

Lee County School District No. 1

Lee County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



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LEE COUNTY, ARKANSAS
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Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Lee County School District No. 1 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 Lee County School District No. 1 (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 March 13, 2013 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

A handwritten signature in dark ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

Little Rock, Arkansas
March 13, 2013
EDSD21312

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
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*

Lee County School District No. 1 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 Lee County School District No. 1 (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 March 13, 2013. 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

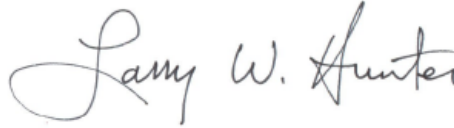
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements,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

We noted certain matters that we reported to management of the District in a separate letter dated March 13, 2013.

The District's response to the findings identified in our audit, excluding the management letter finding, is described in the accompanying Schedule of Findings and Questioned Costs. 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 dark ink, reading "Larry W. Hunter". The signature is fluid and cursive, with the first name "Larry" being the most prominent.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 13, 2013

Sen. Bryan B. King
Senate 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

INDEPENDENT AUDITOR'S REPORT

Lee County School District No. 1 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Lee County School District No. 1 (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.

As described in item 2012-2 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding period of availability of federal funds that are applicable to its ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instance 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 item 2012-3.

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.

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

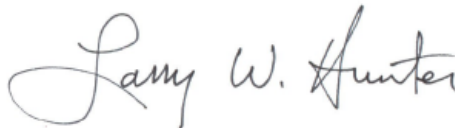
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-3 to be a significant deficiency.

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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 13, 2013

Sen. Bryan B. King
Senate Chair
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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Lee County School District No. 1 and School Board Members
Legislative Joint Auditing Committee

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

The capital asset subsidiary records were not updated from the previous year. We noted capital purchases of \$338,520 that were not added to the subsidiary records, no capital asset deletions, and depreciation records were not updated for the current fiscal year. Additionally, 6 of 47 items selected for observation could not be located.

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 13, 2013

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2012

Exhibit A

	Governmental Funds			
	Major			Fiduciary
	General	Special Revenue	Other Aggregate	Fund Types
ASSETS				
Cash	\$ 1,280,132	\$ 52,193		\$ 15,894
Investments	27,474			
Accounts receivable	12,939	473,139		
 TOTAL ASSETS	 \$ 1,320,545	 \$ 525,332	 \$ 0	 \$ 15,894
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 178,534	\$ 26,296	\$ 200	\$ 551
Due student groups				15,343
Total Liabilities	178,534	26,296	200	15,894
 Fund Balances:				
Restricted	265,621	499,036		
Assigned	27,897			
Unassigned	848,493		(200)	
Total Fund Balances	1,142,011	499,036	(200)	
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 1,320,545	 \$ 525,332	 \$ 0	 \$ 15,894

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

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,430,976		
State assistance	6,365,268	\$ 4,602	
Federal assistance	30,526	2,863,982	\$ 297,983
Activity revenues	76,461		
Meal sales		67,479	
Investment income	2,743		
Other revenues	218,282	83,686	
TOTAL REVENUES	9,124,256	3,019,749	297,983
EXPENDITURES			
Regular programs	4,028,338	233,726	
Special education	337,472	191,600	
Workforce education programs	340,091		
Compensatory education programs	200,382	627,638	
Other instructional programs	129,475		
Student support services	428,725	202,179	
Instructional staff support services	878,794	387,235	
General administration support services	419,411	57,308	
School administration support services	306,681	52,695	
Central services support services	260,689	169,475	
Operation and maintenance of plant services	1,464,706	1,180	261,175
Student transportation services	564,506	10,496	
Other support services	27,786		
Food services operations	59,389	677,593	
Facilities acquisition and construction services	11,253		36,808
Activity expenditures	61,127		
Debt Service:			
Principal retirement			70,000
Interest and fiscal charges			10,180
TOTAL EXPENDITURES	9,518,825	2,611,125	378,163
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(394,569)	408,624	(80,180)
OTHER FINANCING SOURCES (USES)			
Transfers in		514	79,980
Transfers out	(80,494)		
Settlement of lawsuit	(125,000)		
TOTAL OTHER FINANCING SOURCES (USES)	(205,494)	514	79,980
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(600,063)	409,138	(200)
FUND BALANCES - JULY 1	1,742,074	89,898	
FUND BALANCES - JUNE 30	\$ 1,142,011	\$ 499,036	\$ (200)

