	\$ 1,686,744	1,218,602	(468,142)
Activity revenues		45,391	45,391			
Meal sales				50,000	149,252	99,252
Investment income	3,000	1,045	(1,955)			
Other revenues	115,000	44,767	(70,233)		14,721	14,721
TOTAL REVENUES	5,576,371	5,784,933	208,562	1,736,744	1,385,678	(351,066)
EXPENDITURES						
Regular programs	2,325,362	2,454,594	(129,232)	160,222	297,728	(137,506)
Special education	172,154	176,718	(4,564)	179,566	133,498	46,068
Workforce education programs	204,753	219,860	(15,107)			
Compensatory education programs	129,643	131,877	(2,234)	467,421	205,912	261,509
Other instructional programs	318,831	383,521	(64,690)	29,387		29,387
Student support services	341,992	373,597	(31,605)	64,779	72,967	(8,188)
Instructional staff support services	418,000	411,863	6,137	328,062	310,314	17,748
General administration support services	252,769	284,449	(31,680)	10,787	17,325	(6,538)
School administration support services	303,986	308,243	(4,257)			
Central services support services	186,795	241,045	(54,250)	198,011	500	197,511
Operation and maintenance of plant services	633,719	689,080	(55,361)	91,222	8,218	83,004
Student transportation services	194,795	192,982	1,813		2,971	(2,971)
Other support services	4,600	9,206	(4,606)			
Food services operations	851	104,382	(103,531)	433,822	507,026	(73,204)
Community services operations				5,000	349	4,651
Activity expenditures		70,893	(70,893)			
Debt Service:						
Principal retirement					8,306	(8,306)
Interest and fiscal charges						
TOTAL EXPENDITURES	5,488,250	6,052,310	(564,060)	1,968,279	1,565,114	403,165

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE 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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 88,121	\$ (267,377)	\$ (355,498)	\$ (231,535)	\$ (179,436)	\$ 52,099
OTHER FINANCING SOURCES (USES)						
Transfers in	2,932,119		(2,932,119)	93,222	11,081	(82,141)
Transfers out	(3,151,976)	(143,162)	3,008,814			
Value of capital lease					33,225	33,225
Refund to grantor					(35,628)	(35,628)
TOTAL OTHER FINANCING SOURCES (USES)	(219,857)	(143,162)	76,695	93,222	8,678	(84,544)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(131,736)	(410,539)	(278,803)	(138,313)	(170,758)	(32,445)
FUND BALANCES - JULY 1	850,959	852,159	1,200	332,818	252,477	(80,341)
FUND BALANCES - JUNE 30	\$ 719,223	\$ 441,620	\$ (277,603)	\$ 194,505	\$ 81,719	\$ (112,786)

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

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 Brinkley 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.

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th 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. 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.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Budget and Budgetary Accounting (Continued)

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

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

J. Stabilization Arrangements

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

K. Minimum Fund Balance Policies

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

L. Fund Balance Classification Policies and Procedures

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

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

M. Encumbrances

The District does not utilize encumbrance accounting.

N. Change in Accounting Principle

The District adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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)	\$ 395,578	\$ 687,124

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$99,309 at June 30, 2011 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance		\$ 93,489	\$ 93,489
Other	\$ 5,820		5,820
Totals	\$ 5,820	\$ 93,489	\$ 99,309

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2011:

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, 2011	Maturities To June 30, 2011
3/1/07	2/1/27	3.5 - 3.9%	\$ 1,940,000	\$ 1,670,000	\$ 270,000
6/30/11	6/30/14	4%	33,225	24,919	8,306
Totals			\$ 1,973,225	\$ 1,694,919	\$ 278,306

Changes in Long-term Debt

	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011
Bonds payable	\$ 1,745,000		\$ 75,000	\$ 1,670,000
Installment contracts		\$ 33,225	8,306	24,919
Totals	\$ 1,745,000	\$ 33,225	\$ 83,306	\$ 1,694,919

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4: COMMITMENTS (CONTINUED)

Long-term Debt Issued and Outstanding (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2012	\$ 88,306	\$ 63,465	\$ 151,771
2013	88,306	60,586	148,892
2014	93,307	57,706	151,013
2015	90,000	53,973	143,973
2016	90,000	50,732	140,732
2017-2021	500,000	201,568	701,568
2022-2026	610,000	98,275	708,275
2027	135,000	5,265	140,265
Totals	<u>\$ 1,694,919</u>	<u>\$ 591,570</u>	<u>\$ 2,286,489</u>

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$77,469 at June 30, 2011 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 46,484	\$ 22,679	\$ 69,163
Other		8,306	8,306
Totals	<u>\$ 46,484</u>	<u>\$ 30,985</u>	<u>\$ 77,469</u>

6: INTERFUND TRANSFERS

The District transferred \$132,081 from the general fund to the other aggregate funds for debt related payments of \$126,630 and bond refunding savings of \$5,451, required to be utilized for capital expenditures. Additionally, the District transferred \$11,081 from the general fund to the special revenue fund to supplement its food services operations.

