

Calico Rock School District No. 50

Izard County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



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IZARD COUNTY, ARKANSAS
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JUNE 30, 2011

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Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Calico Rock School District No. 50 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Calico Rock School District No. 50 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2011, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the financial statements, the District changed the classifications of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4), and Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
December 16, 2011
EDSD17811

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

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*

Calico Rock School District No. 50 and School Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Calico Rock School District No. 50 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated December 16, 2011. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting 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 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 2011-1 to be a material weakness.

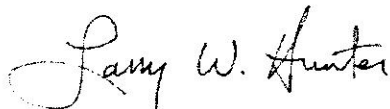
Compliance and Other Matters

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

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report 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 black ink that reads "Larry W. Hunter". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 16, 2011

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice 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 WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Calico Rock School District No. 50 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Calico Rock School District No. 50 (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, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, 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 2011-2.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

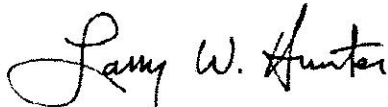
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2011-2. 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.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report 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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 16, 2011

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2011

Exhibit A

	Governmental Funds			
	Major			Fiduciary
	General	Special Revenue	Other Aggregate	Fund Types
ASSETS				
Cash	\$ 840,934		\$ 176,849	\$ 25,630
Accounts receivable	73,365	\$ 136,829		
Due from other funds	85,476			
TOTAL ASSETS	\$ 999,775	\$ 136,829	\$ 176,849	\$ 25,630
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 65,090		\$ 1,191	
Due student groups				\$ 24,340
Due to other funds		\$ 85,476		
Deferred taxes	57,377			
Total Liabilities	122,467	85,476	1,191	24,340
Fund Balances:				
Restricted	20,712	51,353	175,658	1,290
Assigned	73,854			
Unassigned	782,742			
Total Fund Balances	877,308	51,353	175,658	1,290
TOTAL LIABILITIES AND FUND BALANCES	\$ 999,775	\$ 136,829	\$ 176,849	\$ 25,630

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

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,151,685		
State assistance	2,004,889	\$ 1,605	
Federal assistance	64,894	971,627	\$ 142,891
Activity revenues	175,978		
Meal sales		77,807	
Investment income	12,501		
Other revenues	14,051	22,837	
TOTAL REVENUES	3,423,998	1,073,876	142,891
EXPENDITURES			
Regular programs	1,213,553	165,767	
Special education	135,173	136,425	
Workforce education programs	142,744	3,918	
Compensatory education programs	13,133	10,796	
Other instructional programs	152,442	5,042	
Student support services	110,236	32,945	
Instructional staff support services	164,369	369,419	
General administration support services	131,644	18,046	
School administration support services	185,587	4,728	
Central services support services	36,852	47,709	
Operation and maintenance of plant services	384,021	25,039	27,952
Student transportation services	168,174	1,441	
Other support services	4,313		
Food services operations	504	345,978	
Community services operations		26	
Facilities acquisition and construction services			158,839
Activity expenditures	139,933		
Debt Service:			
Principal retirement	8,669		105,000
Interest and fiscal charges	585		159,558
TOTAL EXPENDITURES	2,991,932	1,167,279	451,349
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	432,066	(93,403)	(308,458)
OTHER FINANCING SOURCES (USES)			
Transfers in		89,894	471,045
Transfers out	(560,939)		
TOTAL OTHER FINANCING SOURCES (USES)	(560,939)	89,894	471,045
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(128,873)	(3,509)	162,587
FUND BALANCES - JULY 1 (RESTATED)	1,006,181	54,862	13,071
FUND BALANCES - JUNE 30	\$ 877,308	\$ 51,353	\$ 175,658

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

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD 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, 2011

