

# **Bald Knob School District**

**White County, Arkansas**

## **Regulatory Basis Financial Statements and Other Reports**

**June 30, 2013**

LEGISLATIVE JOINT AUDITING COMMITTEE

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BALD KNOB SCHOOL DISTRICT  
WHITE COUNTY, ARKANSAS  
TABLE OF CONTENTS  
JUNE 30, 2013

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

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House Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

#### INDEPENDENT AUDITOR'S REPORT

Bald Knob School District 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 Bald Knob School District (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 Note 1, 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 January 13, 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  
January 13, 2014  
EDSD39613

Sen. Bryan B. King  
Senate Chair  
Rep. Kim Hammer  
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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

Bald Knob School District 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 Bald Knob School District (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 January 13, 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 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 2013-001 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 January 13, 2014..

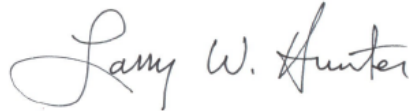
### **District's Response to Findings**

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  
January 13, 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

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

Bald Knob School District and School Board Members  
Legislative Joint Auditing Committee

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

We have audited the Bald Knob School District (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***

#### ***Basis for Qualified Opinion on CFDA 84.287 Twenty-First Century Community Learning Centers***

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding CFDA 84.287 Twenty-First Century Community Learning Centers as described in finding number 2013-002 for Allowable Costs/Cost Principles. 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 84.287 Twenty-First Century Community Learning Centers***

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 84.287 Twenty-First Century Community Learning Centers for the year ended June 30, 2013.

**Unmodified Opinion on Each of the Other Major Federal Programs**

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 other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2013.

**Other Matters**

The results of our auditing procedures disclosed other 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 item 2013-003. 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.

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 certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

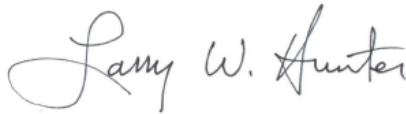
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-003 to be a significant deficiency.

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  
January 13, 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

Bald Knob School District 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.

Compensation was increased \$3,688 to the spouse of a board member without approval of the Commissioner of Education as required by Ark. Code Ann. § 6-24-105. A similar finding was reported in the prior audit.

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  
January 13, 2014

BALD KNOB SCHOOL DISTRICT  
 WHITE 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	\$ 2,447,195	\$ 166,321	\$ 534,954	\$ 52,301
Accounts receivable	27,049	158,551	16,203	
Deposit with paying agent			133,638	
<b>TOTAL ASSETS</b>	<b>\$ 2,474,244</b>	<b>\$ 324,872</b>	<b>\$ 684,795</b>	<b>\$ 52,301</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 64,011	\$ 2,931	\$ 395,113	
Due student groups				\$ 47,296
<b>Total Liabilities</b>	<b>64,011</b>	<b>2,931</b>	<b>395,113</b>	<b>47,296</b>
<b>Fund Balances:</b>				
Restricted	185,831	321,941	163,052	5,005
Committed			70,210	
Assigned	116,904		129,790	
Unassigned	2,107,498		(73,370)	
<b>Total Fund Balances</b>	<b>2,410,233</b>	<b>321,941</b>	<b>289,682</b>	<b>5,005</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,474,244</b>	<b>\$ 324,872</b>	<b>\$ 684,795</b>	<b>\$ 52,301</b>