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

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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)	\$ 3,374,992	\$ 2,430,976	\$ (944,016)			
State assistance	6,707,301	6,365,268	(342,033)	\$ 4,602	\$ 4,602	
Federal assistance	32,000	30,526	(1,474)	3,519,499	2,863,982	\$ (655,517)
Activity revenues	99,988	76,461	(23,527)			
Meal sales				84,479	67,479	(17,000)
Investment income	5,500	2,743	(2,757)			
Other revenues	170,612	218,282	47,670	675	83,686	83,011
TOTAL REVENUES	10,390,393	9,124,256	(1,266,137)	3,609,255	3,019,749	(589,506)
EXPENDITURES						
Regular programs	3,767,770	4,028,338	(260,568)	191,322	233,726	(42,404)
Special education	345,202	337,472	7,730	212,705	191,600	21,105
Workforce education programs	355,694	340,091	15,603	(970)		(970)
Compensatory education programs	368,471	200,382	168,089	1,053,213	627,638	425,575
Other instructional programs	182,842	129,475	53,367			
Student support services	287,345	428,725	(141,380)	249,949	202,179	47,770
Instructional staff support services	943,981	878,794	65,187	857,347	387,235	470,112
General administration support services	517,455	419,411	98,044	85,000	57,308	27,692
School administration support services	346,460	306,681	39,779	13,431	52,695	(39,264)
Central services support services	304,032	260,689	43,343	349,400	169,475	179,925
Operation and maintenance of plant services	1,196,423	1,464,706	(268,283)	283,747	1,180	282,567
Student transportation services	497,636	564,506	(66,870)	39,950	10,496	29,454
Other support services	22,500	27,786	(5,286)			
Food services operations	104,528	59,389	45,139	697,987	677,593	20,394
Facilities acquisition and construction services		11,253	(11,253)	55,000		55,000
Non-programmed costs				1,749		1,749
Activity expenditures	73,200	61,127	12,073			
TOTAL EXPENDITURES	9,313,539	9,518,825	(205,286)	4,089,830	2,611,125	1,478,705

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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	\$ 1,076,854	\$ (394,569)	\$ (1,471,423)	\$ (480,575)	\$ 408,624	\$ 889,199
OTHER FINANCING SOURCES (USES)						
Transfers in	11,737,399		(11,737,399)		514	514
Transfers out	(10,465,256)	(80,494)	10,384,762			
Settlement of lawsuit		(125,000)	(125,000)			
TOTAL OTHER FINANCING SOURCES (USES)	1,272,143	(205,494)	(1,477,637)		514	514
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	2,348,997	(600,063)	(2,949,060)	(480,575)	409,138	889,713
FUND BALANCES - JULY 1	1,803,171	1,742,074	(61,097)	100,460	89,898	(10,562)
FUND BALANCES - JUNE 30	\$ 4,152,168	\$ 1,142,011	\$ (3,010,157)	\$ (380,115)	\$ 499,036	\$ 879,151

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

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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 Lee County 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).

