

SMACKOVER SCHOOL DISTRICT NO. 39
Smackover, Arkansas

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2012

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COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

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Independent Auditors' Report

The Board of Education
Smackover School District No. 39
Smackover, Arkansas

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of Smackover School District No. 39 (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 the Smackover School District No. 39's 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 discussed in Notes 1 and 2, the accompanying financial statements were prepared using accounting practices permitted by Arkansas Code Section 10-4-413(c), which is a regulatory basis of accounting that differs from accounting principles generally accepted in the United States of America. The effects 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 above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Smackover School District No. 39, as of June 30, 2012, or the respective changes in financial position thereof 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 have determined are necessary to supplement, although not required to be part of, the basic financial statements.

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 Smackover School District No. 39 as of June 30, 2012, and the respective changes in financial position and budgetary results thereof for the year ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2012, on our consideration of the Smackover School District No. 39's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the District's regulatory basis financial statements. The schedules of capital assets, billable units, and state awards are presented for purposes of additional analysis and are not a required part of the 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 schedules of capital assets and billable units and the schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information to the financial statements themselves, and other additional procedures in accordance with auditing procedures 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.

Cobb and Sniskie, Ltd.

Certified Public Accountants
December 5, 2012

SMACKOVER SCHOOL DISTRICT NO. 39
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2012

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>
ASSETS			
Cash	\$ 448,275	\$ -	\$ 1,133,286
Certificates of Deposit	1,682,045	-	-
Accounts Receivable	-	125,798	9,617
Taxes Receivable	120,274	-	-
Due From Other Funds	<u>71,188</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 2,321,782</u>	<u>\$ 125,798</u>	<u>\$ 1,142,903</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accrued Expenditures	\$ -	\$ -	\$ -
Due To Other Funds	-	71,188	-
Due to Student Groups	-	-	-
Deferred Revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>71,188</u>	<u>-</u>
Fund Balances:			
Unreserved	2,321,782	54,610	1,142,903
Reserved	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>2,321,782</u>	<u>54,610</u>	<u>1,142,903</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,321,782</u>	<u>\$ 125,798</u>	<u>\$ 1,142,903</u>

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

Total Governmental <u>Funds</u>	Fiduciary Fund <u>Types</u>
\$ 1,581,561	\$ 44,227
1,682,045	-
135,415	-
120,274	-
71,188	-
<hr/>	<hr/>
\$ 3,590,483	\$ 44,227
<hr/>	<hr/>
\$ -	\$ -
71,188	-
-	44,227
-	-
<hr/>	<hr/>
71,188	44,227
<hr/>	<hr/>
3,519,295	-
-	-
<hr/>	<hr/>
3,519,295	-
<hr/>	<hr/>
\$ 3,590,483	\$ 44,227
<hr/>	<hr/>

SMACKOVER SCHOOL DISTRICT NO. 39
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Local Property Taxes	\$ 2,964,040	\$ -	\$ -	\$ 2,964,040
Federal Sources	-	873,699	-	873,699
State Sources	4,142,949	2,606	-	4,145,555
Intermediate Sources	98,260	-	-	98,260
Food Services	-	71,734	-	71,734
Other Sources	208,242	-	-	208,242
Student Activities	49,293	-	-	49,293
Interest	11,816	-	26,983	38,799
Total Revenues	<u>7,474,600</u>	<u>948,039</u>	<u>26,983</u>	<u>8,449,622</u>
EXPENDITURES:				
<u>Instruction</u>				
Regular Instruction	3,008,680	97,718	-	3,106,398
Special Instruction	333,113	133,513	-	466,626
Vocational Instruction	306,318	7,113	-	313,431
Compensatory Instruction	51,689	79,896	-	131,585
Other Instruction	327,229	8,536	-	335,765
Total Instruction	<u>4,027,029</u>	<u>326,776</u>	<u>-</u>	<u>4,353,805</u>
<u>Support Services</u>				
Student Support Services	289,260	75,928	-	365,188
Instructional Support Services	573,737	217,648	-	791,385
General Administration Services	363,850	-	-	363,850
School Administration Services	228,080	5,691	-	233,771
Business Support Services	185,493	-	-	185,493
Other Support Services	11,420	1,279	-	12,699
Operations and Maintenance	754,467	2,845	60,899	818,211
Pupil Transportation Services	271,920	2,845	-	274,765
Food Services	5,801	339,146	-	344,947
Debt Service - Principal	-	-	45,000	45,000
Debt Service - Interest	-	-	111,479	111,479
Activity Expenditures	64,270	-	-	64,270
Building Acquisition	4,705	-	66,874	71,579
Capital Outlay	147,740	11,053	-	158,793
Total Support Services	<u>2,900,743</u>	<u>656,435</u>	<u>284,252</u>	<u>3,841,430</u>
Total Expenditures	<u>6,927,772</u>	<u>983,211</u>	<u>284,252</u>	<u>8,195,235</u>