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

BALD KNOB SCHOOL DISTRICT  
 WHITE 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)	\$ 4,281,672		
State assistance	5,906,975	\$ 5,114	\$ 2,407,985
Federal assistance	35,436	2,815,491	124,115
Activity revenues	172,522		
Meal sales		152,871	
Investment income	23,482		3,621
Other revenues	268,757	18,045	19,800
<b>TOTAL REVENUES</b>	<b>10,688,844</b>	<b>2,991,521</b>	<b>2,555,521</b>
<b>EXPENDITURES</b>			
Regular programs	4,095,847	93,236	123,432
Special education	543,648	178,924	
Career education programs	271,188		
Compensatory education programs	41,449	1,125,086	
Other instructional programs	516,613	91,731	
Student support services	441,693	279,320	
Instructional staff support services	575,773	251,539	19,827
General administration support services	190,499	153,382	
School administration support services	578,000		
Central services support services	296,223	208,903	
Operation and maintenance of plant services	1,130,730		
Student transportation services	427,298		
Other support services	41,378		
Food services operations		711,377	
Community services operations	144,954	2,933	
Facilities acquisition and construction services	15,808		5,092,520
Non-programmed costs		11,834	
Activity expenditures	149,580		
Debt Service:			
Principal retirement	117,984		390,000
Interest and fiscal charges	12,765		292,613
<b>TOTAL EXPENDITURES</b>	<b>9,591,430</b>	<b>3,108,265</b>	<b>5,918,392</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,097,414</b>	<b>(116,744)</b>	<b>(3,362,871)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in		56,777	1,659,840
Transfers out	(1,716,617)		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,716,617)</b>	<b>56,777</b>	<b>1,659,840</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(619,203)</b>	<b>(59,967)</b>	<b>(1,703,031)</b>
<b>FUND BALANCES - JULY 1</b>	<b>3,029,436</b>	<b>381,908</b>	<b>1,992,713</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 2,410,233</b>	<b>\$ 321,941</b>	<b>\$ 289,682</b>

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

BALD KNOB SCHOOL DISTRICT  
WHITE 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

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 4,247,000	\$ 4,281,672	\$ 34,672			
State assistance	5,803,773	5,906,975	103,202	\$ 5,000	\$ 5,114	\$ 114
Federal assistance		35,436	35,436	1,535,860	2,815,491	1,279,631
Activity revenues	393,900	172,522	(221,378)			
Meal sales				161,000	152,871	(8,129)
Investment income	25,000	23,482	(1,518)			
Other revenues	258,185	268,757	10,572	1,100	18,045	16,945
<b>TOTAL REVENUES</b>	<b>10,727,858</b>	<b>10,688,844</b>	<b>(39,014)</b>	<b>1,702,960</b>	<b>2,991,521</b>	<b>1,288,561</b>
EXPENDITURES						
Regular programs	4,229,960	4,095,847	134,113	51,297	93,236	(41,939)
Special education	529,897	543,648	(13,751)	241,389	178,924	62,465
Career education programs	360,026	271,188	88,838			
Compensatory education programs	15,439	41,449	(26,010)	542,488	1,125,086	(582,598)
Other instructional programs	533,929	516,613	17,316		91,731	(91,731)
Student support services	401,623	441,693	(40,070)	107,738	279,320	(171,582)
Instructional staff support services	638,765	575,773	62,992	189,610	251,539	(61,929)
General administration support services	203,819	190,499	13,320	45,753	153,382	(107,629)
School administration support services	559,192	578,000	(18,808)			
Central services support services	291,244	296,223	(4,979)		208,903	(208,903)
Operation and maintenance of plant services	1,371,835	1,130,730	241,105			
Student transportation services	502,757	427,298	75,459	5,000		5,000
Other support services	43,523	41,378	2,145			
Food services operations				711,975	711,377	598
Community services operations	169,654	144,954	24,700	1,235	2,933	(1,698)
Facilities acquisition and construction services	7,000	15,808	(8,808)			
Non-programmed costs					11,834	(11,834)
Activity expenditures	357,350	149,580	207,770			
Debt Service:						
Principal retirement	112,206	117,984	(5,778)			
Interest and fiscal charges	18,244	12,765	5,479			
<b>TOTAL EXPENDITURES</b>	<b>10,346,463</b>	<b>9,591,430</b>	<b>755,033</b>	<b>1,896,485</b>	<b>3,108,265</b>	<b>(1,211,780)</b>

BALD KNOB SCHOOL DISTRICT  
 WHITE 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

