

Lonoke School District No. 1

Lonoke County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
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JUNE 30, 2012

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Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Lonoke School District No. 1 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 Lonoke School District No. 1 (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of 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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2013 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 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), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information 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. The 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 (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole.

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) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information has 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.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
January 29, 2013
EDSD23212

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
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*

Lonoke School District No. 1 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 Lonoke School District No. 1 (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated January 29, 2013. 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, 2012, 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2 to be material weaknesses.

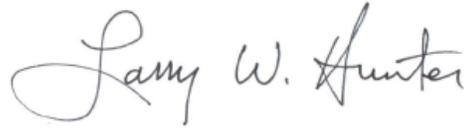
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free 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 responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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 cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 29, 2013

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 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

INDEPENDENT AUDITOR'S REPORT

Lonoke School District No. 1 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Lonoke School District No. 1 (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, 2012. 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, 2012.

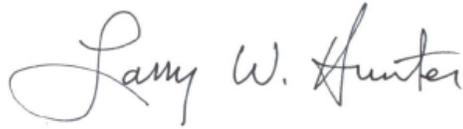
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over 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.

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 cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 29, 2013

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2012

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 593,056		\$ 10,230,977	\$ 49,057
Investments	15,000			90,510
Accounts receivable		\$ 166,366	48,668	
Due from other funds	87,617			
Deposit with paying agent			127,286	
TOTAL ASSETS	\$ 695,673	\$ 166,366	\$ 10,406,931	\$ 139,567
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 135,257	\$ 5,127	\$ 359,844	\$ 1,715
Due student groups				42,412
Due to other funds		87,617		
Total Liabilities	135,257	92,744	359,844	44,127
Fund Balances:				
Nonspendable				75,000
Restricted	19,663	76,228	8,707,961	20,440
Assigned	65,810		1,339,126	
Unassigned	474,943	(2,606)		
Total Fund Balances	560,416	73,622	10,047,087	95,440
TOTAL LIABILITIES AND FUND BALANCES	\$ 695,673	\$ 166,366	\$ 10,406,931	\$ 139,567

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

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 3,644,646		\$ 1,191,973
State assistance	9,676,719	\$ 6,308	1,419,630
Federal assistance		2,069,028	1,512,195
Activity revenues	172,689		
Meal sales		193,450	
Investment income	52,225		140,876
Other revenues	111,642	212,449	1,000,000
TOTAL REVENUES	13,657,921	2,481,235	5,264,674
EXPENDITURES			
Regular programs	5,341,997	74,700	1,521,644
Special education	658,928	253,036	
Workforce education programs	433,783		
Adult/continuing education program	312,077	76,587	
Compensatory education programs	140,488	524,216	
Other instructional programs	601,639	67,490	
Student support services	534,115	144,519	
Instructional staff support services	667,056	289,614	33,750
General administration support services	335,620	38,921	
School administration support services	916,433		
Central services support services	322,175	54,483	
Operation and maintenance of plant services	1,780,661		10,260
Student transportation services	745,674	58,226	172,520
Other support services	73,643		
Food services operations		931,451	
Facilities acquisition and construction services			4,022,715
Activity expenditures	168,824		
Debt Service:			
Principal retirement			534,283
Interest and fiscal charges			872,393
TOTAL EXPENDITURES	13,033,113	2,513,243	7,167,565
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	624,808	(32,008)	(1,902,891)
OTHER FINANCING SOURCES (USES)			
Transfers in		82,395	527,019
Transfers out	(609,414)		
Proceeds from construction bond issue			2,070,000
Net bond issuance costs			(67,482)
TOTAL OTHER FINANCING SOURCES (USES)	(609,414)	82,395	2,529,537
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	15,394	50,387	626,646
FUND BALANCES - JULY 1	545,022	23,235	9,420,441
FUND BALANCES - JUNE 30	\$ 560,416	\$ 73,622	\$ 10,047,087

