

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**REGULATORY BASIS FINANCIAL**  
**STATEMENTS AND OTHER REPORTS**

**FOR THE YEAR ENDED JUNE 30, 2014**



**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**JUNE 30, 2014**

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## **Independent Auditor's Report**

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To the School Board  
Lee County School District #1  
Marianna, Arkansas

### **Report on the Financial Statements**

We have audited the accompanying regulatory basis financial statements of the governmental activities, major funds, and the remaining fund information of the **Lee County School District #1 (the District)**, as of and for the year ended **June 30, 2014**, as listed in the table of contents, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Arkansas Code, as described in Note 1, to meet the requirements permitted by the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 to the financial statements, to meet the financial reporting requirements permitted by the State of Arkansas, the financial statements are prepared by the District on the basis of the financial reporting provisions of the Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### ***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Lee County School District #1, as of June 30, 2014, 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 of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

### ***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above 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, 2014, and the respective changes in financial position and the budgetary results for the year then ended in accordance with the financial reporting provisions of the Arkansas Code described in Note 1.

## ***Other Matters***

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The schedule of capital assets, schedule of selected information for the last five years – regulatory basis, and the supplemental data sheet are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the regulatory basis financial statements. The schedule of expenditures of federal awards, and supplemental data sheet are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole. The schedule of capital assets and schedule of selected information for the last five years – regulatory basis have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



**Przybysz & Associates, CPAs, P.C.**

**Fort Smith, Arkansas**

**January 6, 2015**



***REGULATORY BASIS FINANCIAL STATEMENTS***



**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Balance Sheet - Regulatory Basis**

<b>AS OF JUNE 30, 2014</b>				
	<b>Governmental Funds</b>			
	<b>Major</b>			<b>Fiduciary Type Funds</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Other Aggregate</b>	
<b>Assets</b>				
Cash	\$ 1,142,491	\$ 122,694	\$ 1,179,532	\$ 15,199
Investments	27,553	-	-	-
Accounts receivable				
Intergovernmental	-	451,404	-	-
Other	2,519	-	-	-
<b>Total Assets</b>	<b>\$ 1,172,563</b>	<b>\$ 574,098</b>	<b>\$ 1,179,532</b>	<b>\$ 15,199</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable				
Intergovernmental	\$ -	\$ 308,848	\$ -	\$ -
Other	113,822	82,141	-	-
Accrued payroll and withholdings	513,654	-	-	-
Due to student groups	-	-	-	15,199
<b>Total Liabilities</b>	<b>627,476</b>	<b>390,989</b>	<b>-</b>	<b>15,199</b>
<b>Fund Balances</b>				
Restricted	310,228	240,367	1,179,532	-
Assigned	21,533	-	-	-
Unassigned	213,326	(57,258)	-	-
<b>Total Fund Balances</b>	<b>545,087</b>	<b>183,109</b>	<b>1,179,532</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,172,563</b>	<b>\$ 574,098</b>	<b>\$ 1,179,532</b>	<b>\$ 15,199</b>

See accompanying notes and independent auditor's report.

**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, 2014**

	Governmental Funds		
	Major		Other Aggregate
	General Fund	Special Revenue	
<b>Revenues</b>			
Local property taxes	\$ 2,991,875	\$ -	\$ -
State assistance	5,303,085	4,493	-
Federal assistance	25,120	2,114,713	-
Activity revenues	82,646	-	-
Meal sales	-	60,450	-
Investment income	975	-	-
Refunded prior years expenses	18,856	-	-
Private contributions	-	10,000	-
Other revenues	111,275	4,265	3,800
<b>Total Revenues</b>	<b>8,533,832</b>	<b>2,193,921</b>	<b>3,800</b>
<b>Expenditures</b>			
Current:			
Regular programs	3,530,879	-	-
Special education	301,920	138,231	-
Workforce education	237,100	-	-
Compensatory education	288,956	418,487	-
Other instructional programs	159,355	-	-
Student support	391,142	262,144	-
Instructional staff support	1,170,962	599,215	-
General administration support	313,586	-	-
School administration support	427,343	-	-
Central services support services	328,537	19,615	-
Operation and maintenance support	1,060,006	961	-
Student transportation	387,002	65,527	-
Other support	23,248	-	-
Food service	48,965	668,646	-
Community services	230	233	-
Facilities acquisition and construction services	-	-	49,170
Non-programmed costs	2,286	-	-
Activity expenditures	78,830	-	-
Debt service:			
Principal	-	-	75,000
Interest	-	-	21,019
Bond issuance costs	-	-	46,298
Paying agent's fees	-	-	1,020
<b>Total Expenditures</b>	<b>8,750,347</b>	<b>2,173,059</b>	<b>192,507</b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures</b>	<b>(216,515)</b>	<b>20,862</b>	<b>(188,707)</b>
<b>Other Financing Sources (Uses)</b>			
Proceeds from issuance of debt	-	-	1,275,000
Indirect cost reimbursement	75,220	(75,220)	-
Operating transfers in	-	-	93,239
Operating transfers out	(93,239)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(18,019)</b>	<b>(75,220)</b>	<b>1,368,239</b>
<b>Excess of Revenues and Other Sources Over (Under)</b>			
<b>Expenditures and Other Uses</b>	<b>(234,534)</b>	<b>(54,358)</b>	<b>1,179,532</b>
<b>Fund Balance at Beginning of Year,</b>	<b>779,621</b>	<b>237,467</b>	<b>-</b>
<b>Fund Balance at End of Year</b>	<b>\$ 545,087</b>	<b>\$ 183,109</b>	<b>\$ 1,179,532</b>