C. Measurement Focus and Basis of Accounting

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

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

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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 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	20-50
Equipment	5-20

F. Property Taxes

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

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 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 District elected not to accrue property 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.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance Classifications

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

H. Budget and Budgetary Accounting

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

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

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

I. Stabilization Arrangements

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

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

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

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.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 277,474	\$ 277,474
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	1,098,219	1,971,064
Total Deposits	<u>\$ 1,375,693</u>	<u>\$ 2,248,538</u>

The above total deposits include certificates of deposit of \$27,474 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$486,078 at June 30, 2012 was comprised of the following:

	Governmental Funds		
	Major		
Description	General	Special Revenue	Total
Federal assistance		\$ 446,692	\$ 446,692
Other	\$ 12,939	26,447	39,386
Totals	<u>\$ 12,939</u>	<u>\$ 473,139</u>	<u>\$ 486,078</u>

4: COMMITMENTS

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

A. Operating Leases (noncapital leases with initial noncancellable lease terms in excess of one year)

General description of leases and leasing arrangements:

- (a) On October 16, 2009, the District executed a lease for a copier for 60 months at \$293 per month.
- (b) On July 30, 2010, the District executed a lease for copiers for 60 months at \$5,885 per month.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4: COMMITMENTS (Continued)

A. Operating Leases (noncapital leases with initial noncancellable lease terms in excess of one year)
(Continued)

1. Future minimum rental payments (aggregate) at June 30, 2012: \$220,064
2. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2013	\$ 74,136
2014	74,136
2015	<u>71,792</u>
Total	<u>\$ 220,064</u>

Rental payments for the operating leases described above were approximately \$81,396 for the year ended June 30, 2012.

B. Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2012</u>	<u>Maturities To June 30, 2012</u>
10/1/03	6/1/15	2.55 - 3.25%	<u>\$ 798,475</u>	<u>\$ 230,000</u>	<u>\$ 568,475</u>

Changes in Long-term Debt

	<u>Balance July 1, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2012</u>
Bonds payable	<u>\$ 300,000</u>	<u>\$ 0</u>	<u>\$ 70,000</u>	<u>\$ 230,000</u>

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 75,000	\$ 7,475	\$ 82,475
2014	75,000	5,037	80,037
2015	<u>80,000</u>	<u>2,600</u>	<u>82,600</u>
Totals	<u>\$ 230,000</u>	<u>\$ 15,112</u>	<u>\$ 245,112</u>

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$205,581 at June 30, 2012 was comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types	Total
	Major		Other Aggregate		
	General	Special Revenue			
Vendor payables	\$ 76,025	\$ 18,917	\$ 200	\$ 551	\$ 95,693
Salaries payable	88,166	7,379			95,545
Other	14,343				14,343
Totals	\$ 178,534	\$ 26,296	\$ 200	\$ 551	\$ 205,581

6: INTERFUND TRANSFERS

The District transferred \$79,980 from the general fund to other aggregate funds for debt related payments and \$514 from the general fund to the special revenue fund to reimburse prior year expenditures pertaining to the Safe and Drug-Free program.

7: RETIREMENT PLANS

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2012, 2011, and 2010 were \$947,751, \$963,216, and \$1,092,038, 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 \$4,487, \$5,132, and \$7,692, respectively, equal to the required contributions for each year.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8: DEFICIT FUND BALANCES

The deficit unassigned fund balance of \$200 in the other aggregate funds in the table below (Note 11) pertains to the debt service fund. The temporary deficit was caused by the recognition of a minor accounts payable at year end.

9: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$798,475 issued on October 1, 2003. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$245,112, payable through June 1, 2015. Principal and interest paid for the current year and total property taxes pledged for debt service were \$79,750 and \$120,162, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 66.37 percent.

10: RISK MANAGEMENT

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

The District carries commercial insurance for board liability and student 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.

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.