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

LONOKE SCHOOL DISTRICT NO. 1

LONOKE COUNTY, ARKANSAS

Exhibit C

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2012

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 3,195,924	\$ 3,644,646	\$ 448,722			
State assistance	9,526,630	9,676,719	150,089	\$ 6,500	\$ 6,308	\$ (192)
Federal assistance				1,966,230	2,069,028	102,798
Activity revenues		172,689	172,689			
Meal sales				231,000	193,450	(37,550)
Investment income	20,000	52,225	32,225			
Other revenues	106,300	111,642	5,342		212,449	212,449
TOTAL REVENUES	12,848,855	13,657,921	809,066	2,203,730	2,481,235	277,505
EXPENDITURES						
Regular programs	5,449,043	5,341,997	107,046	47,230	74,700	(27,470)
Special education	648,623	658,928	(10,305)	199,603	253,036	(53,433)
Workforce education programs	423,719	433,783	(10,064)			
Adult/continuing education program	312,440	312,077	363	76,604	76,587	17
Compensatory education programs	142,766	140,488	2,278	544,239	524,216	20,023
Other instructional programs	590,841	601,639	(10,798)	82,165	67,490	14,675
Student support services	498,558	534,115	(35,557)	132,443	144,519	(12,076)
Instructional staff support services	681,982	667,056	14,926	261,279	289,614	(28,335)
General administration support services	308,096	335,620	(27,524)		38,921	(38,921)
School administration support services	912,500	916,433	(3,933)			
Central services support services	318,159	322,175	(4,016)		54,483	(54,483)
Operation and maintenance of plant services	1,613,389	1,780,661	(167,272)			
Student transportation services	705,767	745,674	(39,907)	63,484	58,226	5,258
Other support services	25,000	73,643	(48,643)			
Food services operations				887,000	931,451	(44,451)
Activity expenditures		168,824	(168,824)			
TOTAL EXPENDITURES	12,630,883	13,033,113	(402,230)	2,294,046	2,513,243	(219,197)

LONOKE SCHOOL DISTRICT NO. 1
LONOKE 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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 217,972	\$ 624,808	\$ 406,836	\$ (90,316)	\$ (32,008)	\$ 58,308
OTHER FINANCING SOURCES (USES)						
Transfers in	6,592,430		(6,592,430)	12,500	82,395	69,895
Transfers out	(6,807,829)	(609,414)	6,198,415			
TOTAL OTHER FINANCING SOURCES (USES)	(215,399)	(609,414)	(394,015)	12,500	82,395	69,895
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	2,572	15,394	12,822	(77,816)	50,387	128,203
FUND BALANCES - JULY 1	767,768	545,022	(222,746)	77,816	23,235	(54,581)
FUND BALANCES - JUNE 30	\$ 770,340	\$ 560,416	\$ (209,924)	\$ 0	\$ 73,622	\$ 73,622

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

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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 2011 calendar year taxes collected by June 30, 2012 and 36 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2012 equaled or exceeded the 36 percent calculation.

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.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fund Balance Classifications

1. Nonspendable fund balance – represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
2. 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.
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.

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.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	10,728,600	10,959,312
Total Deposits	\$ 10,978,600	\$ 11,209,312

The above total deposits include certificates of deposit of \$105,510 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$215,034 at June 30, 2012 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	Special Revenue	Other Aggregate	
Federal assistance	\$ 157,863	\$ 48,668	\$ 206,531
Other	8,503		8,503
Totals	\$ 166,366	\$ 48,668	\$ 215,034

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2012:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Safe rooms	July 1, 2012	\$ 236,133
Multipurpose facility	October 1, 2013	7,644,248

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

General description of leases and leasing arrangements:

On November 17, 2009, the District executed a lease for four portable classroom buildings at \$4,033 per month for 24 months, beginning in January 2010.

On May 19, 2011, the District executed a lease for copiers at \$3,117 per month for 36 months, beginning in June 2011.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4: COMMITMENTS (Continued)

B. Operating Leases (Continued)

1. Future minimum rental payments (aggregate) at June 30, 2012: \$71,700
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2013	\$ 37,409
2014	34,291
Total	\$ 71,700

Rental payments for the operating leases described above were approximately \$56,658 for the year ended June 30, 2012.

