

Brinkley School District No. B

Monroe County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2012

Independent Auditor's Report

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*

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

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet - Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Regulatory Basis	B
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis	C
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	3
Federal Award Programs - Summary Schedule of Prior Audit Findings	4
Schedule of Selected Information for the Last Five Years - Regulatory Basis (Unaudited)	5

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

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, 2012, 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, 2012, 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, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 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 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), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information 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. The 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 (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole.

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) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information has 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.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
November 28, 2012
EDSD25812

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, 2012, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated November 28, 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, 2012, 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be a material weakness.

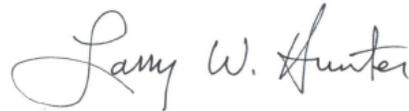
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free 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*.

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

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 28, 2012

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 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, 2012. 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, 2012. 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 2012-2, 2012-3, and 2012-4.

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.

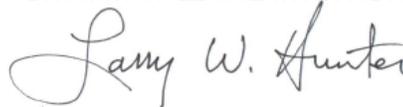
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 2012-2, 2012-3, and 2012-4. 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
November 28, 2012

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2012

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 407,003		\$ 150,000	\$ 20,603
Investments				
Accounts receivable	3,990	\$ 209,857		
Due from other funds	166,398			
TOTAL ASSETS	\$ 577,391	\$ 209,857	\$ 150,000	\$ 20,603
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 11,956	\$ 2,163		
Due student groups				\$ 15,603
Due to other funds		166,358		40
Total Liabilities	11,956	168,521		15,643
Fund Balances:				
Restricted	49,571	41,336		4,960
Committed			\$ 150,000	
Assigned	31,105			
Unassigned	484,759			
Total Fund Balances	565,435	41,336	150,000	4,960
TOTAL LIABILITIES AND FUND BALANCES	\$ 577,391	\$ 209,857	\$ 150,000	\$ 20,603

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, 2012

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,945,299		
State assistance	3,483,388	\$ 2,760	\$ 12,774
Federal assistance	11,593	1,840,710	
Activity revenues	47,494		
Meal sales		137,089	
Other revenues	220,770	45,531	
TOTAL REVENUES	5,708,544	2,026,090	12,774
EXPENDITURES			
Regular programs	2,001,573	498,918	
Special education	190,208	157,695	
Workforce education programs	142,237	1,818	
Compensatory education programs	60,203	394,696	
Other instructional programs	369,832		
Student support services	241,743	73,036	
Instructional staff support services	359,107	303,674	
General administration support services	240,007	28,790	
School administration support services	288,848		
Central services support services	211,270	21,594	
Operation and maintenance of plant services	860,913	10,143	13,271
Student transportation services	182,665		
Other support services	14,442		
Food services operations	84,170	503,292	
Community services operations		1,017	
Non-programmed costs		44,509	
Activity expenditures	39,238		
Debt Service:			
Principal retirement		8,306	80,000
Interest and fiscal charges		673	63,192
TOTAL EXPENDITURES	5,286,456	2,048,161	156,463
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	422,088	(22,071)	(143,689)
OTHER FINANCING SOURCES (USES)			
Proceeds from refunding bond issue			1,665,000
Payment to refunding bond escrow agent			(1,621,360)
Net bond issuance costs			(38,696)
Transfers in		22,435	275,838
Transfers out	(298,273)		
Refund to grantor		(40,747)	
TOTAL OTHER FINANCING SOURCES (USES)	(298,273)	(18,312)	280,782
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	123,815	(40,383)	137,093
FUND BALANCES - JULY 1	441,620	81,719	12,907
FUND BALANCES - JUNE 30	\$ 565,435	\$ 41,336	\$ 150,000

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,204,000	\$ 1,945,299	\$ 741,299			
State assistance	3,423,065	3,483,388	60,323		\$ 2,760	\$ 2,760
Federal assistance		11,593	11,593	\$ 1,721,356	1,840,710	119,354
Activity revenues		47,494	47,494			
Meal sales				130,000	137,089	7,089
Other revenues		220,770	220,770		45,531	45,531
TOTAL REVENUES	4,627,065	5,708,544	1,081,479	1,851,356	2,026,090	174,734
EXPENDITURES						
Regular programs	1,493,416	2,001,573	(508,157)	474,224	498,918	(24,694)
Special education	219,440	190,208	29,232	105,249	157,695	(52,446)
Workforce education programs	163,135	142,237	20,898		1,818	(1,818)
Compensatory education programs	119,110	60,203	58,907	344,222	394,696	(50,474)
Other instructional programs	380,063	369,832	10,231			
Student support services	293,324	241,743	51,581	89,286	73,036	16,250
Instructional staff support services	328,167	359,107	(30,940)	387,856	303,674	84,182
General administration support services	256,275	240,007	16,268	30,519	28,790	1,729
School administration support services	267,629	288,848	(21,219)			
Central services support services	158,838	211,270	(52,432)		21,594	(21,594)
Operation and maintenance of plant services	488,183	860,913	(372,730)		10,143	(10,143)
Student transportation services	177,839	182,665	(4,826)			
Other support services		14,442	(14,442)			
Food services operations	177,000	84,170	92,830	383,524	503,292	(119,768)
Community services operations				10,000	1,017	8,983
Non-programmed costs					44,509	(44,509)
Activity expenditures		39,238	(39,238)			
Debt Service:						
Interest and fiscal charges					673	(673)
TOTAL EXPENDITURES	4,522,419	5,286,456	(764,037)	1,824,880	2,048,161	(223,281)