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.

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

7: RETIREMENT PLANS (CONTINUED)

Arkansas Teacher Retirement System (Continued)

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, 2011, 2010, and 2009 were \$619,496, \$618,530, and \$563,892, 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, 2011, 2010, and 2009 were \$1,627, \$1,844, and \$2,183, respectively, equal to the required contributions for each year.

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 24,313
DEDUCTIONS	
Scholarships	4,500
Other	13,788
TOTAL DEDUCTIONS	18,288
CHANGE IN FUND BALANCE	6,025
FUND BALANCE - JULY 1	6,210
FUND BALANCE - JUNE 30	\$ 12,235

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, vehicles, and mobile equipment.

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 \$98,861 for the year ended June 30, 2011.

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted for:				
Educational programs - national school lunch state categorical funding	\$ 54,429			\$ 54,429
Child nutrition programs		\$ 31,424		31,424
Medical services		3,868		3,868
Special education programs	11,698			11,698
Other purposes	50,210	46,427		96,637
Total Restricted	<u>116,337</u>	<u>81,719</u>		<u>198,056</u>
Assigned to:				
Capital projects			\$ 12,907	12,907
Student activities	23,072			23,072
Total Assigned	<u>23,072</u>		<u>12,907</u>	<u>35,979</u>
Unassigned	<u>302,211</u>			<u>302,211</u>
Totals	<u>\$ 441,620</u>	<u>\$ 81,719</u>	<u>\$ 12,907</u>	<u>\$ 536,246</u>

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

Schedule 1

	Balance June 30, 2011
<i>Nondepreciable capital assets:</i>	
Land	\$ 222,659
<i>Depreciable capital assets:</i>	
Buildings	8,284,258
Improvements/infrastructure	198,873
Equipment	1,871,569
Total depreciable capital assets	10,354,700
Less accumulated depreciation for:	
Buildings	3,734,349
Improvements/infrastructure	82,224
Equipment	1,514,931
Total accumulated depreciation	5,331,504
Total depreciable capital assets, net	5,023,196
Capital assets, net	\$ 5,245,855

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011

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>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 1,063
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	48-01	90,474
National School Lunch Program - Cash Assistance	10.555	48-01	211,149
Total State Department of Education			<u>301,623</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	4801000	<u>23,264</u>
TOTAL CHILD NUTRITION CLUSTER			<u><u>325,950</u></u>
TITLE I, PART A CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	48-01	390,901
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	48-01	<u>92,578</u>
TOTAL TITLE I, PART A CLUSTER			<u><u>483,479</u></u>
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	48-01	167,424
ARRA - Special Education - Grants to States, Recovery Act	84.391	48-01	<u>1,979</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u><u>169,403</u></u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Twenty-First Century Community Learning Centers	84.287	48-01	6,443
Reading First State Grants	84.357	48-01	20,761
Rural Education	84.358	48-01	18,701
Improving Teacher Quality State Grants	84.367	48-01	165,115
School Improvement Grants	84.377	48-01	45,069
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	48-01	94,989
ARRA - Education Jobs Fund, Recovery Act	84.410	48-01	130,867
Total U. S. Department of Education			<u>481,945</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	48-01	<u>1,500</u>
TOTAL OTHER PROGRAMS			<u><u>483,445</u></u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,462,277</u></u>

The accompanying notes are an integral part of this schedule.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

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 Brinkley School District No. B (District) under programs of the federal government for the year ended June 30, 2011. 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 this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: During the year ended June 30, 2011, the District received Medicaid funding of \$12,590 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2011-1. Internal Control - Segregation of Duties

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: the same employee was responsible for receiving and depositing monies collected, preparation of non-payroll checks, maintenance of accounting records, and preparation of bank reconciliations, without compensating controls. Additionally, such employee had unrestricted access to the District's signature stamp. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect: The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weaknesses in the above internal control component.

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

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Views of responsible officials and planned corrective actions: We concur with the recommendation and will implement corrective procedures to the extent possible.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2011-2. Internal Control - Expenditures

Criteria or specific requirement: The District internal control system should function to prevent, or detect and correct, possible instances of improper disbursements.

Condition: The District's internal control over expenditures appeared to be inadequate. The District:

- Allowed a Board Member to purchase and charge goods to District vendor accounts.
- Paid invoices created and submitted by this Board Member, who also received and delivered vendor checks.
- Paid service providers and employees, who were supervised by this Board Member, without adequate documentation to support duties performed or hours worked.
- Disbursed funds without proper authorization from the Superintendent.
- Did not obtain dual signatures on all checks.
- Paid vendors in advance for materials.

Context: Identification of weaknesses in the District's internal control system over expenditures.

Effect: Inadequate control over expenditures could result in misappropriation of assets.

Cause: Internal control did not function properly.