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 381,395	\$ 1,097,414	\$ 716,019	\$ (193,525)	\$ (116,744)	\$ 76,781
OTHER FINANCING SOURCES (USES)						
Transfers in	13,933,917		(13,933,917)	167,602	56,777	(110,825)
Transfers out	(15,584,523)	(1,716,617)	13,867,906	(32,727)		32,727
TOTAL OTHER FINANCING SOURCES (USES)	(1,650,606)	(1,716,617)	(66,011)	134,875	56,777	(78,098)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,269,211)	(619,203)	650,008	(58,650)	(59,967)	(1,317)
FUND BALANCES - JULY 1	3,134,299	3,029,436	(104,863)	62,907	381,908	319,001
FUND BALANCES - JUNE 30	\$ 1,865,088	\$ 2,410,233	\$ 545,145	\$ 4,257	\$ 321,941	\$ 317,684

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

BALD KNOB SCHOOL DISTRICT  
WHITE 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 Bald Knob 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).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

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.

BALD KNOB SCHOOL DISTRICT  
 WHITE 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.

BALD KNOB SCHOOL DISTRICT  
WHITE 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. 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. Committed fund balance – represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Education.
3. 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.
4. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

H. Budget and Budgetary Accounting

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

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

I. Stabilization Arrangements

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



BALD KNOB SCHOOL DISTRICT  
 WHITE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013

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

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

The District's highest level of decision-making authority is its Board of Education. The establishment of amounts classified as committed fund balances and subsequent modifications to such balances are the result of formal action taken by the District's Board of Education through a resolution or adoption of board policy.

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.

L. Encumbrances

The District does not utilize encumbrance accounting.

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 419,205	\$ 423,396
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	2,781,566	3,096,391
Total Deposits	\$ 3,200,771	\$ 3,519,787

BALD KNOB SCHOOL DISTRICT  
 WHITE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$201,803 at June 30, 2013 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
State assistance			\$ 16,203	\$ 16,203
Federal assistance		\$ 158,551		158,551
Other	\$ 27,049			27,049
Totals	\$ 27,049	\$ 158,551	\$ 16,203	\$ 201,803

**4: COMMITMENTS**

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Campus renovations	November 15, 2013	\$ 626,046
Safe room	December 15, 2013	1,206,801

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

General description of leases and leasing arrangements:

The District leased 8 copiers on a per copy basis for a two-year period expiring June 30, 2014 with automatic successive two-year renewals unless terminated with 90 days written notice.

On September 6, 2012, the District executed a lease for a postage meter machine and scale. Terms of the lease were \$228 monthly payments for 60 payments plus taxes and fees.

1. Future minimum rental payments (aggregate) at June 30, 2013: \$11,400
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2014	\$ 2,736
2015	2,736
2016	2,736
2017	2,736
2018	456
Total	\$ 11,400

Rental payments for the operating leases described above were approximately \$36,105 for the year ended June 30, 2013.

BALD KNOB SCHOOL DISTRICT  
WHITE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**4: COMMITMENTS (Continued)**

C. 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
10/15/03	10/15/13	5.15%	\$ 1,000,000	\$ 124,061	\$ 875,939
11/1/07	2/1/30	3.4 - 4.25%	485,000	415,000	70,000
6/15/11	2/1/30	2 - 3.8%	7,245,000	6,865,000	380,000
7/6/11	6/1/26	4.75%	925,000	925,000	
10/11/11	10/1/29	4.95%	185,456	185,456	
6/1/12	2/1/30	1 - 2.75%	1,045,000	990,000	55,000
Totals			<u>\$ 10,885,456</u>	<u>\$ 9,504,517</u>	<u>\$ 1,380,939</u>

Changes in Long-term Debt

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013
Bonds payable	\$ 9,770,456		\$ 390,000	\$ 9,380,456
Postdated warrants	242,045		117,984	124,061
Totals	<u>\$ 10,012,501</u>	<u>\$ 0</u>	<u>\$ 507,984</u>	<u>\$ 9,504,517</u>