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, 2012	Maturities To June 30, 2012
3/1/08	2/1/35	3 - 4.15%	\$ 1,045,000	\$ 945,000	\$ 100,000
11/1/09	2/1/35	2.25 - 4.45%	4,220,000	4,045,000	175,000
3/1/10	2/1/33	1.5 - 4.2%	6,620,000	6,405,000	215,000
3/15/10	2/1/35	1.5 - 4.3%	8,615,000	8,440,000	175,000
6/1/11	2/1/41	1.55 - 4.4%	5,910,000	5,910,000	
5/1/12	2/1/41	1.5 - 3.75%	2,070,000	2,070,000	
6/11/03	6/18/13		141,175	141,175	
12/3/07	12/3/14	1%	100,000	43,711	56,289
Totals			\$ 28,721,175	\$ 27,999,886	\$ 721,289

Changes in Long-term Debt

	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012
Bonds payable	\$ 26,265,000	\$ 2,070,000	\$ 520,000	\$ 27,815,000
Postdated warrants	199,169		14,283	184,886
Totals	\$ 26,464,169	\$ 2,070,000	\$ 534,283	\$ 27,999,886

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4: COMMITMENTS (Continued)

C. Long-term Debt Issued and Outstanding (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 975,600	\$ 974,680	\$ 1,950,280
2014	834,570	975,708	1,810,278
2015	849,716	961,027	1,810,743
2016	855,000	943,995	1,798,995
2017	870,000	924,833	1,794,833
2018-2022	4,750,000	4,239,333	8,989,333
2023-2027	5,650,000	3,262,912	8,912,912
2028-2032	6,905,000	2,183,612	9,088,612
2033-2037	4,665,000	783,370	5,448,370
2038-2041	1,645,000	176,985	1,821,985
Totals	<u>\$ 27,999,886</u>	<u>\$ 15,426,455</u>	<u>\$ 43,426,341</u>

Qualified Zone Academy Bond (QZAB)

On June 11, 2003, the District obtained funding of \$141,175 through the Qualified Zone Academy Bond (QZAB) program, a debt financial arrangement authorized under the Taxpayer Relief Act of 1997. The District will deposit \$13,037 annually into a sinking fund for 10 years for a total of \$130,370. This amount plus interest earned will be used to retire the debt when due.

Additionally, on December 3, 2007, the District obtained funding of \$100,000 through the QZAB program by issuing postdated warrants. Interest payments at a rate of one percent will be required from the borrower. The District is required to remit annual payments to retire this debt.

5: ACCOUNTS PAYABLE

The accounts payable balance of \$501,943 at June 30, 2012 was comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types	Total
	Major				
	General	Special Revenue	Other Aggregate		
Vendor payables	\$ 135,257	\$ 5,127	\$ 359,844	\$ 1,715	\$ 501,943

6: INTERFUND TRANSFERS

The District transferred \$527,019 from the general fund to the other aggregate funds for debt related payments of \$27,899, refunding savings of \$111,531 required to be utilized for capital expenditures, a prior year adjustment to the QZAB sinking fund balance of \$13,037, and \$374,552 for capital projects. Additionally, the District transferred \$82,395 from the general fund to the special revenue fund to supplement its food services operations.

7: RELATED-PARTY TRANSACTIONS

The District conducted business with board member Mike Brown through Sew What in the amount of \$8,221. The Board passed a resolution authorizing this transaction and the Arkansas Department of Education approved the resolution in a letter dated January 22, 2012.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8: 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, 2012, 2011, and 2010 were \$1,317,732, \$1,353,424, and \$1,296,953, 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, 2012, 2011, and 2010 were \$3,074, \$4,070, and \$4,002, respectively, equal to the required contributions for each year.

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 6,500
Interest	6,979
	13,479
DEDUCTIONS	
Scholarships	10,000
	10,000
CHANGE IN FUND BALANCE	3,479
FUND BALANCE - JULY 1	91,961
	91,961
FUND BALANCE - JUNE 30	\$ 95,440
	95,440

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

10: DEFICIT FUND BALANCES

The deficit unassigned fund balance of \$2,606 in the special revenue fund, as displayed in the table at Note 14, pertains to the child nutrition program. This temporary deficit was caused by the recognition of minor accounts payable at year-end.