Recommendation: District management should establish and maintain internal control that will safeguard District assets.

Views of responsible officials and planned corrective actions: The District will follow Board approved policies and rules and regulations set by the Department of Education when it comes to purchases made on behalf of the District.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I, PART A CLUSTER - CFDA NUMBERS 84.010 AND 84.389
PASS-THROUGH NUMBER 48-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-3. Procurement and Suspension and Debarment

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

Condition: The District failed to establish internal controls to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. Although goods and services had been properly received or rendered, the District did not verify that applicable vendors had not been suspended or debarred by the Federal Government. However, no vendors with which the District conducted business were identified during the audit period as suspended or debarred parties.

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

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

Cause: Lack of internal controls and adequate management oversight.

Recommendation: Establish an internal control system to ensure applicable transactions are not conducted with suspended or debarred parties.

Views of responsible officials and planned corrective actions: The District will take all necessary steps to obtain the documentation by the means of EPLS reporting for purchases made with federal funds of and over the \$25,000 requirement. Debarment list documentation will be reviewed and attached to invoice.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

SIGNIFICANT DEFICIENCIES (CONTINUED)

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBERS 84.010
PASS-THROUGH NUMBER 48-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-4. Reporting

Criteria or specific requirement: The District is required to budget Title I expenditures as part of the Arkansas Comprehensive School Improvement Plan (ACSIP) and submit the ACSIP to the Arkansas Department of Education (ADE). Expenditures may not exceed the budgeted amounts for specific categories by more than 10 percent without prior approval from the ADE and the submission of budget amendments or adjustments. Additionally, the annual financial report is compiled at the end of the fiscal year for the Title I program.

Condition: The District's Title I (non-ARRA) expenditures for object 61000 (Personal Services - Salaries) exceeded the budget by \$1,350 more than the 10 percent allowed. Total expenditures did not exceed the total overall budget.

Context: Comparison of budgeted expenditures to actual expenditures as reported on the annual financial report.

Effect: The District's expenditures for object 61000 (Personal Services - Salaries) exceeded the budgeted amount by more than 10 percent without proper 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 that program expenditures do not exceed approved budget categories and contact the ADE for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: The District will adjust necessary budget amounts with Board approval.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 4

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

2010 - Finding 2010-2: ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act - CFDA Number 84.394

Condition: The District failed to establish internal controls to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. Although goods and services had been properly received or rendered, the District did not verify that applicable vendors had not been suspended or debarred. However, no vendors with which the District conducted business were identified during the audit period as suspended or debarred parties.

Recommendation: Establish an internal control system to ensure applicable transactions are not conducted with suspended or debarred parties.

Current Status: Corrective action was taken for this program. However, exceptions were observed in the current audit period for another program. See finding 2011-3 at Schedule 3.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION CLUSTER (IDEA)

2010 - Finding 2010-3: Special Education Cluster (IDEA) - CFDA Numbers 84.027 and 84.391

Condition: Non-ARRA special education expenditures for 13 budget categories (function/object) exceeded the budget by \$40,365 more than the 10 percent allowed. Special education ARRA expenditures and ARRA expenditures for Coordinated Early Intervening Services (CEIS) for one budget category exceeded the budget by \$9,490 and \$24,905, respectively, more than the 10 percent allowed.

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

Current Status: Corrective action was taken.

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

	Year Ended June 30,				
	2011	2010	2009	2008	2007
<u>General Fund</u>					
Total Assets	\$ 488,104	\$ 859,338	\$ 1,063,094	\$ 1,108,834	\$ 753,879
Total Liabilities	46,484	7,179	63,057	8,947	17,337
Total Fund Balances	441,620	852,159	1,000,037	1,099,887	736,542
Total Revenues	5,784,933	6,230,780	6,605,616	6,801,150	7,147,537
Total Expenditures	6,052,310	6,241,780	6,430,130	6,205,785	6,907,278
Total Other Financing Sources (Uses)	(143,162)	(136,878)	(275,336)	(232,020)	(284,787)
<u>Special Revenue Fund</u>					
Total Assets	131,598	276,432	497,831	321,928	336,196
Total Liabilities	49,879	23,955	53,619	617	36
Total Fund Balances	81,719	252,477	444,212	321,311	336,160
Total Revenues	1,385,678	1,881,454	1,583,229	1,696,423	1,657,010
Total Expenditures	1,565,114	2,063,918	1,560,004	1,819,915	1,885,285
Total Other Financing Sources (Uses)	8,678	(9,271)	99,676	108,643	124,054
<u>Other Aggregate Funds</u>					
Total Assets	12,907	100,266	179,266	173,640	143,494
Total Liabilities		910			
Total Fund Balances	12,907	99,356	179,266	173,640	143,494
Total Revenues	129,330	19,007	23,981	29,305	37,956
Total Expenditures	347,860	196,701	194,015	164,438	222,027
Total Other Financing Sources (Uses)	132,081	97,784	175,660	165,279	161,719