

**Stephens School District No. 13**

**Ouachita County, Arkansas**

**Regulatory Basis Financial Statements  
and Other Reports**

**June 30, 2013**



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OUACHITA COUNTY, ARKANSAS  
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# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

#### INDEPENDENT AUDITOR'S REPORT

Stephens School District No.13 and School Board Members  
Legislative Joint Auditing Committee

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

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Stephens School District No. 13 (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note1, to meet the reporting requirements of the State of Arkansas. 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 disclosure 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 District'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 District'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 of the State of Arkansas, the financial statements are prepared by the District on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, 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” paragraphs, 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 District as of June 30, 2013, or the changes in financial position for the year then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 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 Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

The Schedule of Capital Assets and the 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 February 27, 2014 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 the District's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
February 27, 2014  
EDSD28013

Sen. Bryan B. King  
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# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

#### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

#### INDEPENDENT AUDITOR'S REPORT

Stephens School District No. 13 and School Board Members  
Legislative Joint Auditing Committee

We have audited, in accordance with the 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 financial statements of each major governmental fund and the aggregate remaining fund information of the Stephens School District No.13 (the "District"), as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 27, 2014. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of 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 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 regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds 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 regulatory basis 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 regulatory basis 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 District's regulatory basis 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 2013-001 and 2013-002 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 from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated February 27, 2014.

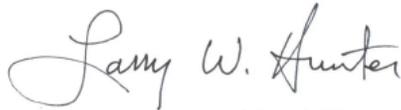
**District's Response to Findings**

The District's response to the findings identified in our audit, excluding the management letter finding, is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the regulatory basis 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 result 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.

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 27, 2014

Sen. Bryan B. King  
Senate Chair  
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House Chair  
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House Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

#### INDEPENDENT AUDITOR'S REPORT

Stephens School District No. 13 and School Board Members  
Legislative Joint Auditing Committee

#### **Report on Compliance for Each Major Federal Program**

We have audited the Stephens School District No. 13 (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. 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, the District 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, 2013.

#### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-003 and 2013-004. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control Over Compliance

Management of the District 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.

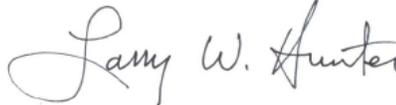
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2013-003 and 2013-004, that we consider to be significant deficiencies.

The District's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 27, 2014

**Sen. Bryan B. King**  
Senate Chair  
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# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

#### MANAGEMENT LETTER

Stephens School District No. 13 and School Board Members  
Legislative Joint Auditing Committee

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

During our examination of receipts we noted the following:

- A. As required by Ark. Code Ann. § 6-13-701, receipts were not issued for all operating, food service, and activity fund revenues.
- B. Operating and elementary school food service receipts did not indicate cash/check composition.
- C. High School food service receipts were not always deposited timely.

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

DIVISION OF LEGISLATIVE AUDIT

Handwritten signature of Larry W. Hunter in cursive.

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 27, 2014

STEPHENS SCHOOL DISTRICT NO. 13  
 OUACHITA COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2013

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 865,951		\$ 576,423	\$ 12,211
Investments	300,000			
Accounts receivable	54,836	\$ 148,551		
Due from other funds	101,610			
<b>TOTAL ASSETS</b>	<b>\$ 1,322,397</b>	<b>\$ 148,551</b>	<b>\$ 576,423</b>	<b>\$ 12,211</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 158,999	\$ 9,566	\$ 4,967	\$ 213
Due student groups				11,998
Due to other funds		101,610		
<b>Total Liabilities</b>	<b>158,999</b>	<b>111,176</b>	<b>4,967</b>	<b>12,211</b>
Fund Balances:				
Restricted	157,616	37,375	165,637	
Assigned	20,371		405,819	
Unassigned	985,411			
<b>Total Fund Balances</b>	<b>1,163,398</b>	<b>37,375</b>	<b>571,456</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,322,397</b>	<b>\$ 148,551</b>	<b>\$ 576,423</b>	<b>\$ 12,211</b>