See accompanying notes and independent auditor's report.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Budgetary Comparison Schedule - General Fund - Budgetary Basis**

**FOR THE YEAR ENDED JUNE 30, 2014**

<b>Revenues</b>	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
Local property taxes	\$ 3,048,534	\$ 2,991,875	\$ (56,659)
State assistance	5,101,213	5,303,085	201,872
Federal assistance - unrestricted	-	25,120	25,120
Activity revenues	48,900	82,646	33,746
Investment income	580	975	395
Refunded prior years expenses	-	18,856	18,856
Other revenues	24,380	111,275	86,895
<b>Total Revenues</b>	<b>8,223,607</b>	<b>8,533,832</b>	<b>310,225</b>
<b>Expenditures</b>			
Current:			
Regular programs	3,742,975	3,530,879	212,096
Special education	307,177	301,920	5,257
Workforce education	215,998	237,100	(21,102)
Compensatory education	449,085	288,956	160,129
Other instructional programs	181,470	159,355	22,115
Student support	387,354	391,142	(3,788)
Instructional staff support	933,652	1,170,962	(237,310)
General administration support	278,988	313,586	(34,598)
School administration support	378,144	427,343	(49,199)
Central services support services	190,761	328,537	(137,776)
Operation and maintenance support	937,118	1,060,006	(122,888)
Student transportation	562,364	387,002	175,362
Other support	46,500	23,248	23,252
Food service	69,600	48,965	20,635
Community services	-	230	(230)
Non-programmed costs	-	2,286	(2,286)
Activity expenditures	48,900	78,830	(29,930)
<b>Total Expenditures</b>	<b>8,730,086</b>	<b>8,750,347</b>	<b>(20,261)</b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures</b>	<b>(506,479)</b>	<b>(216,515)</b>	<b>289,964</b>
<b>Other Financing Sources (Uses)</b>			
Indirect cost reimbursement	125,353	75,220	(50,133)
Operating transfers out	(80,167)	(93,239)	(13,072)
<b>Total Other Financing Sources (Uses)</b>	<b>45,186</b>	<b>(18,019)</b>	<b>(63,205)</b>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>			
	<b>(461,293)</b>	<b>(234,534)</b>	<b>226,759</b>
Fund Balance at Beginning of Year	779,621	779,621	-
<b>Fund Balance at End of Year</b>	<b>\$ 318,328</b>	<b>\$ 545,087</b>	<b>\$ 226,759</b>

See accompanying notes and independent auditor's report.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Budgetary Comparison Schedule - Special Revenue Fund - Budgetary Basis**