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 104,646	\$ 422,088	\$ 317,442	\$ 26,476	\$ (22,071)	\$ (48,547)
OTHER FINANCING SOURCES (USES)						
Transfers in	2,335,973		(2,335,973)		22,435	22,435
Transfers out	(2,466,442)	(298,273)	2,168,169			
Refund to grantor					(40,747)	(40,747)
TOTAL OTHER FINANCING SOURCES (USES)	(130,469)	(298,273)	(167,804)		(18,312)	(18,312)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(25,823)	123,815	149,638	26,476	(40,383)	(66,859)
FUND BALANCES - JULY 1	512,073	441,620	(70,453)	107,459	81,719	(25,740)
FUND BALANCES - JUNE 30	<u>\$ 486,250</u>	<u>\$ 565,435</u>	<u>\$ 79,185</u>	<u>\$ 133,935</u>	<u>\$ 41,336</u>	<u>\$ (92,599)</u>

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, 2012

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, 2012

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

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.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Taxes (Continued)

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2011 calendar year taxes collected by June 30, 2012 and 36 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2012 equaled or exceeded the 36 percent calculation.

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

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. Committed fund balance – represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Education.
3. 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.
4. 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.

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.

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 District's highest level of decision-making authority is its Board of Education. The establishment of amounts classified as committed fund balances and subsequent modifications to such balances are the result of formal action taken by the District's Board of Education through a resolution or adoption of board policy.

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)	\$ 577,606	\$ 939,092

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$213,847 at June 30, 2012 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance		\$ 209,857	\$ 209,857
Other	\$ 3,990		3,990
Totals	\$ 3,990	\$ 209,857	\$ 213,847

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2012:

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, 2012	Maturities To June 30, 2012
5/1/12	2/1/27	1 - 2.45%	\$ 1,665,000	\$ 1,665,000	
6/30/11	6/30/14	4%	33,225	16,613	\$ 16,612
Totals			\$ 1,698,225	\$ 1,681,613	\$ 16,612

Changes in Long-term Debt

	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012
Bonds payable	\$ 1,670,000	\$ 1,665,000	\$ 1,670,000	\$ 1,665,000
Installment contracts	24,919		8,306	16,613
Totals	\$ 1,694,919	\$ 1,665,000	\$ 1,678,306 *	\$ 1,681,613

*Includes \$1,590,000 early retirement of debt - See Note 6.

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

4: COMMITMENTS (CONTINUED)

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 13,306	\$ 25,228	\$ 38,534
2014	113,307	33,362	146,669
2015	110,000	31,640	141,640
2016	110,000	30,540	140,540
2017	105,000	28,890	133,890
2018-2022	585,000	113,875	698,875
2023-2027	645,000	47,583	692,583
Totals	<u>\$ 1,681,613</u>	<u>\$ 311,118</u>	<u>\$ 1,992,731</u>

5: ACCOUNTS PAYABLE

The accounts payable balance of \$14,119 at June 30, 2012 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	<u>\$ 11,956</u>	<u>\$ 2,163</u>	<u>\$ 14,119</u>

6: DEBT REFUNDINGS

On May 1, 2012, the District issued \$1,665,000 in refunding bonds with interest rates from 1 to 2.45 percent to advance refund \$1,590,000 of outstanding bonds dated March 1, 2007 with interest rates of 3.5 to 3.9 percent. The net bond proceeds of \$1,621,360 were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2007 Series bonds. The 2007 Series bonds were called on August 1, 2012. The remaining proceeds of \$4,944, after payment of net bond issuance costs of \$38,696, will be utilized for future debt payments. The debt refunding will result in a savings of \$146,928 over the next 15 fiscal years. At June 30, 2012, the outstanding principal of the 2007 bond issue to be called was \$1,590,000.