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

STEPHENS SCHOOL DISTRICT NO. 13  
 OUACHITA COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 902,796		\$ 316,054
State assistance	1,892,150	\$ 1,583	147,344
Federal assistance		613,691	
Activity revenues	41,927		
Meal sales		13,692	
Investment income	7,747	1,902	
Other revenues	62,790	1,580	
<b>TOTAL REVENUES</b>	<b>2,907,410</b>	<b>632,448</b>	<b>463,398</b>
<b>EXPENDITURES</b>			
Regular programs	1,188,455		
Special education	212,453	68,851	
Career education programs	25,892		
Compensatory education programs		119,608	
Other instructional programs	129,404		
Student support services	107,957	34,139	
Instructional staff support services	121,583	144,260	
General administration support services	213,645	24,202	
School administration support services	232,643		
Central services support services	147,874		
Operation and maintenance of plant services	278,658		4,967
Student transportation services	210,801	1,538	
Other support services	7,063		
Food services operations		229,218	
Non-programmed costs		10,654	
Activity expenditures	35,736		
Debt Service:			
Principal retirement			25,000
Interest and fiscal charges			28,387
<b>TOTAL EXPENDITURES</b>	<b>2,912,164</b>	<b>632,470</b>	<b>58,354</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(4,754)</b>	<b>(22)</b>	<b>405,044</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(4,754)</b>	<b>(22)</b>	<b>405,044</b>
<b>FUND BALANCES - JULY 1</b>	<b>1,168,152</b>	<b>37,397</b>	<b>166,412</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 1,163,398</b>	<b>\$ 37,375</b>	<b>\$ 571,456</b>

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

STEPHENS SCHOOL DISTRICT NO. 13  
 OUACHITA COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 881,821	\$ 902,796	\$ 20,975			
State assistance	1,688,536	1,892,150	203,614	\$ 1,600	\$ 1,583	\$ (17)
Federal assistance				955,486	613,691	(341,795)
Activity revenues		41,927	41,927			
Meal sales				17,500	13,692	(3,808)
Investment income	6,600	7,747	1,147	1,300	1,902	602
Other revenues	36,080	62,790	26,710		1,580	1,580
<b>TOTAL REVENUES</b>	<b>2,613,037</b>	<b>2,907,410</b>	<b>294,373</b>	<b>975,886</b>	<b>632,448</b>	<b>(343,438)</b>
<b>EXPENDITURES</b>						
Regular programs	1,109,150	1,188,455	(79,305)			
Special education	255,383	212,453	42,930	66,767	68,851	(2,084)
Career education programs	29,800	25,892	3,908	267,444		267,444
Compensatory education programs					119,608	(119,608)
Other instructional programs	140,457	129,404	11,053			
Student support services	130,615	107,957	22,658	32,464	34,139	(1,675)
Instructional staff support services	111,200	121,583	(10,383)	314,510	144,260	170,250
General administration support services	211,601	213,645	(2,044)	35,000	24,202	10,798
School administration support services	214,684	232,643	(17,959)			
Central services support services	150,982	147,874	3,108			
Operation and maintenance of plant services	303,942	278,658	25,284	5,000		5,000
Student transportation services	213,060	210,801	2,259	1,537	1,538	(1)
Other support services	3,500	7,063	(3,563)			
Food services operations				215,739	229,218	(13,479)
Community services operations				10,000		10,000
Non-programmed costs				40,000	10,654	29,346
Activity expenditures		35,736	(35,736)			
<b>TOTAL EXPENDITURES</b>	<b>2,874,374</b>	<b>2,912,164</b>	<b>(37,790)</b>	<b>988,461</b>	<b>632,470</b>	<b>355,991</b>

STEPHENS SCHOOL DISTRICT NO. 13  
 OUACHITA COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (261,337)	\$ (4,754)	\$ 256,583	\$ (12,575)	\$ (22)	\$ 12,553
OTHER FINANCING SOURCES (USES)						
Transfers in	1,338,330		(1,338,330)			
Transfers out	(1,298,331)		1,298,331			
TOTAL OTHER FINANCING SOURCES (USES)	39,999		(39,999)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(221,338)	(4,754)	216,584	(12,575)	(22)	12,553
FUND BALANCES - JULY 1	1,158,948	1,168,152	9,204	13,071	37,397	24,326
FUND BALANCES - JUNE 30	\$ 937,610	\$ 1,163,398	\$ 225,788	\$ 496	\$ 37,375	\$ 36,879

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

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Stephens School District (District). There are no component units.