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

SMACKOVER SCHOOL DISTRICT NO. 39
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Excess of Revenues Over (Under) Expenditures	\$ 546,828	\$ (35,172)	\$ (257,269)	\$ 254,387
 OTHER FINANCING SOURCES (USES)				
Proceeds from the issuance of bonds	-	-	14,823	14,823
Transfers In	-	20,985	539,734	560,719
Transfers Out	(560,719)	-	-	(560,719)
Total Other Financing Sources (Uses)	(560,719)	20,985	554,557	14,823
 Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	 (13,891)	 (14,187)	 297,288	 269,210
 Fund Balances, Beginning of Year	 <u>2,335,673</u>	 <u>68,797</u>	 <u>845,615</u>	 <u>3,250,085</u>
 Fund Balances, End of Year	 <u>\$ 2,321,782</u>	 <u>\$ 54,610</u>	 <u>\$ 1,142,903</u>	 <u>\$ 3,519,295</u>

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

SMACKOVER SCHOOL DISTRICT NO. 39
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

	GENERAL FUND		
	Budget	Actual	Variance
Revenues:			
Property Taxes	\$ 2,485,000	\$ 2,964,040	\$ 479,040
Federal Sources	-	-	-
State Sources	4,171,378	4,142,949	(28,429)
Intermeditate Sources	65,000	98,260	33,260
Food Services	-	-	-
Other Sources	183,560	208,242	24,682
Student Activities	-	49,293	49,293
Interest	15,000	11,816	(3,184)
Total Revenues	<u>6,919,938</u>	<u>7,474,600</u>	<u>554,662</u>
Expenditures:			
Instruction:			
Regular Instruction	3,043,060	3,008,680	34,380
Special Instruction	345,686	333,113	12,573
Vocational Instruction	326,614	306,318	20,296
Compensatory Instruction	59,362	51,689	7,673
Other Instruction	338,262	327,229	11,033
Total Instruction	<u>4,112,984</u>	<u>4,027,029</u>	<u>85,955</u>
Support Services:			
Student Support Services	269,305	289,260	(19,955)
Instructional Staff Services	643,763	573,737	70,026
General Administration Services	368,387	363,850	4,537
School Administration Services	228,252	228,080	172
Business Support Services	193,722	185,493	8,229
Other Support Services	11,000	11,420	(420)
Operations & Maintenance	780,740	754,467	26,273
Pupil Transportation Services	254,401	271,920	(17,519)
Food Services	-	5,801	(5,801)
Activity Expenditures	-	64,270	(64,270)
Building Acquisition	4,705	4,705	-
Capital Outlay	101,775	147,740	(45,965)
Total Support Services	<u>2,856,050</u>	<u>2,900,743</u>	<u>(44,693)</u>
Total Expenditures	<u>6,969,034</u>	<u>6,927,772</u>	<u>41,262</u>
Excess of Revenues Over (Under) Expenditures	<u>(49,096)</u>	<u>546,828</u>	<u>595,924</u>
Other Financing Sources (Uses):			
Transfers In	-	-	-
Transfers Out	(418,543)	(560,719)	(142,176)
Total Other Financing Sources (Uses)	<u>(418,543)</u>	<u>(560,719)</u>	<u>(142,176)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(467,639)	(13,891)	453,748
Fund Balance - Beginning of Year	2,305,672	2,335,673	30,001
Fund Balance - End of Year	<u>\$ 1,838,033</u>	<u>\$ 2,321,782</u>	<u>\$ 483,749</u>