The District participates in the Public School Property and Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member districts, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

11: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$186,952 for the year ended June 30, 2012.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

12: 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	\$ 996			\$ 996
Educational programs - national school lunch state categorical funding	226,670			226,670
Professional development	4,767			4,767
Child nutrition programs		\$ 74,372		74,372
Medical services		18,349		18,349
Special education programs	4,484			4,484
Title I programs		368,081		368,081
Other purposes	28,704	38,234		66,938
Total Restricted	<u>265,621</u>	<u>499,036</u>		<u>764,657</u>
Assigned to:				
Student activities	<u>27,897</u>			<u>27,897</u>
Unassigned	<u>848,493</u>		\$ (200)	<u>848,293</u>
Totals	<u>\$ 1,142,011</u>	<u>\$ 499,036</u>	<u>\$ (200)</u>	<u>\$ 1,640,847</u>

13: LAWSUIT SETTLEMENT

On March 23, 2012, the District settled a lawsuit with a former finance officer. The amount of the settlement was \$125,000 and was paid May 3, 2012.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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	\$ 427,358
Construction in progress	6,841
Total nondepreciable capital assets	<u>434,199</u>
<i>Depreciable capital assets:</i>	
Buildings	8,655,179
Improvements/infrastructure	125,014
Equipment	3,816,177
Total depreciable capital assets	<u>12,596,370</u>
Less accumulated depreciation for:	
Buildings	4,348,683
Improvements/infrastructure	56,541
Equipment	2,816,502
Total accumulated depreciation	<u>7,221,726</u>
Total depreciable capital assets, net	<u>5,374,644</u>
Capital assets, net	<u><u>\$ 5,808,843</u></u>

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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		\$ 1,912
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	39-04-000	175,583
National School Lunch Program - Cash Assistance	10.555	39-04-000	412,265
Total State Department of Education			587,848
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	3904000	36,801
Summer Food Service Program for Children - Cash Assistance	10.559	SA14	8,822
Total State Department of Human Services			45,623
TOTAL CHILD NUTRITION CLUSTER			635,383
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	39-04	1,238,507
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	39040000	4,931
TOTAL TITLE I, PART A CLUSTER			1,243,438
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	3904	218,936
Rural Education	84.358	3904	5,359
Improving Teacher Quality State Grants	84.367	3904	34,274
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	3904000	350,678
ARRA - Education Jobs Fund, Recovery Act	84.410	3904000	218,671
Total State Department of Education			827,918
Passed Through State Department of Career Education:			
Career and Technical Education - Basic Grants to States	84.048	L39-04-000	34,536
Total U. S. Department of Education			862,454
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Human Services:			
Temporary Assistance for Needy Families	93.558	Unavailable	48,750
TOTAL OTHER PROGRAMS			911,204
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,790,025

The accompanying notes are an integral part of this schedule.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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 Lee County School District No. 1 (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 \$47,037 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

<input checked="" type="radio"/> Material weakness(es) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

FEDERAL AWARDS

Internal control over major programs:

<input checked="" type="radio"/> Material weakness(es) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported

Type of auditor's report issued on compliance for major programs: unqualified for all major programs except for the ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act program, which was qualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010 and 84.389	Title I, Part A Cluster
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
84.410	ARRA - Educational Jobs Fund, Recovery Act

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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. Misstatements not Detected by Internal Control System

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

Condition: The District's internal control system did not prevent, or detect and correct material errors in the financial accounting records. Such records are utilized in the preparation of the District's financial statements. The accounting records contained numerous errors totaling \$2,411,896 in the general fund, \$316,721 in the special revenue fund, and \$74,905 in the other aggregate funds. The financial statements were subsequently corrected by adjusting journal entries during audit fieldwork. The errors are summarized below:

	General Fund	Special Revenue	Other Aggregate Fund
Errors in recording expenditures	\$ 1,361,207	\$ 1,749	\$ 74,905
Errors in recording revenues	847,806	53,125	
Errors in recording receivables	11,289	254,468	
Errors in recording payables	191,594	7,379	
Totals	<u>\$ 2,411,896</u>	<u>\$ 316,721</u>	<u>\$ 74,905</u>

Context: Necessary adjustments to the accounting records.

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

Cause: District personnel incorrectly classified various transactions and financial accounting records were not properly monitored.

Recommendation: To achieve accurate financial accounting records, the District should implement procedures to ensure the proper classification of transactions and financial accounting records should be properly monitored.