**FOR THE YEAR ENDED JUNE 30, 2014**

<b>Revenues</b>	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
State assistance	\$ 4,600	\$ 4,493	\$ (107)
Federal assistance - restricted	3,944,919	2,114,713	(1,830,206)
Meal sales	81,100	60,450	(20,650)
Private contributions	-	10,000	10,000
Other revenues	7,800	4,265	(3,535)
<b>Total Revenues</b>	<b>4,038,419</b>	<b>2,193,921</b>	<b>(1,844,498)</b>
<b>Expenditures</b>			
Current:			
Special education	132,111	138,231	(6,120)
Compensatory education	1,658,389	418,487	1,239,902
Student support	351,323	262,144	89,179
Instructional staff support	1,127,178	599,215	527,963
Central services support services	81,665	19,615	62,050
Operation and maintenance support	-	961	(961)
Student transportation	26,909	65,527	(38,618)
Food service	591,065	668,646	(77,581)
Community services	10,000	233	9,767
<b>Total Expenditures</b>	<b>3,978,640</b>	<b>2,173,059</b>	<b>1,805,581</b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures</b>	<b>59,779</b>	<b>20,862</b>	<b>(38,917)</b>
<b>Other Financing Sources (Uses)</b>			
Indirect cost reimbursement	(125,353)	(75,220)	(50,133)
<b>Total Other Financing Sources (Uses)</b>	<b>(125,353)</b>	<b>(75,220)</b>	<b>(50,133)</b>
<b>Excess of Revenues and Other Sources Over (Under)</b>			
<b>Expenditures and Other Uses</b>	<b>(65,574)</b>	<b>(54,358)</b>	<b>(89,050)</b>
Fund Balance at Beginning of Year	237,467	237,467	-
<b>Fund Balance at End of Year</b>	<b>\$ 171,893</b>	<b>\$ 183,109</b>	<b>\$ (89,050)</b>

See accompanying notes and independent auditor's report.

# LEE COUNTY SCHOOL DISTRICT NO. 1

## Lee County, Arkansas

### Notes to Financial Statements

JUNE 30, 2014

#### 1. Summary of Significant Accounting Policies

##### a. Financial Reporting Entity

The Lee County School District No. 1 (the District) is a political subdivision of the Arkansas Department of Education, governed by an elected seven-member school board. The statements reflect all funds and accounts directly under the control of the District. Using the criteria of financial accountability, there are no component units that should be included in the District's reporting entity.

##### b. Description of Funds

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

General Fund - The General Fund is the general operating fund and is used to account for all financial resources except those required to be reported in another fund.

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

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

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

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

Fiduciary Funds types include the following:

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

##### c. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an Other Comprehensive Basis of Accounting (OCBOA). This basis of accounting is prescribed by Arkansas Code Annotated 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 the 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.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Notes to Financial Statements**

**JUNE 30, 2014**

**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 requires that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Managements Discussion and Analysis, accrual basis of accounting for government-wide 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 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 RBA, except for property taxes (see note 1 f below).

**e. Capital Assets**

Information on capital assets and related depreciation is reported in the Schedule of Capital Assets. 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:

Improvements/infrastructure	20 years
Buildings	20-50 years
Equipment	5-20 years

**f. Property Taxes**

Property taxes are levied 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.

# LEE COUNTY SCHOOL DISTRICT NO. 1

## Lee County, Arkansas

### Notes to Financial Statements

JUNE 30, 2014

#### 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 2013 calendar year taxes collected by June 30, 2014 and 28 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2014 equaled or exceeded the 28 percent calculation.

Amendment No. 74 to the Arkansas Constitution established a uniform minimum property 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 shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

##### g. Fund Balance Classifications

Restricted - fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

Assigned - fund balances that contain self-imposed constraints of the District to be used for a particular purpose, but are neither restricted or committed.

Unassigned - fund balance of the general fund that is not constrained for any particular purpose. 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 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 Balance - Government - 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.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Notes to Financial Statements**

**JUNE 30, 2014**

**1. Summary of Significant Accounting Policies (continued)**

**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 for 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.

**l. Encumbrances**

The District does not utilize encumbrance accounting.

**2. Cash Deposits With Financial Institutions**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk required compliance with the provisions of state law. State law requires collateralization for all deposits with federal depository insurance; a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bonds or other obligation bonds; bonds of the State of Arkansas or by bonds of a political subdivision thereof which has never defaulted on any of its obligations, in an amount at least equal to the amount of such deposit or by bond executed by a surety company authorized to do business in the State of Arkansas. The Director of Education must approve the surety company.

The Federal Deposit Insurance Company (FDIC) insures bank accounts that earn less than .25% interest and all bank accounts up to \$250,000 and the total of all certificates of deposits up to \$250,000.