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 509,061	\$ 296,642	\$ 805,703
2015	405,000	289,194	694,194
2016	410,000	274,803	684,803
2017	420,000	266,690	686,690
2018	430,000	258,367	688,367
2019-2023	2,325,000	1,135,567	3,460,567
2024-2028	3,605,000	679,573	4,284,573
2029-2030	1,400,456	81,250	1,481,706
Totals	<u>\$ 9,504,517</u>	<u>\$ 3,282,086</u>	<u>\$ 12,786,603</u>

Qualified School Construction Bonds

On July 6, 2011 and October 11, 2011, the District obtained funding of \$925,000 and \$185,456, respectively, from Qualified School Construction Bonds, a debt financial arrangement authorized by the American Recovery and Reinvestment Act of 2009. The District will deposit specified amounts annually into sinking funds for 15 years and 18 years, respectively. These amounts plus interest earned will be used to retire the debt when due. The balance of the sinking funds at June 30, 2013 was \$123,334 and \$10,304, respectively.

BALD KNOB SCHOOL DISTRICT  
WHITE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$462,055 at June 30, 2013 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Vendor payables	\$ 64,011	\$ 2,931	\$ 395,113	\$ 462,055

**6: INTERFUND TRANSFERS**

The District transferred \$56,777 from the general fund to the special revenue fund to supplement its food services operations. Additionally, the District transferred \$657,587, \$1,000,000, and \$2,253 from the general fund to the other aggregate funds for debt related payments, capital expenditures, and debt refunding savings required to be utilized for capital expenditures, respectively.

**7: RETIREMENT PLANS**

Arkansas Teacher Retirement System

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

**Funding Policy.** ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2013, 2012, and 2011 were \$1,020,769, \$1,012,577, and \$1,040,219, 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 \$4,204, \$3,579, and \$2,783, respectively, equal to the required contributions for each year.

BALD KNOB SCHOOL DISTRICT  
 WHITE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013

**8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS**

ADDITIONS	
Donations	\$ 3,890
DEDUCTIONS	
Scholarships	3,000
CHANGE IN FUND BALANCE	890
FUND BALANCE - JULY 1	4,115
FUND BALANCE - JUNE 30	\$ 5,005

**9: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$9,885,456 issued from November 1, 2007 through June 1, 2012. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$12,649,764, payable through February 1, 2030. Principal and interest paid for the current year and total property taxes pledged for debt service were \$680,913 and \$1,501,366, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 45.35 percent.

**10: RISK MANAGEMENT**

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

The District carries commercial insurance for legal liability and student accidents. 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.

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.

BALD KNOB SCHOOL DISTRICT  
WHITE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**11: ON-BEHALF PAYMENTS**

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$134,007 for the year ended June 30, 2013.

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

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
<b>Fund Balances:</b>				
Restricted for:				
Alternative learning environment	\$ 8,073			\$ 8,073
Educational programs - national school lunch state categorical funding	52,697			52,697
Professional development	2,530			2,530
Capital projects			\$ 29,414	29,414
Debt service			133,638	133,638
Medical services		\$ 16,594		16,594
Special education programs	5,124			5,124
Secondary career centers	117,407			117,407
Migrant education program		305,201		305,201
Other purposes		146		146
Total Restricted	<u>185,831</u>	<u>321,941</u>	<u>163,052</u>	<u>670,824</u>
Committed to:				
Capital projects			70,210	70,210
Assigned to:				
Capital projects			129,790	129,790
Student activities	116,904			116,904
Total Assigned	<u>116,904</u>		<u>129,790</u>	<u>246,694</u>
Unassigned	<u>2,107,498</u>		<u>(73,370)</u>	<u>2,034,128</u>
Totals	<u>\$2,410,233</u>	<u>\$ 321,941</u>	<u>\$ 289,682</u>	<u>\$3,021,856</u>

**13: SUBSEQUENT EVENTS**

- (a) On July 5, 2013, the District signed a contract with Delk Construction Company for the elementary re-roofing project with a guaranteed maximum price of \$508,252.
- (b) On November 1, 2013, the District issued second lien bonds of \$1,045,000 for replacing the roof at the elementary school, making utility upgrades, and renovating the auditorium.