Views of responsible officials and planned corrective actions: In closing 2011-2012, journal entries were prepared due to exception reports and various errors. A reversing entry was prepared in July 2012 to correct errors after period 13 was closed. Up to period 12-13 all bank statements were balanced, but due to my lack of experience and knowledge APSCN errors were made.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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

MATERIAL WEAKNESS

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 3904000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

2012-2. Period of Availability of Federal Funds

Criteria or specific requirement: State Fiscal Stabilization funds were required to be obligated as of September 30, 2011 by making a written commitment to obtain the services or goods. Employment contracts are not considered to be obligations for the duration of the contract, but are considered obligated as services are rendered.

Condition: The District paid an employee \$35,606 from State Fiscal Stabilization funds, for services that were rendered subsequent to September 30, 2011.

Questioned Costs: The amount of questioned costs was \$35,606.

Context: Test of disbursements for compliance with applicable regulations requiring funds to be obligated as of September 30, 2011.

Effect: ARRA funds were not obligated as of September 30, 2011 and as a result the period of availability of federal funds requirement was not met.

Cause: Lack of internal controls and adequate management oversight.

Recommendation: The District should contact the Arkansas Department of Education for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: This error was an oversight during close and I will contact ADE for further guidance.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE 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 DEFICIENCY

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 39-04
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

2012-3. Equipment and Real Property Management

Criteria or specific requirement: Proper records should be maintained for equipment acquired with federal awards. Additionally, the District should ensure that disposition of such equipment is in accordance with federal requirements, including the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-Federal use.

Condition: The District did not properly maintain records for equipment acquired with federal awards. These records were not updated for current year additions of \$7,214, or disposition of items no longer in use. The District could not account for three items purchased in previous years with Title I funds. None of these items had a fair market value in excess of \$5,000 at the time of disposition. Therefore, federal disposition instructions were not applicable.

Context: Observation of equipment recorded on subsidiary records and review of current year equipment purchases.

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

Cause: District personnel failed to properly monitor equipment subsidiary records and update records for equipment purchases and dispositions.

Recommendation: Proper records should be maintained for equipment acquired with federal awards.

Views of responsible officials and planned corrective actions: The District is in the process of delegating an employee to maintain fixed assets records.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 4

There were no findings in the prior audit.

LEE COUNTY SCHOOL DISTRICT NO. 1
LEE COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)

<u>General Fund</u>	Year Ended June 30,				
	2012	2011	2010	2009	2008
Total Assets	\$ 1,320,545	\$ 1,988,520	\$ 2,512,866	\$ 3,252,812	\$ 3,661,450
Total Liabilities	178,534	246,446	303,758	334,865	297,028
Total Fund Balances	1,142,011	1,742,074	2,209,108	2,917,947	3,364,422
Total Revenues	9,124,256	9,557,672	9,862,449	10,558,750	10,899,827
Total Expenditures	9,518,825	9,942,344	10,319,400	10,960,178	10,761,097
Total Other Financing Sources (Uses)	(205,494)	(82,362)	(251,888)	(45,047)	(157,577)
<u>Special Revenue Fund</u>					
Total Assets	525,332	271,880	997,747	465,647	767,179
Total Liabilities	26,296	181,982	873,538	8,283	62,861
Total Fund Balances	499,036	89,898	124,209	457,364	704,318
Total Revenues	3,019,749	3,213,018	4,452,451	3,247,414	3,083,038
Total Expenditures	2,611,125	3,247,329	4,920,523	3,494,368	3,059,712
Total Other Financing Sources (Uses)	514		134,917		(5,670)
<u>Other Aggregate Funds</u>					
Total Assets		16,527	30,772	323,844	755,909
Total Liabilities	200	16,527			6,759
Total Fund Balances	(200)		30,772	323,844	749,150
Total Revenues	297,983	2,618,358		449,962	
Total Expenditures	378,163	2,731,492	372,446	956,400	116,952
Total Other Financing Sources (Uses)	79,980	82,362	79,374	81,132	204,979