7: INTERFUND TRANSFERS

The District transferred \$275,838 from the general fund to the other aggregate funds for debt related payments of \$125,474, capital projects of \$150,000, and refunding savings of \$364, required to be utilized for capital expenditures. Additionally, the District transferred \$22,435 from the general fund to the special revenue fund to supplement its food services operations.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8: RETIREMENT PLANS

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2012, 2011, and 2010 were \$588,016, \$619,496, and \$618,530, 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, 2012, 2011, and 2010 were \$2,033, \$1,627, and \$1,844, respectively, equal to the required contributions for each year.

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 9,400
DEDUCTIONS	
Scholarships	6,750
Other	9,925
TOTAL DEDUCTIONS	16,675
CHANGE IN FUND BALANCE	(7,275)
FUND BALANCE - JULY 1	12,235
FUND BALANCE - JUNE 30	\$ 4,960

10: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$1,665,000 issued on May 1, 2012. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$1,974,773, payable through February 1, 2027. Principal and interest paid for the current year and total property taxes pledged for debt service were \$142,792 and \$590,634, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 24.18 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 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.

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

11: RISK MANAGEMENT (CONTINUED)

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.

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 \$77,398 for the year ended June 30, 2012.

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

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Fund Balances:				
Restricted for:				
Alternative learning environment	\$ 437			\$ 437
Educational programs - national school lunch state categorical funding	75			75
Child nutrition programs		\$ 35,913		35,913
Medical services		1,665		1,665
Other purposes	49,059	3,758		52,817
Total Restricted	<u>49,571</u>	<u>41,336</u>		<u>90,907</u>
Committed to:				
Capital projects			\$ 150,000	150,000
Assigned to:				
Student activities	31,105			31,105
Unassigned	484,759			484,759
Totals	<u>\$ 565,435</u>	<u>\$ 41,336</u>	<u>\$ 150,000</u>	<u>\$ 756,771</u>

14: FISCAL DISTRESS STATUS

On April 9, 2012, the State Board of Education classified the District in Fiscal Distress. The District is currently coordinating with the Arkansas Department of Education to address significant cost reduction measures.

BRINKLEY SCHOOL DISTRICT NO. B
 MONROE COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012
 (Unaudited)

Schedule 1

	Balance June 30, 2012
<i>Nondepreciable capital assets:</i>	
Land	\$ 222,659
<i>Depreciable capital assets:</i>	
Buildings	8,284,258
Improvements/infrastructure	198,873
Equipment	2,001,360
Total depreciable capital assets	10,484,491
Less accumulated depreciation for:	
Buildings	3,875,823
Improvements/infrastructure	91,725
Equipment	1,623,125
Total accumulated depreciation	5,590,673
Total depreciable capital assets, net	4,893,818
Capital assets, net	\$ 5,116,477

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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		\$ 1,203
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	48-01	103,057
National School Lunch Program - Cash Assistance	10.555	48-01	217,689
Total State Department of Education			320,746
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	4801000	26,563
TOTAL CHILD NUTRITION CLUSTER			348,512
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	528,295
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	48-01	206,270
TOTAL TITLE I, PART A CLUSTER			734,565
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	162,393
ARRA - Special Education - Grants to States, Recovery Act	84.391	48-01	44,427
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			206,820
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Career and Technical Education - Basic Grants to States	84.048	48-01	1,818
Passed Through State Department of Education:			
Twenty-First Century Community Learning Centers	84.287	48-01	3,924
Rural Education	84.358	48-01	15,135
Improving Teacher Quality State Grants	84.367	48-01	120,782
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	48-01	404,485
ARRA - Education Jobs Fund, Recovery Act	84.410	48-01	6,591
Total State Department of Education			550,917
Total U. S. Department of Education			552,735
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Human Services:			
Child Care and Development Bock Grant	93.575	48-01	1,500
TOTAL OTHER PROGRAMS			554,235
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,844,132

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, 2012

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, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: During the year ended June 30, 2012, the District received Medicaid funding of \$21,080 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, 2012

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2012-1. Internal Control

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

Condition: 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 include 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, 2012

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SCHOOL BREAKFAST PROGRAM - CASH ASSISTANCE - CFDA NUMBER 10.553
NATIONAL SCHOOL LUNCH PROGRAM - CASH ASSISTANCE - CFDA NUMBER 10.555
PASS-THROUGH NUMBER 48-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

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, 2012

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT - CFDA
NUMBER 84.394
PASS-THROUGH NUMBER 48-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

2012-2. 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 (ADE) 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, including retention of verification documentation, to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. The goods and services had been properly received or rendered, and District personnel indicated the *EPLS* website was used to verify that applicable vendors had not been suspended or debarred by the Federal Government; however, supporting documentation was not maintained of the *EPLS* website verification as required by ADE Commissioner's Memo FIN-10-047. No vendors with which the District conducted business were identified during the audit period as suspended or debarred parties. A similar finding was reported in the previous audit.