B. Description of Funds

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

General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the District's food services operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

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

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Fund – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Measurement Focus and Basis of Accounting (Continued)

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

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Property Taxes

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

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2012 calendar year taxes collected by June 30, 2013 and 32 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2013 equaled or exceeded the 32 percent calculation.

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. Property Taxes (Continued)

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

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. Fund Balance Classifications

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

I. Budget and Budgetary Accounting

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

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis. Additionally, the District routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

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

J. Stabilization Arrangements

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

K. Minimum Fund Balance Policies

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

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

L. Fund Balance Classification Policies and Procedures

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

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

M. Encumbrances

The District does not utilize encumbrance accounting.

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	1,504,585	1,615,439
Total Deposits	\$ 1,754,585	\$ 1,865,439

The above total deposits include certificates of deposit of \$300,000 reported as investments and classified as nonparticipating contracts.

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$203,387 at June 30, 2013 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 54,836		\$ 54,836
Federal assistance		\$ 148,551	148,551
Totals	\$ 54,836	\$ 148,551	\$ 203,387

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2013:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
High School HVAC	November 22, 2013	\$ 428,182

B. Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2013	Maturities To June 30, 2013
11/1/11	2/1/36	1.25 - 3.6%	\$ 925,000	\$ 880,000	\$ 45,000

Changes in Long-term Debt

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013
Bonds payable	\$ 905,000	\$ 0	\$ 25,000	\$ 880,000

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 30,000	\$ 27,662	\$ 57,662
2015	30,000	27,288	57,288
2016	30,000	26,912	56,912
2017	30,000	26,163	56,163
2018	30,000	25,412	55,412
2019-2023	175,000	113,513	288,513
2024-2028	180,000	85,863	265,863
2029-2033	220,000	52,305	272,305
2034-2036	155,000	11,340	166,340
Totals	\$ 880,000	\$ 396,458	\$ 1,276,458

**5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The accounts payable and accrued liabilities balance of \$173,745 at June 30, 2013 was comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types	Total
	Major	Special Revenue	Other Aggregate		
	General				
Vendor payables	\$ 26,214	\$ 9,566	\$ 4,967	\$ 213	\$ 40,960
Salaries payable	77,907				77,907
Payroll withholdings and matching	54,878				54,878
Totals	\$ 158,999	\$ 9,566	\$ 4,967	\$ 213	\$ 173,745

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**6: RETIREMENT PLANS**

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2013, 2012, and 2011 were \$290,493, \$289,691, and \$360,793, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteachers hired before July 1, 1989. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the years ended June 30, 2013, 2012, and 2011 were \$1,272, \$1,230, and \$1,671, respectively, equal to the required contributions for each year.

**7: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$925,000 issued on November 1, 2011. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$1,276,458, payable through February 1, 2036. Principal and interest paid for the current year and total property taxes pledged for debt service were \$52,975 and \$322,637, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 16.42 percent.

**8: 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 student accident coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**8: RISK MANAGEMENT (Continued)**

The District participates in the Arkansas School Boards Association - Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

Additionally, the District participates in the Arkansas School Boards Association - Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating, and settling claims that have been filed against member districts. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