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

SPECIAL REVENUE FUND

Budget	Actual	Variance
\$ -	\$ -	\$ -
908,038	873,699	(34,339)
-	2,606	2,606
-	-	-
89,250	71,734	(17,516)
-	-	-
-	-	-
-	-	-
<u>997,288</u>	<u>948,039</u>	<u>(49,249)</u>
90,747	97,718	(6,971)
145,806	133,513	12,293
6,843	7,113	(270)
111,388	79,896	31,492
8,211	8,536	(325)
<u>362,995</u>	<u>326,776</u>	<u>36,219</u>
86,973	75,928	11,045
261,913	217,648	44,265
-	-	-
5,474	5,691	(217)
-	-	-
1,001	1,279	(278)
4,106	2,845	1,261
2,737	2,845	(108)
335,360	339,146	(3,786)
-	-	-
-	-	-
-	11,053	(11,053)
<u>697,564</u>	<u>656,435</u>	<u>41,129</u>
<u>1,060,559</u>	<u>983,211</u>	<u>77,348</u>
<u>(63,271)</u>	<u>(35,172)</u>	<u>28,099</u>
58,092	20,985	(37,107)
-	-	-
<u>58,092</u>	<u>20,985</u>	<u>(37,107)</u>
(5,179)	(14,187)	(9,008)
68,797	68,797	-
<u>\$ 63,618</u>	<u>\$ 54,610</u>	<u>\$ (9,008)</u>

SMACKOVER SCHOOL DISTRICT NO. 39
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a group of seven (7) permanent members, is the level of government which has governing responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Smackover School District No. 39 (the District). The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board of Education is not included in any other governmental "reporting entity", since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

Only the accounts of the Smackover School District No. 39 are included in these statements, and there are no component units that are or should be included in the District's reporting entity.

B. Basis of Presentation

(1) Regulatory Basis of Presentation

The financial statements are prepared in accordance with a regulatory basis of accounting. 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, at 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.

SMACKOVER SCHOOL DISTRICT NO. 39
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

(1) Regulatory Basis of Presentation (Continued)

The regulatory basis of accounting differs from the accounting principles generally accepted in the United States of America (GAAP). GAAP requires that basic financial statements, in addition to presenting entity-wide financial statements, incorporate the following: Management's Discussion and Analysis, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, capital assets, other non-financial assets and long-term liabilities, specific procedures for the identification of major governmental funds and applicable note disclosures. The prescribed regulatory basis does not require these statements and concepts, nor does it generally adhere to or address pronouncements of the Governmental Accounting Standards Board (GASB).

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 financial sources and uses.

C. Fund Accounting

Fund accounting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they are to be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds as prescribed under the regulatory basis:

(1) General Fund

The General Fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Arkansas.

SMACKOVER SCHOOL DISTRICT NO. 39
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Continued)

(2) Special Revenue Fund

The Special Revenue Fund is used to account for specific revenue sources which are designated by law or contractual agreement for specified functions or activities and are legally required to be accounted for in separate funds.

(3) Other Governmental Funds

Other governmental funds consist of (a) the debt service fund, which is used for accumulation of resources for payment of principal, interest and related costs on general long-term debt; and (b) the capital outlay fund, which receives property taxes designated for maintenance of existing District facilities and for capital outlay.

(4) Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is made up of agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurements of results of operations. The District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

D. Regulatory Basis of Accounting / Measurement Focus

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. The regulatory basis financial statements are prepared using a current financial resources measurement focus and the modified accrual basis of accounting, with some exception. With the exception of property taxes, revenues are recognized when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities.

SMACKOVER SCHOOL DISTRICT NO. 39
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Regulatory Basis of Accounting / Measurement Focus (Continued)

With the exception of property taxes, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. State and federal grants and interest associated with the current fiscal period are all considered to be susceptible to accrual.

(1) Revenue-Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from the non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, grants, and student fees.

(2) Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, there is no deferred revenue.