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

# LEE COUNTY SCHOOL DISTRICT NO. 1

Lee County, Arkansas

## Notes to Financial Statements

JUNE 30, 2014

### 2. Cash Deposits With Financial Institutions (continued)

At June 30, 2014, the District had bank balances as follows:

	Book Value	Bank Value
Insured (FDIC)	\$ 277,553	\$ 277,553
Collateralized:		
Collateral held by the pledging bank or pledging banks trust department in the District's name	1,702,863	2,116,397
<b>Total</b>	<b>\$ 1,980,416</b>	<b>\$ 2,393,950</b>

The above deposits include certificates of deposit of \$27,553 reported as investments. The above total deposits do not include cash of \$507,053 which was held in the County Treasury.

### 3. Receivables

The accounts receivables of \$453,923 at June 30, 2014 was comprised of the following:

Description	General	Special Revenue	Total
Federal Assistance	\$ -	\$ 451,404	\$ 451,404
Other	2,519	-	2,519
<b>Total</b>	<b>\$ 2,519</b>	<b>\$ 451,404</b>	<b>\$ 453,923</b>

### 4. Accounts Payable

The accounts payables of \$504,811 at June 30, 2014 was comprised of the following:

Description	General	Special Revenue	Total
Vendor payables	\$ 113,822	\$ 82,141	\$ 195,963
Intergovernmental	-	308,848	308,848
<b>Total</b>	<b>\$ 113,822</b>	<b>\$ 390,989</b>	<b>\$ 504,811</b>

### 5. Interfund Transfers

The District transferred \$93,239 from the general fund to the other aggregate funds for debt related payments.

# LEE COUNTY SCHOOL DISTRICT NO. 1

Lee County, Arkansas

## Notes to Financial Statements

JUNE 30, 2014

### 6. Long-Term Debt

Long-term debt of the District consists of the following:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2014	Maturities To June 30, 2014
10/1/2003	6/1/2015	2.55 - 3.25%	\$ 798,475	\$ 80,000	\$ 718,475
10/1/2013	2/1/2043	1.75 - 4.50%	1,275,000	1,275,000	-

Long-term debt activity for the year ended June 30, 2014:

	Balance July 1, 2013	Debt Additions	Debt Retirements	Balance June 30, 2014
Bonds payable	\$ 155,000	\$ 1,275,000	\$ 75,000	\$ 1,355,000

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

Year ending June 30,	Principal	Interest	Total
2015	\$ 80,000	\$ 50,544	\$ 130,544
2016	30,000	47,944	77,944
2017	30,000	47,419	77,419
2018	30,000	46,894	76,894
2019	30,000	46,369	76,369
2020-2024	170,000	220,556	390,556
2025-2029	195,000	192,769	387,769
2030-2034	235,000	153,238	388,238
2035-2039	280,000	100,092	380,092
2040-2043	275,000	31,725	306,725
<b>Total</b>	<b>\$ 1,355,000</b>	<b>\$ 937,550</b>	<b>\$ 2,292,550</b>

### 7. Leases

The District was contractually obligated for the following operating lease (noncapital lease with initial non-cancellable lease terms in excess of one year) at June 30, 2014:

Lease agreements dated October 16, 2009 and July 30, 2010 for copiers and related equipment at \$293 and \$6,444 per month through October 16, 2014 and July 30, 2015, respectively.

Rental payments for the operating leases for the year ended June 30, 2014 were approximately \$81,100.

Future minimum rental payments as of June 30, 2014 were as follows:

Year ending June 30,	Amount
2015	\$ 78,500
2016	6,444
<b>Total</b>	<b>\$ 84,944</b>

# LEE COUNTY SCHOOL DISTRICT NO. 1

## Lee County, Arkansas

### Notes to Financial Statements

JUNE 30, 2014

#### 8. Pledged Revenues

The District has pledged a portion of its property taxes to retire bonds of \$798,475 and \$1,275,000 issued on October 1, 2003 and 2013, respectively. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$2,292,550 payable through February 1, 2043. Principal and interest paid in the current year was \$96,019. Property taxes pledged for debt service were \$144,053. The percentage of property taxes pledged for the current year principal and interest payments was 66.66%

#### 9. Retirement Plans

##### A. Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement Systems (ATRS), a cost sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publically 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 non-contributory plans. Contributory members are required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2014, 2013, and 2012 were \$971,299, \$1,067,791, and \$947,751, respectively, equal to the required contributions for each year.