**14: DEFICIT FUND BALANCE**

The table at Note 12 reflects a deficit unassigned fund balance of \$73,370 in the other aggregate funds. The deficit was caused by the recognition of year-end accounts payable pertaining to the construction of the safe room.

BALD KNOB SCHOOL DISTRICT  
 WHITE 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	\$ 196,179
Construction in progress	910,078
Total nondepreciable capital assets	1,106,257
 <i>Depreciable capital assets:</i>	
Buildings	18,559,185
Improvements/infrastructure	869,013
Equipment	2,984,487
Total depreciable capital assets	22,412,685
 Less accumulated depreciation for:	
Buildings	4,437,705
Improvements/infrastructure	314,925
Equipment	2,136,263
Total accumulated depreciation	6,888,893
Total depreciable capital assets, net	15,523,792
Capital assets, net	\$ 16,630,049

BALD KNOB SCHOOL DISTRICT  
 WHITE 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	73-01	\$ 88,528
National School Lunch Program - Cash Assistance	10.555	73-01	362,544
Total State Department of Education			451,072
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	7301000	44,498
TOTAL CHILD NUTRITION CLUSTER			495,570
<b>OTHER PROGRAMS</b>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	73-01	385,437
Migrant Education - State Grant Program	84.011	73-01	1,389,300
Special Education - Grants to States	84.027	73-01	235,897
Twenty-First Century Community Learning Centers	84.287	73-01	236,391
Rural Education	84.358	73-01	19,827
Improving Teacher Quality State Grants	84.367	73-01	82,230
Total U. S. Department of Education			2,349,082
<u>U. S. Department of Homeland Security</u>			
Passed Through State Department of Emergency Management:			
Hazard Mitigation Grant	97.039	73-01	54,028
TOTAL OTHER PROGRAMS			2,403,110
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,898,680

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 Bald Knob School District (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 \$37,003 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.



BALD KNOB SCHOOL DISTRICT  
 WHITE COUNTY, ARKANSAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Type of auditor's report issued on compliance for major programs: unmodified for all major programs except for Twenty-First Century Community Learning Centers, which was qualified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.011	Migrant Education - State Grant Program
84.287	Twenty-First Century Community Learning Centers

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

Auditee qualified as low-risk auditee?  yes  no

BALD KNOB SCHOOL DISTRICT  
WHITE COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

MATERIAL WEAKNESS

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. The District has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting. Primarily the responsibilities of receipting, depositing, and reconciliation procedures were not segregated. Also, access to signature stamps was not adequately restricted.

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 recommendations and will distribute accounting duties among employees to the extent possible within cost to benefit implications.

BALD KNOB SCHOOL DISTRICT  
WHITE 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**

MATERIAL WEAKNESS

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS - CFDA NUMBER 84.287  
PASS-THROUGH NUMBER 73-01  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-002. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 states that compensation for personal services should conform to the established policy of the entity consistently applied to both Federal and non-Federal activities. Compensation polices and rates are routinely approved by the local Board of Education.

Condition: There was no documentation of Board approval for amounts paid to Twenty-First Century employees totaling \$72,173. Time sheets, approved by the Director of the program, were available for audit inspection.

Context: Evaluation of District's procedures used during the procurement of personnel services as compared to requirements stated in OMB Circular A-87.

Effect: The District was unable to provide documentation that contained approved pay rates by the Board of Education at which employees were paid.

Cause: The District was unaware that all pay rates for the Twenty-First Century Learning Centers program were not approved by the Board of Education.

Recommendation: The District should ensure that all rates of employee compensation be approved by the local Board of Education.

Views of responsible officials and planned corrective actions: The 21st Century program paid school employees an hourly amount that was set by the grant when the grant was awarded. The grant was for five years and is no longer associated with the Bald Knob School District.