SMACKOVER SCHOOL DISTRICT NO. 39
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Regulatory Basis of Accounting / Measurement Focus (Continued)

(3) Expenses/Expenditures

Expenditures are recorded when the liability is incurred, except for claims, compensated absences, and interest on long-term debt, which are not recorded until paid. Proceeds from issuance of long-term debt are recognized when received and payment of long-term debt principal is reported as an expenditure when paid.

E. Investments

The District's investments consist solely of certificates of deposit reported at historical cost, which approximates fair value.

F. Property Taxes

Property taxes are levied in November based on property assessments made between January 1st, and May 31st, and are an enforceable lien on January 1st for real property and June 1st for personal property. The taxes are payable between January and October 10th of the following year and are considered delinquent after October 10th.

Property taxes shall be accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE). Arkansas law defines revenue receipts of a school district as actual proceeds of local taxes collected during the current fiscal year.

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. Arkansas Code Annotated § 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 report purposes, URT revenues are considered property taxes.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

SMACKOVER SCHOOL DISTRICT NO. 39
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- H. Capital Assets
Capital asset purchases are recorded as expenditures at the time of purchase and depreciation is not recognized. Information on capital assets and related depreciation is reported in the schedule of capital assets. For this schedule, capital assets are capitalized at historical cost or estimated historical cost.
- I. Accrued Liabilities and Long-term Obligations
In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the governmental funds. However, compensated absences, interest, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.
- J. Fund Balance Reserves
The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Reserved fund balances represent that portion of the fund balance which is not appropriable for expenditure, or is legally segregated for a specific future use.
- K. Fund Designations
Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the District's intentions and is subject to change. Designations are reported as part of unreserved fund balance. Designations represent amounts set-aside for budget stabilization which exceeds the statutory required amount.
- L. Interfund Activity
Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

SMACKOVER SCHOOL DISTRICT NO. 39
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Estimates

The preparation of the financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Budget and Budgetary Accounting

The District is required by Arkansas State Law to prepare an annual budget approved by the School Board and submitted to the Arkansas Department of Education by September 15 of the current fiscal year. The annual budget is prepared on the regulatory basis of accounting. The District does not prepare and submit amended budgets during the fiscal year to the Department of Education.

NOTE 2: CASH AND INVESTMENTS

Arkansas statutes allow each local district the right to determine the depositories in which to deposit district funds and the amounts and type of investments in which to invest District funds, provided however, that investments are limited specifically to bonds or notes of the United States of America, general obligation bonds of the State of Arkansas or bank certificates of deposit. At June 30, 2012, the District's cash consisted of demand deposits and certificates of deposit at one local depository bank. The District did not have any investments.

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 requires compliance with the provisions of state law. Arkansas law requires collateralization of all deposits with federal depository insurance (FDIC); a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bonds or other obligations; the 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 a bond executed by a surety company authorized to do business in the State of Arkansas.

SMACKOVER SCHOOL DISTRICT NO. 39
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2012

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

The carrying amount of total deposits, amount of the total bank balances and the custodial credit risk at June 30, 2012, are summarized as follows:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 3,098,891	\$ 3,098,891
Uninsured, Uncollateralized	<u>208,917</u>	<u>516,272</u>
TOTAL	<u>\$ 3,307,808</u>	<u>\$ 3,615,163</u>

The carrying value of the above-mentioned cash deposits at June 30, 2012, is included in the accompanying financial statements as follows:

Cash - Governmental Funds	\$ 3,263,581
Cash - Fiduciary Fund Types	<u>44,227</u>
	<u>\$ 3,307,808</u>

NOTE 3: BONDED AND NON-BONDED DEBT

The long-term debt is payable out of future income of the District. In order to liquidate the principal and interest on the bonded debt, the District has pledged 16.0 mills of the total 41.0 mill levy of the District.