##### B. 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 nonteaching Arkansas public school employees hired before July 1, 1989. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution 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 the Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capital, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by law to contribute 5% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions per APERS for the years ended June 30, 2014, 2013, and 2012 were \$3,272, \$5,015 and \$4,487, respectively, equal to the required contributions for each year.

# LEE COUNTY SCHOOL DISTRICT NO. 1

## Lee County, Arkansas

### Notes to Financial Statements

JUNE 30, 2014

#### 10. Deficit Fund Balances

The deficit unassigned fund balance of \$57,258 in the special revenue fund, as displayed in Note 12 below, pertains to the Title I (52,442) and Special Education (\$4,816) federal programs. The temporary deficit was caused by the recognition of minor accounts payable at year-end.

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

The District participates in the Arkansas School Board 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 worker's 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 Government Bonding Board. The 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.

#### 12. Fund Balance Reporting

The District follows GASB 54 as part of its 2013-2014 fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The District reports the principal of a non-expendable trust fund as nonspendable.

# LEE COUNTY SCHOOL DISTRICT NO. 1

Lee County, Arkansas

Notes to Financial Statements

JUNE 30, 2014

## 12. Fund Balance Reporting (continued)

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

Assigned: fund balances that contain self-imposed constraints of the District to be used for a particular purpose.

Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

Spendable: The District has classified the spendable fund balances as Restricted, Committed, Assigned and Unassigned and considered each to have been spent when expenditures are incurred.

### Restricted for State Categorical and Other Programs and Debt Service:

Federal Laws, Arkansas Statutes and local ordinances require that certain revenues be specifically designated for the purposes of state categorical programs, debt service, and capital projects. The funds have been included in restricted category of fund balance. The restricted fund balance totals \$1,730,127 and \$550,595 is for State categorical and other programs and \$1,179,532 is for capital projects.

### Assigned for Student Activities:

The School Board has set aside certain spendable fund balance for various student activities that totaled \$21,533.

### Unassigned:

The unassigned fund balance for the General Fund is \$213,326.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Notes to Financial Statements**

**JUNE 30, 2014**

**12. Fund Balance Reporting (continued)**

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted:				
Capital projects	\$ -	\$ -	\$ 1,179,532	\$ 1,179,532
National school lunch state categorical funding	172,593	-	-	172,593
Child nutrition programs	-	218,105	-	218,105
Medical services	-	19,253	-	19,253
ABC	30,582	-	-	30,582
Alternative learning	62,818	-	-	62,818
Professional development	9,012	-	-	9,012
Other purpose	35,223	3,009	-	38,232
Assigned:				
Student Activities	21,533	-	-	21,533
Unassigned	213,326	(57,258)	-	156,068
<b>Total Fund Balance</b>	<b>\$ 545,087</b>	<b>\$ 183,109</b>	<b>\$ 1,179,532</b>	<b>\$ 1,907,728</b>

**13. 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 \$186,833 for the year ended June 30, 2014.

**14. Fiscal Distress Status**

On May 8, 2014, the State Board of Education classified the District in Fiscal Distress. The District was required to submit a Fiscal Distress Improvement Plan outlining cost reduction measures.

**15. Subsequent events**

Management has evaluated subsequent events through January 6, 2015 the date the financial statements were available to be issued.

***ADDITIONAL REQUIRED REPORTS***





**PRZYBYSZ**  
**& ASSOCIATES**

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**Independent Auditor's 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***

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To the School Board  
Lee County School District #1  
Marianna, Arkansas

We have audited, 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, the accompanying regulatory basis financial statements, each major governmental fund, and the aggregate remaining fund information of the Lee County School District #1 (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated January 6, 2015. 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 the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. 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, 2014, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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 Lee County School District #1's Response to the Finding**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**January 6, 2015**



**PRZYBYSZ**  
**& ASSOCIATES**

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**Independent Auditor's Report on Compliance for Each Major Federal Program  
And on Internal Control Over Compliance Required by OMB Circular A-133**

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To the School Board  
Lee County School District #1  
Marianna, Arkansas

**Report on Compliance for each Major Federal Program**

We have audited Lee County School District #1's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Lee County School District #1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of Lee County School District #1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Przybysz & Associates*

**Przybysz & Associates, CPAs, P.C.**

**Fort Smith, Arkansas**

**January 6, 2015**





**PRZYBYSZ**  
**& ASSOCIATES**

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**Independent Auditor's Report On  
Compliance With Arkansas State Requirements**

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To the School Board  
Lee County School District #1  
Marianna, Arkansas

We have examined management's assertions, included in its representation letter dated January 5, 2015, that the Lee County School District #1 substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and applicable laws and regulations listed on Arkansas Department of Education form OCI 95-96 during the year ended June 30, 2014. As discussed in that representation letter, management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the District's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, management's assertions that Lee County School District #1 complied with the aforementioned requirements for the year ended June 30, 2014, are fairly stated, in all material respects.