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

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

Cause: Lack of internal controls, verification documentation, and adequate management oversight.

Recommendation: Establish an internal control system, including retention of verification documentation, to ensure applicable transactions are not conducted with suspended or debarred parties.

Views of responsible officials and planned corrective actions: The District continues to use the *EPLS* website for verifying suspended or debarred vendors. Supporting documentation is printed off and maintained with invoice, bid, and other documentation.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

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 NUMBER 84.010
PASS-THROUGH NUMBER 48-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

2012-3. Allowable Costs/Cost Principles

Criteria or specific requirement: Costs charged to a federal program must be allowable per the applicable cost principles. Indirect costs claimed must be calculated in accordance with a prescribed formula.

Condition: The District claimed indirect costs in excess of the allowable amount by \$2,296.

Questioned costs: The amount of questioned costs was \$2,296.

Context: An examination of disbursements disclosed the District claimed costs in excess of the allowable amount by \$2,296.

Effect: The District claimed excessive indirect costs of \$2,296.

Cause: Lack of internal controls and management oversight regarding indirect costs contributed to the claiming of excessive costs.

Recommendation: The District should contact the Arkansas Department of Education to resolve this issue.

Views of responsible officials and planned corrective actions: The Title I indirect cost factor will be updated to current percentage at time of year-end transfer.

2012-4. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires the preparation of monthly personnel activity reports or equivalent documentation when District employees work multiple activities. Periodic time certifications are required when an employee works solely on a single federal program.

Condition: Although standard payroll documentation supporting the employee's work in the Title I program was available for audit inspection, periodic time certifications were not prepared for one employee who worked solely on a single federal program.

Context: Examination of documentation substantiating time worked by employees.

Effect: The District was unable to provide required documentation substantiating the time charged to the Title I program.

Cause: Lack of internal controls and management oversight resulted in the lack of required supporting documentation pertaining to time charged to federal programs.

Recommendation: The District should prepare the periodic time certifications or monthly personnel activity reports for all applicable employees.

Views of responsible officials and planned corrective actions: The District will take the necessary steps to insure that all time distribution sheets are kept on file for all federal employees.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I, PART A CLUSTER

2011 - Finding 2011-3: Title I, Part A Cluster - CDFA Numbers 84.010 and 84.389

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.

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

Current Status: Exceptions were observed during the current audit period. See Finding No. 2012- 2 at Schedule 3.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2011 - Finding 2011-4: Title I Grants to Local Educational Agencies - CDFA Number 84.010

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.

Recommendation: The District should implement procedures to ensure that program expenditures do not exceed approved 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, 2012
 (Unaudited)

	Year Ended June 30,				
	2012	2011	2010	2009	2008
<u>General Fund</u>					
Total Assets	\$ 577,391	\$ 488,104	\$ 859,338	\$ 1,063,094	\$ 1,108,834
Total Liabilities	11,956	46,484	7,179	63,057	8,947
Total Fund Balances	565,435	441,620	852,159	1,000,037	1,099,887
Total Revenues	5,708,544	5,784,933	6,230,780	6,605,616	6,801,150
Total Expenditures	5,286,456	6,052,310	6,241,780	6,430,130	6,205,785
Total Other Financing Sources (Uses)	(298,273)	(143,162)	(136,878)	(275,336)	(232,020)
<u>Special Revenue Fund</u>					
Total Assets	209,857	131,598	276,432	497,831	321,928
Total Liabilities	168,521	49,879	23,955	53,619	617
Total Fund Balances	41,336	81,719	252,477	444,212	321,311
Total Revenues	2,026,090	1,385,678	1,881,454	1,583,229	1,696,423
Total Expenditures	2,048,161	1,565,114	2,063,918	1,560,004	1,819,915
Total Other Financing Sources (Uses)	(18,312)	8,678	(9,271)	99,676	108,643
<u>Other Aggregate Funds</u>					
Total Assets	150,000	12,907	100,266	179,266	173,640
Total Liabilities			910		
Total Fund Balances	150,000	12,907	99,356	179,266	173,640
Total Revenues	12,774	129,330	19,007	23,981	29,305
Total Expenditures	156,463	347,860	196,701	194,015	164,438
Total Other Financing Sources (Uses)	280,782	132,081	97,784	175,660	165,279