The changes in long-term debt for the year ended June 30, 2012, are as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	<u>\$ 5,325,000</u>	<u>\$ 4,695,000</u>	<u>\$ 5,370,000</u>	<u>\$ 4,650,000</u>	<u>\$ 160,000</u>

SMACKOVER SCHOOL DISTRICT NO. 39
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 3: BONDED AND NON-BONDED DEBT (CONTINUED)

Bonded debt at June 30, 2012, issued and outstanding consisted of the following:

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Debt Rate of Interest</u>	<u>Authorized and Issued</u>	<u>Debt Outstanding June 30, 2012</u>	<u>Maturities to June 30, 2012</u>
Bonds Payable:					
3/1/2008	6/1/2037	3.00 to 4.20	\$ 4,235,000	\$ -	\$ 4,235,000
5/1/2005	6/1/2023	2.90 to 4.05	1,040,000	-	1,040,000
12/2/2008	6/1/2037	3.40 to 5.20	630,000	-	630,000
2/1/2011	6/1/2023	1.00 to 2.10	800,000	755,000	45,000
4/1/2012	6/1/2033	1.00 to 3.25	525,000	525,000	-
4/1/2012	6/1/2033	1.00 to 3.25	<u>3,370,000</u>	<u>3,370,000</u>	<u>-</u>
Total Bonds Payable			<u>\$ 10,600,000</u>	<u>\$ 4,650,000</u>	<u>\$ 5,950,000</u>

Total principal and interest payments on the above indebtedness for the years subsequent to June 30, 2012, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 160,000	\$ 156,233	\$ 316,233
2014	200,000	134,025	334,025
2015	230,000	132,025	362,025
2016	230,000	129,444	359,444
2017	230,000	126,700	356,700
2018-2022	1,210,000	576,906	1,786,906
2023-2027	1,040,000	452,796	1,492,796
2028-2032	1,110,000	314,836	1,424,836
2032	<u>240,000</u>	<u>42,575</u>	<u>282,575</u>
	<u>\$ 4,650,000</u>	<u>\$ 2,065,540</u>	<u>\$ 6,715,540</u>

SMACKOVER SCHOOL DISTRICT NO. 39
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 4: RETIREMENT PLANS

A. Arkansas Teacher Retirement System

(1) 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 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 publicly available financial report that includes financial statements and required supplementary information. The report can be obtained by writing to ATRS, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

(2) Funding Policy

ATRS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salaries. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14% of covered salaries. The employer contribution was paid by the Arkansas Department of Education from the public school fund, except for those employees paid from federal funding. Employer contributions for those employees were paid by the District. Beginning July 1, 1993, the employer contribution for nonfederally funded members became the lesser of the result of multiplying the applicable percent of active member payroll for the fiscal year by the total covered reported salaries of the previous fiscal year, including any prior year reported salaries, or the amount appropriated by the Arkansas General Assembly.

The District's contribution to ATRS during the year ended June 30, 2012 was approximately \$503,155, which is equal to 14% of the established rate. Contributions made during the years ended June 30, 2011 and 2010 were approximately \$525,353 and \$512,275, respectively. The District's contributions for federally funded salaries for the years ended June 30, 2012, 2011 and 2010 were \$42,125, \$31,912 and \$25,916, respectively, equal to the required contributions for each year.

SMACKOVER SCHOOL DISTRICT NO. 39
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2012

NOTE 4: RETIREMENT PLANS (CONTINUED)

B. Arkansas Public Employees Retirement System

(1) Plan Description

The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain non-teaching 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. That report may be obtained by writing to APERS, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

(2) Funding Policy

APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salaries. Each participating employer is required by code 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 to APERS for the years ended June 30, 2012, 2011, and 2010 were \$367, \$459, and \$459, respectively, equal to the required contributions for each year.

NOTE 5: INTERFUND TRANSFERS

Interfund transfers consist primarily of transfers from the General Fund to the Debt Service Fund for the payment of scheduled debt service expenditures. Interfund transfers for the year ended June 30, 2012, are summarized as follows:

<u>Transfer From</u>	Transfer To			<u>Total</u>
	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	
General Fund	\$ 20,985	\$ 156,479	\$ 383,255	\$ 560,719

SMACKOVER SCHOOL DISTRICT NO. 39
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2012

NOTE 6: TRUST AND AGENCY FUND

The Trust and Agency fund consisted of receipts and expenditures as follows for the year ended June 30, 2012:

Balance June 30, <u>2011</u>	<u>Receipts</u>	<u>Disbursements</u>	Balance June 30, <u>2012</u>
\$ 46,741	\$ 176,345	\$ 178,859	\$ 44,227
<u>\$ 46,741</u>	<u>\$ 176,345</u>	<u>\$ 178,859</u>	<u>\$ 44,227</u>

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance through the Arkansas Insurance Department. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 8: 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 \$ 86,854 for the year ended June 30, 2012.