**9: 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 \$49,498 for the year ended June 30, 2013.

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

Description	Governmental Funds			Total
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted for:				
Educational programs - national school lunch state categorical funding	\$ 111,012			\$ 111,012
Professional development	28			28
Capital projects			\$ 163,664	163,664
Child nutrition programs		\$ 36,087		36,087
Debt service			1,973	1,973
Medical services		792		792
Special education programs	11,204			11,204
Other purposes	35,372	496		35,868
<b>Total Restricted</b>	<b>157,616</b>	<b>37,375</b>	<b>165,637</b>	<b>360,628</b>
Assigned to:				
Capital projects			405,819	405,819
Student activities	19,785			19,785
Other purposes	586			586
<b>Total Assigned</b>	<b>20,371</b>		<b>405,819</b>	<b>426,190</b>
Unassigned	985,411			985,411
<b>Totals</b>	<b>\$1,163,398</b>	<b>\$ 37,375</b>	<b>\$ 571,456</b>	<b>\$1,772,229</b>

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**11: SUBSEQUENT EVENTS**

- (a) Current law stipulates the District shall be administratively consolidated with or into one or more school districts effective July 1, 2014.
- (b) On August 1, 2013, the District entered into a contract totaling \$112,581 for electrical work pertaining to the installation of the HVAC system referred to in Note 4A above.

STEPHENS SCHOOL DISTRICT NO. 13  
 OUACHITA COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Unaudited)

Schedule 1

	Balance June 30, 2013
<i>Nondepreciable capital assets:</i>	
Land	\$ 83,986
<i>Depreciable capital assets:</i>	
Buildings	1,772,410
Improvements/infrastructure	271,297
Equipment	1,623,780
Total depreciable capital assets	3,667,487
Less accumulated depreciation for:	
Buildings	1,747,664
Improvements/infrastructure	125,107
Equipment	1,262,820
Total accumulated depreciation	3,135,591
Total depreciable capital assets, net	531,896
Capital assets, net	\$ 615,882

STEPHENS SCHOOL DISTRICT NO. 13  
 OUACHITA COUNTY, ARKANSAS  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2013

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	5206	\$ 57,098
National School Lunch Program - Cash Assistance	10.555	5206	157,935
Total State Department of Education			215,033
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	5206000	6,741
TOTAL CHILD NUTRITION CLUSTER			221,774
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	5206	270,144
Special Education - Grants to States	84.027	5206	72,318
Improving Teacher Quality State Grants	84.367	5206	40,078
Total U. S. Department of Education			382,540
TOTAL OTHER PROGRAMS			382,540
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 604,314

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Stephens School District No. 13 (District) under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2013, the District received Medicaid funding of \$3,514 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.



STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESSES**

2013-001. 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. Superficially, certain key weaknesses included the following: bank reconciliations of the primary operating account were prepared by the same employee responsible for the maintenance of accounting records, without compensating controls. Non-payroll checks were prepared, printed, and mailed by the same employee responsible for setting up new vendors in the general ledger system, without compensating controls. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls.

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

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

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

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

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

2013-002. 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 regularity 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. We noted accounts payable errors totaling \$19,213 in the other aggregate funds. The financial statements were corrected during the audit fieldwork.

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 responsible officials and planned corrective actions: The District will be more careful in the processing of invoices from one fiscal year to the next fiscal year. The District will ensure proper management of personnel verifying that payments are processed and posted to the general ledger properly to prevent accounts payable errors.

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

SIGNIFICANT DEFICIENCIES

U. S. DEPARTMENT OF AGRICULTURE  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS) - CFDA NUMBERS 10.553 AND 10.555  
PASS-THROUGH NUMBER 5206  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010  
PASS-THROUGH NUMBER 5206  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-003. Procurement and Suspension and Debarment

Criteria or specific requirement: In accordance with 7 CFR § 3016.35 and 34 CFR 80.35 of the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, the District must not make or permit any applicable transaction to any vendor which is suspended or debarred or otherwise excluded from participation in federal assistance programs. The District is required to verify the vendor is not suspended or debarred or otherwise excluded. This verification can be accomplished by (a) checking the Excluded Parties List System (EPLS), (b) collecting a certification from the vendor, or (c) adding a clause or condition to the applicable transaction with the vendor. Additionally, the Arkansas Department of Education (ADE) issued a memorandum to all school districts on December 17, 2009, stipulating verification procedures to be followed regarding suspension and debarment when federal funds are utilized for applicable transactions.