This report is intended solely for the information and used of the School Board, management, and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Przybysz & Associates*

**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**January 6, 2015**



***SUPPLEMENTARY AND OTHER INFORMATION***



**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Schedule of Capital Assets (Unaudited)**

<b>FOR THE YEAR ENDED JUNE 30, 2014</b>	
<b>Nondepreciable Capital Assets:</b>	
Land	\$ 427,358
Construction in process	49,170
<b>Total Nondepreciable Capital Assets</b>	<b>476,528</b>
<b>Depreciable Capital Assets:</b>	
Buildings	8,655,179
Improvements/infrastructure	444,342
Equipment	3,723,938
<b>Total Depreciable Capital Assets</b>	<b>12,823,459</b>
<b>Total Capital Assets</b>	<b>13,299,987</b>
<b>Less Accumulated Depreciation for:</b>	
Buildings	5,017,430
Improvements/infrastructure	66,147
Equipment	3,456,315
<b>Total Accumulated Depreciation</b>	<b>8,539,892</b>
<b>Capital Assets, net</b>	<b>\$ 4,760,095</b>

See independent auditor's report.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Schedule of Expenditures of Federal Awards**

**FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Agency or Pass-Through Entity	Federal CFDA Number	Federal Expen- ditures
<b>U.S. Department of Education</b>			
Title I Grants to Local Education Agencies	AR Department of Education	84.010	\$ 1,025,055
Special Education-Grants to States	AR Department of Education	84.027	244,127
Career and Technical Education - Basic Grants to States	State Dept. of Career Education	84.048	26,022
Improving Teacher Quality State Grants	AR Department of Education	84.367	147,140
Rural Education	AR Department of Education	84.358	919
<b>Total U.S. Department of Education</b>			<b>1,443,263</b>
<b>U.S. Department of Health and Human Services</b>			
Temporary Assistance for Needy Families	AR Department of Education	93.558	33,505
<b>Total U.S. Department of Health and Human Services</b>			<b>33,505</b>
<b>U.S. Department of Agriculture</b>			
Child Nutrition Cluster			
School Breakfast Program - Cash Assistance	AR Department of Education	10.553	194,739
National School Lunch Program - Cash Assistance	AR Department of Education	10.555	395,499
National School Lunch Program - Non-Cash Assistance	AR Dept. of Human Services	10.555	43,495
Summer Food Service Program for Children	AR Dept. of Human Services	10.559	11,280
<b>Total Child Nutrition Cluster</b>			<b>645,013</b>
Schools and Roads - Grants to States	AR Department of Education	10.665	25,120
<b>Total U.S. Department of Agriculture</b>			<b>670,133</b>
<b>Total Federal Awards</b>			<b>\$ 2,146,901</b>

See independent auditor's report.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Schedule of Expenditures of Federal Awards**

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**FOR THE YEAR ENDED JUNE 30, 2014**

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**Note A - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lee County School District #1 and is presented on the regulatory basis of accounting (RBA). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of the regulatory basis financial statements.

**Note B - Nonmonetary Assistance**

Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.

**Note C - Monetary State Assistance**

During the year ended June 30, 2014, the District received Medicaid funding of \$33,707 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

See independent auditor's report.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Schedule of Expenditures of State Awards**

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**FOR THE YEAR ENDED JUNE 30, 2014**

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Grantor Agency/Program Title	State Revenues	State Expen- ditures
Arkansas Department of Education on behalf of the Arkansas Early Childhood Commission		
Arkansas Better Chance	\$ 440,345	\$ 440,345
<b>Total Expenditures of State Awards</b>	<b>\$ 440,345</b>	<b>\$ 440,345</b>

**Note A - Basis of Presentation**

The accompanying schedule of expenditures of state awards includes the state grant activity of Lee County School District #1 and is presented on the regulatory basis of accounting.