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,105,260	\$ 1,151,685	\$ 46,425			
State assistance	1,963,546	2,004,889	41,343	\$ 1,600	\$ 1,605	\$ 5
Federal assistance	44,337	64,894	20,557	1,229,423	971,627	(257,796)
Activity revenues		175,978	175,978			
Meal sales				80,853	77,807	(3,046)
Investment income	20,000	12,501	(7,499)		22,837	22,837
Other revenues	1,000	14,051	13,051			
TOTAL REVENUES	3,134,143	3,423,998	289,855	1,311,876	1,073,876	(238,000)
EXPENDITURES						
Regular programs	1,260,964	1,213,553	47,411	162,340	165,767	(3,427)
Special education	131,996	135,173	(3,177)	93,242	136,425	(43,183)
Workforce education programs	137,902	142,744	(4,842)		3,918	(3,918)
Compensatory education programs		13,133	(13,133)	40,100	10,796	29,304
Other instructional programs	143,019	152,442	(9,423)		5,042	(5,042)
Student support services	108,088	110,236	(2,148)	34,633	32,945	1,688
Instructional staff support services	149,451	164,369	(14,918)	432,190	369,419	62,771
General administration support services	138,041	131,644	6,397	6,307	18,046	(11,739)
School administration support services	172,194	185,587	(13,393)		4,728	(4,728)
Central services support services	36,237	36,852	(615)	44,222	47,709	(3,487)
Operation and maintenance of plant services	413,267	384,021	29,246	28,784	25,039	3,745
Student transportation services	164,146	168,174	(4,028)		1,441	(1,441)
Other support services	3,200	4,313	(1,113)			
Food services operations		504	(504)	317,732	345,978	(28,246)
Community services operations					26	(26)
Facilities acquisition and construction services	4,000		4,000	267,041		267,041
Activity expenditures		139,933	(139,933)			
Debt Service:						
Principal retirement		8,669	(8,669)			
Interest and fiscal charges		585	(585)			
TOTAL EXPENDITURES	2,862,505	2,991,932	(129,427)	1,426,591	1,167,279	259,312

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD 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, 2011

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 271,638	\$ 432,066	\$ 160,428	\$ (114,715)	\$ (93,403)	\$ 21,312
OTHER FINANCING SOURCES (USES)						
Transfers in	1,538,696		(1,538,696)	114,579	89,894	(24,685)
Transfers out	(1,916,770)	(560,939)	1,355,831	(1,600)		1,600
TOTAL OTHER FINANCING SOURCES (USES)	(378,074)	(560,939)	(182,865)	112,979	89,894	(23,085)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(106,436)	(128,873)	(22,437)	(1,736)	(3,509)	(1,773)
FUND BALANCES - JULY 1	1,046,676	1,006,181	(40,495)	69,992	54,862	(15,130)
FUND BALANCES - JUNE 30	\$ 940,240	\$ 877,308	\$ (62,932)	\$ 68,256	\$ 51,353	\$ (16,903)

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

CALICO ROCK SCHOOL DISTRICT NO. 50
IZARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 Calico Rock 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.

CALICO ROCK SCHOOL DISTRICT NO. 50
IZARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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:

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

CALICO ROCK SCHOOL DISTRICT NO. 50
IZARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

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.

CALICO ROCK SCHOOL DISTRICT NO. 50
IZARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

J. Stabilization Arrangements

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

K. Minimum Fund Balance Policies

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

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.

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Change in Accounting Principle

The District adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

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 pledging bank or pledging bank's trust department in the District's name	793,413	1,019,767
Total Deposits	<u>\$ 1,043,413</u>	<u>\$ 1,269,767</u>

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$210,194 at June 30, 2011 was comprised of the following:

	Governmental Funds		
	Major		
Description	General	Special Revenue	Total
State assistance	\$ 70,906		\$ 70,906
Federal assistance		\$ 136,829	136,829
Other	2,459		2,459
Totals	\$ 73,365	\$ 136,829	\$ 210,194

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2011:

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, 2011	Maturities To June 30, 2011
5/1/07	2/1/32	3.6 - 4.25%	\$ 4,110,000	\$ 3,905,000	\$ 205,000
7/8/05	6/30/12	4.25%	55,945	9,725	46,220
Totals			<u>\$ 4,165,945</u>	<u>\$ 3,914,725</u>	<u>\$ 251,220</u>

Changes in Long-term Debt

	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011
Bonds payable	\$ 4,010,000		\$ 105,000	\$ 3,905,000
Installment contracts	18,394		8,669	9,725
Totals	<u>\$ 4,028,394</u>	<u>\$ 0</u>	<u>\$ 113,669</u>	<u>\$ 3,914,725</u>