NOTE 9: SUBSEQUENT EVENTS

Smackover School District No. 39 did not have any recognized or nonrecognized subsequent events occur after June 30, 2012, the date of the balance sheet. Subsequent events have been evaluated through December 5, 2012, the date the financial statements were available to be issued.

SMACKOVER SCHOOL DISTRICT NO. 39
SCHEDULE OF CAPITAL ASSETS
JUNE 30, 2012

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
Land	\$ 140,125	\$ -	\$ -	\$ 140,125
Buildings and Improvement	7,508,530	60,643	-	7,569,173
Construction in Progress	-	-	-	-
Furniture and Equipment	<u>1,806,724</u>	<u>182,794</u>	<u>14,591</u>	<u>1,974,927</u>
	9,455,379	243,437	14,591	9,684,225
Less Accumulated Depreciation	<u>3,595,419</u>	<u>269,926</u>	<u>14,591</u>	<u>3,850,754</u>
	<u>\$ 5,859,960</u>	<u>\$ (26,489)</u>	<u>\$ -</u>	<u>\$ 5,833,471</u>

See independent auditors' report on supplementary schedules.

SMACKOVER SCHOOL DISTRICT NO. 39
 NOTES TO SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: CAPITAL ASSETS

Capital assets generally result from expenditures in the governmental funds. These assets are not reported in the fund financial statement balance sheet – regulatory basis.

Capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the assets or materially extend an asset’s life are not capitalized. Interest incurred during construction is not capitalized.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Capital assets not being depreciated include land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Since surplus assets are sold for immaterial amounts when declared as no longer needed for public school purposes, no salvage value is taken into consideration for depreciation purposes. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The District has established capitalization thresholds and estimated useful lives as follows:

<u>Description</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Lives in Years</u>
Land	All	None
Construction in Progress	All	None
Buildings	All	15-50
Vehicles	\$1,000	5
Equipment	\$1,000	5-25

SMACKOVER SCHOOL DISTRICT NO. 39
 SCHEDULE OF BILLABLE UNITS
 SCHOOL BREAKFAST PROGRAM AND
 NATIONAL SCHOOL LUNCH PROGRAM
 FOR THE YEAR ENDED JUNE 30, 2012

<u>Description</u>	<u>Number of Units</u>	<u>Rate</u>	<u>Total Income</u>
Meals Rendered in Accordance with U.S. Department of Agriculture Child Nutrition Program:			
Breakfast			
Paid	10,430	\$ 0.27	\$ 2,816
Free - Severe	24,421	1.80	43,958
Reduced Price			
Reduced - Severe	<u>3,536</u>	1.50	<u>5,304</u>
Total Breakfast	<u>38,387</u>		<u>52,078</u>
Lunch			
Paid	28,455	0.28	7,967
Free	48,292	2.79	134,735
Reduced Price	<u>7,674</u>	2.39	<u>18,341</u>
Total Lunch	<u>84,421</u>		<u>161,043</u>
Total	<u><u>122,808</u></u>		<u><u>\$ 213,121</u></u>

See independent auditors' report on supplementary schedules.

SMACKOVER SCHOOL DISTRICT NO. 39
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Disbursements/ Expenditures</u>
<u>U.S. Department of Education:</u>		
Passed-Through the Arkansas Department of Education:		
Title I, Part A	84.010	\$ 220,911
Title I, Part A - ARRA	84.389	14,840
Title I, School Improvement - ARRA	84.389	<u>11,980</u>
Total Title I Cluster		<u>247,731</u>
Special Education, IDEA, Part B	84.027	<u>157,772</u>
State Fiscal Stabilization Fund		
ESEA Stabilization - ARRA	84.394	<u>5,926</u>
Total - State Fiscal Stabilization Fund		<u>5,926</u>
Rural Education, Title VI	84.358	187
Education Jobs Funds - ARRA	84.410	163,961
Title II, Part A	84.367	<u>21,594</u>
Total U.S. Department of Education		<u>597,171</u>
<u>U.S Department of Agriculture</u>		
Passed-Through the Arkansas Department of Education:		
School Breakfast Program	10.553	52,078
National School Lunch Program	10.555	161,043
Passed-Through the State Department of Human Services		
National School Lunch Program (Commodities)	10.555	<u>20,905</u>
Total Child Nutrition Cluster		<u>234,026</u>