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

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

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

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

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

Views of responsible officials and planned corrective actions: The District has started the procedure of checking all current vendors by going to the System Award Management System (SAMS) website to verify all vendors used by the District. There is a folder in the administration office with copies of information for current vendors.

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS) - CFDA NUMBERS 10.553 AND 10.555  
PASS-THROUGH NUMBER 5206  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-004. Allowable Costs/Cost Principles

Criteria or specific requirement: Federal regulations 7 CFR § 210.10(a)(3) and 7 CFR § 220.8(a)(3) require production and menu records for the lunch and breakfast programs. Schools must keep production and menu records for the meals that are served.

Condition: The District submitted incomplete production records pertaining to the 2012 Seamless Summer Program during the months of June and July 2012. As a result, the Arkansas Department of Education, Child Nutrition Unit (ADE, CNU) denied an estimated \$6,911 of reimbursement for meals served to students. ADE, CNU requested the District reimburse the child nutrition program from local district funds for the cost of all food, labor, and other expenses for the summer meals served to students. The amount of the questioned costs was not readily available.

Context: Examination of correspondence with ADE, CNU, the pass-through entity.

Effect: Unallowable costs for the year ended June 30, 2013 occurred.

Cause: Lack of internal controls and management oversight.

Recommendation: The District should comply with guidance provided by the ADE, CNU.

Views of responsible officials and planned corrective actions: The District will monitor progress records from external providers and ensure that reporting is processed in a timely manner and submitted to the ADE Child Nutrition Meal Unit. School personnel will verify that information and documents are accurately stated before the information is submitted.

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES  
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT

2012 - Finding 2012-2: Title I Grants to Local Educational Agencies - CFDA Number 84.010 and ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act - CFDA Number 84.394

Condition: The District failed to establish internal controls, including retention of verification documentation, to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. The goods and services had been properly received or rendered, and District personnel indicated the EPLS web site was used to verify that applicable vendors had not been suspended or debarred by the Federal Government; however, supporting documentation was not maintained of the EPLS web site verification as required by Arkansas Department of Education Commissioner's Memo FIN-10-047. No vendors with which the District conducted business were identified during the audit period as suspended or debarred parties.

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

Current Status: No ARRA - State Fiscal Stabilization Fund expenditures were incurred in fiscal year 2013. Exceptions were observed in the current audit period for the Title I program. See finding 2013-003 at Schedule 3.

STEPHENS SCHOOL DISTRICT NO. 13  
OUACHITA COUNTY, ARKANSAS  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Unaudited)

<b>General Fund</b>	Year Ended June 30,				
	2013	2012	2011	2010	2009
Total Assets	\$ 1,322,397	\$ 1,458,461	\$ 1,052,152	\$ 881,672	\$ 1,236,892
Total Liabilities	158,999	290,309	176,565	66,535	28,832
Total Fund Balances	1,163,398	1,168,152	875,587	815,137	1,208,060
Total Revenues	2,907,410	3,086,999	3,067,826	3,313,025	3,734,838
Total Expenditures	2,912,164	2,794,434	3,004,510	3,633,452	3,639,861
Total Other Financing Sources (Uses)			(2,866)	(72,496)	(327,932)
 <b>Special Revenue Fund</b>					
Total Assets	148,551	200,911	52,859	129,782	120,006
Total Liabilities	111,176	163,514	5,236	50,432	4,011
Total Fund Balances	37,375	37,397	47,623	79,350	115,995
Total Revenues	632,448	840,492	1,020,351	1,109,316	890,202
Total Expenditures	632,470	849,279	1,032,717	1,144,343	967,711
Total Other Financing Sources (Uses)		(1,439)	2,853	(1,618)	68,436
 <b>Other Aggregate Funds</b>					
Total Assets	576,423	166,412	185,981	20,000	1,929
Total Liabilities	4,967		184,853	20,000	
Total Fund Balances	571,456	166,412	1,128		1,929
Total Revenues	463,398	331,554	833,774	143,967	
Total Expenditures	58,354	168,243	854,860	205,392	278,277
Total Other Financing Sources (Uses)		1,973		59,496	259,496