BALD KNOB SCHOOL DISTRICT  
WHITE 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)**

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS - CFDA NUMBER 84.287  
PASS-THROUGH NUMBER 73-01  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-003. Reporting

Criteria or specific requirement: The Arkansas Department of Education (ADE) requires the District to submit a budget and an annual financial report for its Twenty-First Century Learning Centers program. Expenditures may not exceed the budgeted amounts for specific categories by more than 10 percent of the overall budget without prior approval from the ADE and the submission of budget amendments.

Condition: The District's program expenditures exceeded the budget in one function (Before/After School Programs) category and one object (Supplies and Materials) category by \$7,380 and \$1,213 more than the ten percent allowed, respectively.

Context: Comparison of actual expenditures to the program's annual financial report and budget.

Effect: The District did not expend program funds within the approved budget categories.

Cause: The District failed to properly monitor expenditures against the approved budget.

Recommendation: The District should implement procedures to ensure costs are incurred within the applicable budget categories and consult with the ADE for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: The two 21st Century programs were awarded two mini grants for \$15,000. The administration did not have any knowledge of either program receiving these grants until after the District's budget was submitted. The Bald Knob School District had very limited, if any, input with either of these programs. Directives on budget spending and preparation, amendments, carryover balances, and day to day operations came by way of direct communication from ADE personnel to the program directors. ADE assisted with preparation and approval of the 21st Century budgets and amendments. The 21st Century Directors were not instructed to amend budgets to include mini grant revenues. They were instructed, however, to spend money to the same expenditure account codes while using a unique program code that would identify mini grant expenditures from regular program expenditures. The Arkansas Department of Education should establish a procedure to ensure communication between the cooperating districts that manages the funds for the 21st CCLC program. This program is no longer associated with the Bald Knob School District.

BALD KNOB SCHOOL DISTRICT  
WHITE 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  
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT

2012 - Finding 2012-2: ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act - CFDA Number 84.394

Condition: The District purchased real property, funded with State Fiscal Stabilization funds of \$20,770, without obtaining an appraisal.

Recommendation: The District should ensure that all applicable real property acquisitions be appraised by qualified independent appraisers, and then such appraisals be examined by a review appraiser to ensure acceptability.

Current Status: Corrective action was taken

BALD KNOB SCHOOL DISTRICT  
 WHITE 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	\$ 2,474,244	\$ 3,165,860	\$ 3,209,065	\$ 3,355,345	\$ 3,197,401
Total Liabilities	64,011	136,424	124,867	202,996	183,018
Total Fund Balances	2,410,233	3,029,436	3,084,198	3,152,349	3,014,383
Total Revenues	10,688,844	10,683,561	10,240,613	10,187,427	10,423,259
Total Expenditures	9,591,430	9,033,157	9,428,491	9,633,436	8,556,356
Total Other Financing Sources (Uses)	(1,716,617)	(1,705,166)	(880,273)	(416,025)	(546,983)
 <b>Special Revenue Fund</b>					
Total Assets	324,872	480,752	519,266	757,197	530,307
Total Liabilities	2,931	98,844	73,785	4,295	342
Total Fund Balances	321,941	381,908	445,481	752,902	529,965
Total Revenues	2,991,521	3,240,929	3,619,797	4,428,759	3,174,905
Total Expenditures	3,108,265	3,327,007	3,945,464	4,218,641	3,029,388
Total Other Financing Sources (Uses)	56,777	22,505	18,246	12,819	11,585
 <b>Other Aggregate Funds</b>					
Total Assets	684,795	2,018,651	85,701	71,403	61,200
Total Liabilities	395,113	25,938	2,153	71,403	61,200
Total Fund Balances	289,682	1,992,713	83,548	71,403	61,200
Total Revenues	2,555,521	1,515,002	658,960	192,139	179,204
Total Expenditures	5,918,392	3,379,449	1,520,985	585,142	653,402
Total Other Financing Sources (Uses)	1,659,840	3,773,612	874,170	403,206	535,398