See independent auditors' report on supplementary schedules

SMACKOVER SCHOOL DISTRICT NO. 39
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Total Disbursements/ Expenditures
	<u> </u>	<u> </u>
<u>U.S. Department of Health and Human Services:</u>		
Passed-through Arkansas Department of Human Services:		
Child Care and Development Block Grant	93.575	\$ 3,435
Child Care and Development Fund	93.596	<u>5,516</u>
Total CCDF Cluster		<u>8,951</u>
 TOTAL		 <u>\$ 840,148</u>

See independent auditors' report on supplementary schedules

SMACKOVER SCHOOL DISTRICT NO. 39
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012

<u>Grantor</u>	<u>Contract Number/ Appropriation</u>	<u>Expenditures</u>
<u>Arkansas Department of Human Services:</u> State Funded Child Care	N/A	\$ 5,449
<u>Arkansas Department of Education:</u> Arkansas Better Chance Program	N/A	<u>260,617</u>
TOTAL		<u>\$ 266,066</u>

See independent auditors' report on supplementary schedules

SMACKOVER SCHOOL DISTRICT NO. 39
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is a summary of the activity of the District's federal awards program and is presented in accordance with the requirements of OMB A-133, "Audits of States, Local Governments, and Nonprofit Organizations." The accompanying Schedule of State Awards is a summary of activity of the District's state grants awarded by the Arkansas Department of Human Services. These Schedules have been prepared on the modified accrual basis of accounting. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the presentation of the basic financial statements.

NOTE 2: RECOVERY ACT FUNDING

In accordance with OMB Circular A-133, funds appropriated and received under the American Recovery and Reinvestment Act (ARRA) are identified by a separate CFDA number specific to the ARRA funding and have been clustered with a corresponding CFDA number for the program as operated under the regular (non - ARRA) appropriation.

NOTE 3: NUTRITION CLUSTER

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. For the year ended June 30, 2012, the District received \$20,905 in food commodities.

NOTE 4: MEDICAID

During the year ended June 30, 2012, the District expended \$47,222 of Medicaid from the State Department of Human Services as well as \$2,674 of ARMAC Medicaid Administrative Claiming funds. Such payments are not considered federal awards expended, and therefore are not included in the Schedule of Expenditures of Federal Awards.

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CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' 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*

The Board of Education
Smackover School District No. 39
Smackover, Arkansas

We have audited the financial statements of each major governmental fund, and the aggregate remaining fund information of the Smackover School District No. 39 as of and for the year ended June 30, 2012, which collectively comprise Smackover School District No. 39's regulatory basis financial statements and have issued our report thereon dated December 5, 2012. This report expressed an adverse opinion on the conformity of those statements with accounting principles generally accepted in the United States of America and expressed an unqualified opinion on the conformity of those statements with the basis of accounting permitted by Arkansas Code Section 10-4-413(c). 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 Smackover School District No. 39 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Smackover School District No. 39's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Smackover School District No. 39's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Smackover School District No. 39's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smackover School District No. 39's 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 test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the School Board, the Arkansas Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cobb and Suskie, Ltd

Certified Public Accountants
December 5, 2012

COBB AND SUSKIE, LTD.

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Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' 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

The Board of Education
Smackover School District No. 39
Smackover, Arkansas

Compliance

We have audited the compliance of Smackover School District No. 39 with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2012. Smackover School District No. 39's major federal programs are identified in the summary of auditors' 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 Smackover School District No. 39's management. Our responsibility is to express an opinion on Smackover School District No. 39'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 Smackover School District No. 39'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 on Smackover School District No. 39's compliance with those requirements.