See independent auditor's report.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Schedule of Findings and Questioned Costs**

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**FOR THE YEAR ENDED JUNE 30, 2014**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Types of auditor's report issued:

GAAP basis of reporting - adverse  
 Regulatory basis opinion units - unmodified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

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

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

Identification of major programs:

CFDA Number(s)  
 10.553, 10.555 & 10.559  
 84.010

Name of Federal Program or Cluster  
 Child Nutrition Cluster  
 Title I

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

Auditee qualified as a low-risk auditee?  yes  no

See independent auditor's report.

# LEE COUNTY SCHOOL DISTRICT NO. 1

## Lee County, Arkansas

### Schedule of Findings and Questioned Costs

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FOR THE YEAR ENDED JUNE 30, 2014

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#### Section II - Financial Statement Findings - Current Year

##### MATERIAL WEAKNESSES

###### 2014-001 - 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 responsible for the maintenance of accounting records. Specifically, certain key weaknesses included the following: non-payroll checks were prepared by the same employee responsible for maintenance of accounting record. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls. The same employee was responsible for receiving the depositing monies collected, maintenance of accounting records, and preparation of bank reconciliations, 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 weakness in the above internal control component.

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

See independent auditor's report.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Schedule of Findings and Questioned Costs**

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**FOR THE YEAR ENDED JUNE 30, 2014**

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**Section II - Financial Statement Findings - Current Year (continued)**

**MATERIAL WEAKNESSES (Continued)**

**2014-002 - Misstatements not Detected by Internal Control System**

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

Condition: The District's internal control did not prevent or detect material errors in the financial accounting records. Such records are utilized in the preparation of the District's financial statements. The District did not properly record accounts receivable of \$107,334 in the special revenue fund.

Context: Identification of misstatements not initially detected by the District's internal control.

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

Cause: Financial records had not been properly monitored.

Recommendation: To achieve reliable financial reporting, the District should exercise due care to ensure all applicable general ledger accounts are properly stated.

Views of the responsible officials and planned corrective actions: The District's business manager will work with Department of Education officials to properly record all revenues in their proper fund. The superintendent will monitor all applicable general ledger accounts to assure their accuracy.

**Section III - Federal Award Findings and Questioned Costs**

No matters were reported.

See independent auditor's report.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Federal Award Programs - Schedule of Prior Audit Findings**

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**FOR THE YEAR ENDED JUNE 30, 2014**

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There were no findings in the prior year audit.

See independent auditor's report.

**LEE COUNTY SCHOOL DISTRICT NO. 1**  
**Lee County, Arkansas**

**Schedule of Selected Information for the Last Five Years - Regulatory Basis (Unaudited)**

<b>For the years ended June 30,</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b><u>General Fund</u></b>					
Total Assets	\$ 1,172,563	\$ 839,664	\$ 1,320,545	\$ 1,988,520	\$ 2,512,866
Total Liabilities	627,476	60,043	178,534	246,446	303,758
Total Fund Balances	545,087	779,621	1,142,011	1,742,074	2,209,108
Total Revenues	8,533,832	8,554,809	9,124,256	9,557,672	9,862,449
Total Expenditures	8,750,347	8,852,954	9,518,825	9,942,344	10,319,400
Total Other Financing Sources (Uses)	(18,019)	(62,245)	(205,494)	(82,362)	(251,888)
<b><u>Special Revenue Fund</u></b>					
Total Assets	574,098	423,946	525,332	271,880	997,747
Total Liabilities	390,989	186,479	26,296	181,982	873,538
Total Fund Balances	183,109	237,467	499,036	89,898	124,209
Total Revenues	2,193,921	2,325,280	3,019,749	3,213,018	4,452,451
Total Expenditures	2,173,059	2,568,177	2,611,125	3,247,329	4,920,523
Total Other Financing Sources (Uses)	(75,220)	(18,672)	514	-	134,917
<b><u>Other Aggregate Funds</u></b>					
Total Assets	1,179,532	-	-	16,527	30,772
Total Liabilities	-	-	200	16,527	-
Total Fund Balances	1,179,532	-	(200)	-	30,772
Total Revenues	3,800	200	297,983	2,618,358	-
Total Expenditures	192,507	82,917	378,163	2,731,492	372,446
Total Other Financing Sources (Uses)	1,368,239	82,917	79,980	82,362	79,374

See independent auditor's report.