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

Year Ended June 30,	Principal	Interest	Total
2012	\$ 124,725	\$ 155,526	\$ 280,251
2013	120,000	151,175	271,175
2014	130,000	146,855	276,855
2015	135,000	142,110	277,110
2016	140,000	137,115	277,115
2017-2021	795,000	600,383	1,395,383
2022-2026	975,000	428,737	1,403,737
2027-2031	1,220,000	214,700	1,434,700
2032	275,000	11,687	286,687
Totals	<u>\$ 3,914,725</u>	<u>\$ 1,988,288</u>	<u>\$ 5,903,013</u>

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$66,281 at June 30, 2011 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Other Aggregate	
Vendor payables	\$ 7,992	\$ 1,191	\$ 9,183
Due to grantors	57,098		57,098
Totals	\$ 65,090	\$ 1,191	\$ 66,281

6: INTERFUND TRANSFERS

The District transferred \$471,045 from the general fund to the other aggregate funds for debt related payments of \$264,558 and to satisfy the cost savings requirement from a bond refunding in a prior year of \$206,487, required to be utilized for capital expenditures. The District also transferred \$89,894 from the general fund to the special revenue fund to supplement its food services operations.

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, 2011, 2010, and 2009 were \$329,350, \$313,581, and \$292,305, 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.

CALICO ROCK SCHOOL DISTRICT NO. 50
IZARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

7: RETIREMENT PLANS (Continued)

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, 2011, 2010, and 2009 were \$603, \$597, and \$585, respectively, equal to the required contributions for each year.

8: PRIOR YEAR RESTATEMENT

The beginning fund balances of the special revenue fund and the other aggregate funds were decreased and increased, respectively, by \$13,071 to comply with the provisions of GASB Statement no. 54.

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS

Donations	\$ 1,250
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DEDUCTIONS

Scholarships	<u>750</u>
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CHANGE IN FUND BALANCE	500
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FUND BALANCE - JULY 1	<u>790</u>
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FUND BALANCE - JUNE 30	<u><u>\$ 1,290</u></u>
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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 board liability and business trip accidental death and dismemberment 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.

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 \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

10: RISK MANAGEMENT (Continued)

The District participates in the Public School Property and Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member districts, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

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 \$63,552 for the year ended June 30, 2011.

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

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Fund Balances:				
Restricted for:				
Alternative learning environment	\$ 16,025			\$ 16,025
Capital projects			\$ 175,658	175,658
Medical services		\$ 41,196		41,196
Special education programs	1,506			1,506
Other purposes	3,181	10,157		13,338
Total Restricted	<u>20,712</u>	<u>51,353</u>	<u>175,658</u>	<u>247,723</u>
Assigned to:				
Student activities	<u>73,854</u>			<u>73,854</u>
Unassigned	<u>782,742</u>			<u>782,742</u>
Totals	<u>\$ 877,308</u>	<u>\$ 51,353</u>	<u>\$ 175,658</u>	<u>\$ 1,104,319</u>

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

Schedule 1

	Balance June 30, 2011
<i>Nondepreciable capital assets:</i>	
Land	\$ 233,769
<i>Depreciable capital assets:</i>	
Buildings	5,780,144
Improvements/infrastructure	207,707
Equipment	1,023,221
Total depreciable capital assets	7,011,072
Less accumulated depreciation for:	
Buildings	2,191,284
Improvements/infrastructure	86,064
Equipment	845,317
Total accumulated depreciation	3,122,665
Total depreciable capital assets, net	3,888,407
Capital assets, net	\$ 4,122,176

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011

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>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 257
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	33-01-000	33,559
National School Lunch Program - Cash Assistance	10.555	33-01-000	105,228
Total State Department of Education			138,787
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	3301000	11,400
TOTAL CHILD NUTRITION CLUSTER			150,444
✓ TITLE I, PART A CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	33-01	256,002
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	3301000	106,934
TOTAL TITLE I, PART A CLUSTER			362,936
✓ SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	3301	113,091
ARRA - Special Education - Grants to States, Recovery Act	84.391	3301000	31,703
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			144,794
OTHER PROGRAMS			
✓ <u>U. S. Department of Agriculture</u>			
Passed Through State Department of Agriculture:			
Cooperative Forestry Assistance	10.664	3301	122
✓ <u>U. S. Department of Education</u>			
Direct Program:			
Rural Education	84.358		8,073
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	3301	1,090
Improving Teacher Quality State Grants	84.367	3301	39,128
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	3301000	353,085
ARRA - Education Jobs Fund, Recovery Act	84.410	3301000	71,445
Total State Department of Education			464,748
Total U. S. Department of Education			472,821
TOTAL OTHER PROGRAMS			472,943
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,131,117

The accompanying notes are an integral part of this schedule.