In our opinion, Smackover School District No. 39 complied, in all material respects, with the 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.

Internal Control over Compliance

The management of Smackover School District No. 39 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Smackover School District No. 39's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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 Smackover School District No. 39'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.

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

This report is intended solely for the information and use of the School Board, the Arkansas Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cobb and Suskie, Ltd.

Certified Public Accountants
December 5, 2012

SMACKOVER SCHOOL DISTRICT NO. 39
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I: SUMMARY OF AUDITORS' RESULTS

1. Type of Report Issued, Financial Statements
The independent auditors' report expresses an adverse opinion on the GAAP basis of reporting and unqualified opinion on the regulatory basic financial statements.
2. Significant Deficiencies, Financial Statements
No significant deficiencies were disclosed during the audit of the basic financial statements.
3. Material Noncompliance, Financial Statements
No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant Deficiencies, Major Programs
No significant deficiencies were disclosed during the audit of the major federal award programs.
5. Type of Report Issued, Compliance
The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. Audit Findings Under Section 510(a)
As reported below, there were no audit findings relative to the major federal award programs.
7. Major Programs
Title I Cluster, CFDA Numbers 84.010 and 84.389
Education Jobs Fund, CFDA 84.410
Child Nutrition Cluster, CFDA Numbers 10.553 and 10.555
8. Threshold between Type A and Type B Programs
The threshold for distinguishing Type A and B programs was \$300,000.
9. Type of Auditee
Smackover School District No. 39 did not qualify as a low-risk auditee as that term is defined by OMB Circular A-133.

Section II: FINANCIAL STATEMENT FINDINGS

1. Significant Deficiencies
None
2. Significant Deficiencies – Prior Year
None.

Section III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. Significant Deficiencies
None
2. Significant Deficiencies – Prior Year
None

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Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report on Compliance
With Arkansas State Requirements

The Board of Education
Smackover School District No. 39
Smackover, Arkansas

We have examined management's assertions that Smackover School District No. 39 substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2012. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation 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, Smackover School District No. 39 complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2012.

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

Cobb and Suskie, Ltd.

Certified Public Accountants
December 5, 2012

SMACKOVER SCHOOL DISTRICT NO. 39
 SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
 TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
 FOR THE YEAR ENDED JUNE 30, 2012

<u>DESCRIPTION</u>	<u>STATUTES</u>
Management Letter for Audit	14-75-101 - 14-75-104
Ethical Guidelines and Prohibitions for Board Members, Administrators, and Employees	6-13-628, 6-24-101 et seq.
School Elections	6-13-622; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-617 – 6-13-620; 6-24-101 et seq.
• District Treasurer	6-13-701
○ Warrants	6-17-918; 6-17-919; 6-20-403
Revolving Loan Fund	6-19-114; 6-20-801 et seq.
School District Finances	6-20-402
• Petty Cash	6-20-409
• Changes in Pullback (declining accrual percentages)	6-20-401
• Bidding and Purchasing Commodities	6-21-301 – 6-21-305
District Bonded & Non-bonded Debt, School Bonds	6-20-1201 – 6-20-1208, 6-20-1210
Teacher and Employees	
• Personnel Policies	6-17-201 et seq.; 6-17-2301
• Employment and Assignment	6-17-301 et seq.
• Teacher's License Requirement	6-17-401 et seq.
• Contracts	6-17-801 et seq.
• Certification Requirements	6-17-309; 6-17-401
• Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
• Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
• Salary Laws- Classified	6-17-2201 et seq.; 6-17-2301 et seq.
Teacher Salaries, Minimum Foundation Program Aid Act	6-17-803; 6-17-907; 6-17-908; 6-17-911 – 6-17-913; 6-17-918; 6-17-919
Deposit of Funds	19-8-104; 19-8-106
Collateralization & Investment of Funds	6-20-222; 19-1-504
Use of Contractors, Improvement Contracts	22-9-201 – 22-9-205
Nonrecurring Salary Payments	6-20-412
Trust Funds (Education Excellence)	6-5-307
Use of DM&O Millage	26-80-110
On Behalf Payments	The amount of funds paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees.