

Stephens School District No. 13

Ouachita County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2014



STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2014

Independent Auditor's Report
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133
Management Letter

REGULATORY BASIS FINANCIAL STATEMENTS

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

SCHEDULES

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

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
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, 2014, 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 the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the 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, 2014, 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, 2014, 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.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the District was administratively consolidated with the Camden Fairview, Magnolia, and Nevada School Districts effective July 1, 2014. Our opinion is not modified with respect to this matter.

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 5, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 5, 2015
EDSD28014

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
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, 2014, 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 5, 2015. 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, 2014, 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 a certain deficiency in internal control that we consider to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free 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 5, 2015.

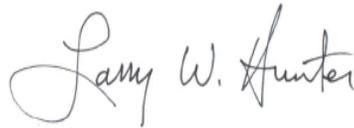
District's Response to Findings

The District's response to the findings identified in our audit, excluding the management letter findings, 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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 5, 2015

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



Rep. Mary Broadway
House Chair
Rep. Sue Scott
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
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, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on CFDA 84.010 Title I Grants to Local Educational Agencies

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding CFDA 84.010 Title I Grants to Local Educational Agencies program as described in finding number 2014-002 for Equipment and Real Property Management. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 84.010 Title I Grants to Local Educational Agencies

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 CFDA 84.010 Title I Grants to Local Educational Agencies program for the year ended June 30, 2014.

Other Matters

The District's response to the noncompliance finding 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.

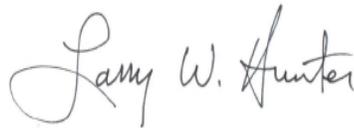
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 to be a material weakness.

The District's response to the internal control over compliance finding 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 5, 2015

Arkansas



Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair

Rep. Mary Broadaway
House Chair
Rep. Sue Scott
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
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 items that came to our attention during this audit. The purpose of such comments 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. These matters were discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

1. Ark. Code Ann. § 6-13-1610 requires contracts or debt obligations of administratively consolidated districts to be preapproved in writing by the Commissioner of Education or his or her designee. The Department of Education approved Superintendent compensation totaling \$89,633 that included \$7,114 for a car allowance in lieu of using a school provided vehicle. The Superintendent used the school credit card for personal vehicle expenses in addition to the contracted salary. A review of credit card charges revealed that the District:
 - a. Paid \$3,370 in fuel and vehicle maintenance costs for the Superintendent's personal vehicle although a car allowance was provided.
 - b. Paid \$215 in expenditures without adequate documentation; therefore, the validity of these disbursements could not be determined.
 - c. Did not always pay credit card bills timely, resulting in \$131 in late fees and finance charges.

The Superintendent also received \$2,173 in salary above the approved \$89,633.

2. During our examination of elementary school food service receipts, we noted receipts did not indicate cash/check composition. A similar finding was reported in the previous audit.
3. During our observation of equipment, we noted 2 of 10 items selected for inspection could not be located.
4. The District did not obtain the required performance bond on a contract for the purchase and installation of 29 HVAC units for \$613,939, as required by Ark. Code Ann. § 18-44-503.

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 5, 2015

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2014

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 260,488		\$ 30,813	\$ 7,760
Investments	300,000			
Accounts receivable	299	\$ 68,613		
Due from other funds	21,592			
TOTAL ASSETS	\$ 582,379	\$ 68,613	\$ 30,813	\$ 7,760
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due student groups				\$ 7,760
Due to other funds		\$ 21,592		
Total Liabilities		21,592		7,760
Fund Balances:				
Restricted	\$ 85,147	47,021	\$ 20,937	
Assigned	33,399		9,876	
Unassigned	463,833			
Total Fund Balances	582,379	47,021	30,813	
TOTAL LIABILITIES AND FUND BALANCES	\$ 582,379	\$ 68,613	\$ 30,813	\$ 7,760

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, 2014

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 910,869		\$ 324,546
State assistance	1,952,558	\$ 1,631	318,533
Federal assistance		919,342	
Activity revenues	47,995		
Meal sales		11,803	
Investment income	6,942	1,340	
Other revenues	73,175		
TOTAL REVENUES	2,991,539	934,116	643,079
EXPENDITURES			
Regular programs	1,387,073		
Special education	102,664	54,343	
Adult/continuing education program	34,764		
Compensatory education programs	14,957	312,820	
Other instructional programs	134,412		
Student support services	116,584	94,477	
Instructional staff support services	161,563	253,500	
General administration support services	237,493		
School administration support services	241,913		
Central services support services	161,415		
Operation and maintenance of plant services	285,943		9,990
Student transportation services	281,567		
Other support services	389		
Food services operations		209,330	
Facilities acquisition and construction services			615,297
Activity expenditures	42,107		
Debt Service:			
Principal retirement			30,000
Interest and fiscal charges			48,149
TOTAL EXPENDITURES	3,202,844	924,470	703,436
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(211,305)	9,646	(60,357)
OTHER FINANCING SOURCES (USES)			
Transfers in	236,296		606,010
Transfers out	(606,010)		(236,296)
Early retirement of debt			(850,000)
TOTAL OTHER FINANCING SOURCES (USES)	(369,714)		(480,286)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(581,019)	9,646	(540,643)
FUND BALANCES - JULY 1	1,163,398	37,375	571,456
FUND BALANCES - JUNE 30	\$ 582,379	\$ 47,021	\$ 30,813

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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,022,317	\$ 910,869	\$ (111,448)			
State assistance	1,802,106	1,952,558	150,452	\$ 1,600	\$ 1,631	\$ 31
Federal assistance				1,056,537	919,342	(137,195)
Activity revenues		47,995	47,995			
Meal sales				13,600	11,803	(1,797)
Investment income	7,700	6,942	(758)	1,900	1,340	(560)
Other revenues	43,100	73,175	30,075			
TOTAL REVENUES	2,875,223	2,991,539	116,316	1,073,637	934,116	(139,521)
EXPENDITURES						
Regular programs	1,316,447	1,387,073	(70,626)			
Special education	71,287	102,664	(31,377)	80,914	54,343	26,571
Adult/continuing education program	31,250	34,764	(3,514)			
Compensatory education programs	19,015	14,957	4,058	353,495	312,820	40,675
Other instructional programs	117,951	134,412	(16,461)			
Student support services	112,661	116,584	(3,923)	75,349	94,477	(19,128)
Instructional staff support services	253,317	161,563	91,754	335,472	253,500	81,972
General administration support services	219,965	237,493	(17,528)			
School administration support services	222,933	241,913	(18,980)			
Central services support services	106,868	161,415	(54,547)			
Operation and maintenance of plant services	314,923	285,943	28,980			
Student transportation services	240,309	281,567	(41,258)			
Other support services	4,000	389	3,611			
Food services operations					209,330	(209,330)
Community services operations				4,500		4,500
Non-programmed costs				40,000		40,000
Activity expenditures		42,107	(42,107)			
TOTAL EXPENDITURES	3,030,926	3,202,844	(171,918)	889,730	924,470	(34,740)

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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (155,703)	\$ (211,305)	\$ (55,602)	\$ 183,907	\$ 9,646	\$ (174,261)
OTHER FINANCING SOURCES (USES)						
Transfers in	1,384,901	236,296	(1,148,605)			
Transfers out	(1,344,901)	(606,010)	738,891			
TOTAL OTHER FINANCING SOURCES (USES)	40,000	(369,714)	(409,714)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(115,703)	(581,019)	(465,316)	183,907	9,646	(174,261)
FUND BALANCES - JULY 1	1,178,655	1,163,398	(15,257)	37,375	37,375	
FUND BALANCES - JUNE 30	<u>\$ 1,062,952</u>	<u>\$ 582,379</u>	<u>\$ (480,573)</u>	<u>\$ 221,282</u>	<u>\$ 47,021</u>	<u>\$ (174,261)</u>

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, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a seven member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the 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, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP 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 2013 calendar year taxes collected by June 30, 2014 and 28 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The 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, 2014 equaled or exceeded the 28 percent calculation.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Stabilization Arrangements

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

K. Minimum Fund Balance Policies

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

L. Fund Balance Classification Policies and Procedures

The 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	349,061	435,782
Total Deposits	\$ 599,061	\$ 685,782

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

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Federal assistance		\$ 68,613
Other	\$ 299	
Totals	\$ 299	\$ 68,613

4: COMMITMENTS

Changes in Long-term Debt

	July 1, 2013	Issued	Retired	June 30, 2014
Bonds payable	\$ 880,000	\$ 0	\$ 880,000 *	\$ 0

*Includes \$850,000 early retirement of debt - See Note 12.

Security for Debt Payments

Ark. Code Ann. § 6-20-1204 specifies procedures to be followed if a school district is delinquent in a payment to the paying agent for bonded debt. As additional security, any delinquent payment for bonded debt will be satisfied by the Arkansas Department of Education (ADE). Depending on the date of the bond issue, ADE will recover the full amount of any delinquency payment through the withholding of a school district's state funding or a direct payment from the school district. There were no delinquent bond payments incurred by the District during the audit period.

5: INTERFUND TRANSFERS

The District transferred \$606,010 from the general fund to the other aggregate funds for debt related payments of \$602,617 and debt refunding savings of \$3,393 required to be utilized for capital expenditures. The District also transferred excess property taxes of \$236,296 from the other aggregate funds to the general fund.

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 non-teaching school employees. 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.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

6: RETIREMENT PLANS (Continued)

Arkansas Teacher Retirement System (Continued)

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, 2014, 2013, and 2012 were \$274,697, \$290,493, and \$289,691, 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 non-teaching school employees. 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, 2014, 2013, and 2012 were \$2,579, \$1,272, and \$1,230, 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. Principal and interest paid, including early retirement of debt of \$850,000, for the current year and total property taxes pledged for debt service were \$921,306 and \$327,022, respectively. The percentage of property taxes pledged for the current year for principal and interest payments, including the early retirement of debt, was 100 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.

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.

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

8: RISK MANAGEMENT (Continued)

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 \$64,303 for the year ended June 30, 2014.

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Educational programs - national school lunch state categorical funding	\$ 53,072		
Professional development	545		
Capital projects			\$ 18,964
Child nutrition programs		\$ 45,036	
Debt service			1,973
Medical services		1,489	
Special education programs	8,032		
Other purposes	23,498	496	
Total Restricted	<u>85,147</u>	<u>47,021</u>	<u>20,937</u>
Assigned to:			
Capital projects			9,876
Student activities	25,674		
Other purposes	7,725		
Total Assigned	<u>33,399</u>		<u>9,876</u>
Unassigned	<u>463,833</u>		
Totals	<u>\$ 582,379</u>	<u>\$ 47,021</u>	<u>\$ 30,813</u>

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

11: SUBSEQUENT EVENTS

Effective July 1, 2014, the District was administratively consolidated with the Camden-Fairview, Magnolia, and Nevada School Districts.

12: EARLY RETIREMENT OF DEBT

On June 27, 2014, the District paid \$870,072 for principal, interest, and fees to retire the \$850,000 principal balance of refunding bonds dated November 1, 2011 prior to the scheduled maturity date of February 1, 2036.

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Unaudited)

Schedule 1

	Balance June 30, 2014
<i>Nondepreciable capital assets:</i>	
Land	\$ 83,986
<i>Depreciable capital assets:</i>	
Buildings	1,772,410
Improvements/infrastructure	271,297
Equipment	1,640,469
Total depreciable capital assets	3,684,176
Less accumulated depreciation for:	
Buildings	1,747,664
Improvements/infrastructure	125,107
Equipment	1,255,979
Total accumulated depreciation	3,128,750
Total depreciable capital assets, net	555,426
Capital assets, net	\$ 639,412

STEPHENS SCHOOL DISTRICT NO. 13
 OUACHITA COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2014

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	5206	\$ 62,545
National School Lunch Program - Cash Assistance	10.555	5206	135,972
Total State Department of Education			198,517
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	5206000	4,988
TOTAL CHILD NUTRITION CLUSTER			203,505
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	5206	549,980
Special Education - Grants to States	84.027	5206	132,549
Improving Teacher Quality State Grants	84.367	5206	26,998
Total U. S. Department of Education			709,527
TOTAL OTHER PROGRAMS			709,527
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 913,032

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, 2014. 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, 2014, the District received Medicaid funding of \$1,857 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, 2014

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, 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.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESS

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 52-06
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-002. Equipment and Real Property Management

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

Condition: The District could not account for 9 of 18 equipment items selected for inspection for the Title I program with an initial cost of \$13,987.

Context: Selection of 18 items recorded on subsidiary records to inspect from a total population of 177 items at an initial cost of \$322,658, review of available documentation for dispositions, and interviews of personnel.

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

Cause: The District failed to properly account for all equipment items to ensure accurate equipment subsidiary records.

Recommendation: The District should properly account for all equipment acquired with federal awards.

Views of responsible officials and planned corrective actions: The Stephens School District was administratively consolidated at the end of the 2014 school year.

STEPHENS SCHOOL DISTRICT NO. 13
OUACHITA COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS)

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

2013 - Finding 2013-003: Child Nutrition Cluster (Cash Assistance Programs) - CFDA Numbers 10.553 and 10.555 and Title I Grants to Local Educational Agencies - CFDA Number 84.010

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.

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: Corrective action taken.

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS)

2013 - Finding 2013-004: Child Nutrition Cluster (Cash Assistance Programs) - CFDA Numbers 10.553 and 10.555

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.

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

Current Status: Corrective action taken.

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, 2014
 (Unaudited)

Schedule 5

General Fund	Year Ended June 30,				
	2014	2013	2012	2011	2010
Total Assets	\$ 582,379	\$ 1,322,397	\$ 1,458,461	\$ 1,052,152	\$ 881,672
Total Liabilities		158,999	290,309	176,565	66,535
Total Fund Balances	582,379	1,163,398	1,168,152	875,587	815,137
Total Revenues	2,991,539	2,907,410	3,086,999	3,067,826	3,313,025
Total Expenditures	3,202,844	2,912,164	2,794,434	3,004,510	3,633,452
Total Other Financing Sources (Uses)	(369,714)			(2,866)	(72,496)
 Special Revenue Fund					
Total Assets	68,613	148,551	200,911	52,859	129,782
Total Liabilities	21,592	111,176	163,514	5,236	50,432
Total Fund Balances	47,021	37,375	37,397	47,623	79,350
Total Revenues	934,116	632,448	840,492	1,020,351	1,109,316
Total Expenditures	924,470	632,470	849,279	1,032,717	1,144,343
Total Other Financing Sources (Uses)			(1,439)	2,853	(1,618)
 Other Aggregate Funds					
Total Assets	30,813	576,423	166,412	185,981	20,000
Total Liabilities		4,967		184,853	20,000
Total Fund Balances	30,813	571,456	166,412	1,128	
Total Revenues	643,079	463,398	331,554	833,774	143,967
Total Expenditures	703,436	58,354	168,243	854,860	205,932
Total Other Financing Sources (Uses)	(480,286)		1,973		59,496