CALICO ROCK SCHOOL DISTRICT NO. 50
IZARD COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

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 Calico Rock School District No. 50 (District) under programs of the federal government for the year ended June 30, 2011. 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 this 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 U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: During the year ended June 30, 2011, the District received Medicaid funding of \$7,944 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

CALICO ROCK SCHOOL DISTRICT NO. 50
IZARD COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

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 - unqualified

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: unqualified

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
84.010 and 84.389	Title I, Part A Cluster
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

CALICO ROCK SCHOOL DISTRICT NO. 50
IZARD COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2011-1. 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. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, accounts payable checks were prepared by the same employee responsible for entering invoices, and the same employee was responsible for receiving and depositing monies collected and maintenance of the accounting records, 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 but have a limited number of personnel.

CALICO ROCK SCHOOL DISTRICT NO. 50
IZARD COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

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 33-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-2. Reporting

Criteria or specific requirement: The District is required to budget Title I expenditures as part of the Arkansas Comprehensive School Improvement Plan (ACSIP) and submit the ACSIP to the Arkansas Department of Education (ADE). Expenditures may not exceed the budgeted amounts for specific categories by more than 10 percent without prior approval from the ADE and the submission of budget amendments or adjustments. Additionally, the annual financial report is compiled at the end of the fiscal year for the Title I program.

Condition: The expenditures for function 2324 (Federal Programs Director/ Coordinator) exceeded the budgeted amount by \$9,401 more than the 10 percent allowed.

Context: Comparison of budgeted expenditures to actual expenditures as reported on the annual financial report.

Effect: The District's Title I expenditures, for function 2324, exceeded the approved budget amount by more than 10 percent.

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



Recommendation: The District should implement procedures to ensure costs are classified 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 amendment was made to the plan; however, it did not show up in the final printout. We will try to the best of our ability to spend according to guidelines in the future.

CALICO ROCK SCHOOL DISTRICT NO. 50
IZARD COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 4

There were no findings in the prior audit.

CALICO ROCK SCHOOL DISTRICT NO. 50
 IZARD COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

	Year Ended June 30,				
	2011	2010	2009	2008	2007
<u>General Fund</u>					
Total Assets	\$ 999,775	\$ 1,094,965	\$ 1,077,798	\$ 796,529	\$ 669,356
Total Liabilities	122,467	88,784	78,255	99,631	62,665
Total Fund Balances	877,308	1,006,181	999,543	696,898	606,691
Total Revenues	3,423,998	3,420,818	3,464,422	3,608,719	3,676,893
Total Expenditures	2,991,932	3,051,273	3,043,738	3,149,581	3,311,355
Total Other Financing Sources (Uses)	(560,939)	(362,905)	(118,039)	(368,931)	(371,449)
<u>Special Revenue Fund</u>					
Total Assets	136,829	68,294	72,335	73,805	45,257
Total Liabilities	85,476	361	196	258	832
Total Fund Balances	51,353	67,933	72,139	73,547	44,425
Total Revenues	1,073,876	788,255	605,219	556,273	562,070
Total Expenditures	1,167,279	889,837	712,703	632,792	643,535
Total Other Financing Sources (Uses)	89,894	97,376	106,076	105,641	87,742
<u>Other Aggregate Funds</u>					
Total Assets	176,849			151,998	11,751
Total Liabilities	1,191				
Total Fund Balances	175,658			151,998	11,751
Total Revenues	142,891				583
Total Expenditures	451,349	263,466	163,717	123,043	283,707
Total Other Financing Sources (Uses)	471,045	263,466	11,719	263,290	294,875