11: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$28,480,000 issued from March 1, 2008 through May 1, 2012. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$43,240,577, payable through February 1, 2041. Principal and interest paid for the current year and total property taxes pledged for debt service were \$1,389,436 and \$2,029,483, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 68.46 percent.

12: 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 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 and contents.

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.

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 vehicles.

13: 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 \$163,835 for the year ended June 30, 2012.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Fund Balances:				
Restricted for:				
Educational programs - national school lunch state categorical funding	\$ 17,161			\$ 17,161
Capital projects			\$ 8,580,675	8,580,675
Debt service			127,286	127,286
Medical services		\$ 50,813		50,813
Special education programs	1,203			1,203
Title I programs		278		278
Other purposes	1,299	25,137		26,436
Total Restricted	<u>19,663</u>	<u>76,228</u>	<u>8,707,961</u>	<u>8,803,852</u>
Assigned to:				
Capital projects			1,339,126	1,339,126
Student activities	65,810			65,810
Total Assigned	<u>65,810</u>		<u>1,339,126</u>	<u>1,404,936</u>
Unassigned	474,943	(2,606)		472,337
Totals	<u>\$ 560,416</u>	<u>\$ 73,622</u>	<u>\$ 10,047,087</u>	<u>\$ 10,681,125</u>

15: ENDOWMENT SCHOLARSHIP FUND

During the 1990 fiscal year, J.O. Bennett and Sons, Inc., endowed the District with \$75,000 for the J.O. "Pete" and Gertrude Bennett Memorial Scholarship Fund. The principal is to be maintained in perpetuity with the interest income being utilized to fund annual scholarships. At June 30, 2012, the endowment scholarship fund balance (spendable and nonspendable portions) was \$80,963. The entire endowment scholarship fund was invested in certificates of deposit classified as nonparticipating contracts at June 30, 2012.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)

Schedule 1

	Balance June 30, 2012
<i>Nondepreciable capital assets:</i>	
Land	\$ 152,098
Construction in progress	3,190,005
Total nondepreciable capital assets	3,342,103
 <i>Depreciable capital assets:</i>	
Buildings	29,370,831
Improvements/infrastructure	273,327
Equipment	3,784,169
Total depreciable capital assets	33,428,327
 Less accumulated depreciation for:	
Buildings	5,025,071
Improvements/infrastructure	108,402
Equipment	2,555,062
Total accumulated depreciation	7,688,535
Total depreciable capital assets, net	25,739,792
Capital assets, net	\$ 29,081,895

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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		\$ 1,801
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	43-01	162,905
National School Lunch Program - Cash Assistance	10.555	43-01	433,871
Total State Department of Education			<u>596,776</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	4301000	47,040
TOTAL CHILD NUTRITION CLUSTER			<u>645,617</u>
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	43-01	453,065
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	43-01	65,175
TOTAL TITLE I, PART A CLUSTER			<u>518,240</u>
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	43-01	366,838
ARRA - Special Education - Grants to States, Recovery Act	84.391	43-01	46,545
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>413,383</u>
OTHER PROGRAMS			
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 5)	12.AR251786		67,479
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Adult Education - Basic Grants to States	84.002	43-01	76,587
Passed Through State Department of Education:			
Twenty-First Century Community Learning Centers	84.287	43-01	105,867
Improving Teacher Quality State Grants	84.367	43-01	74,210
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	43-01	203,540
ARRA - Education Jobs Fund, Recovery Act	84.410	43-01	12,595
Total State Department of Education			<u>396,212</u>
Total U. S. Department of Education			<u>472,799</u>
<u>Corporation for National and Community Service</u>			
Passed Through State Department of Human Services:			
AmeriCorps	94.006	Unavailable	11

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>OTHER PROGRAMS (Continued)</u>			
<u>U. S. Department of Homeland Security</u>			
Passed Through State Department of Emergency Management: Hazard Mitigation Grant	97.039	43-01	\$ 1,411,327
TOTAL OTHER PROGRAMS			<u>1,951,616</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,528,856</u>

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 the Lonoke School District No. 1 (District) under programs of the federal government for the year ended June 30, 2012. 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 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: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 6: During the year ended June 30, 2012, the District received Medicaid funding of \$166,203 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2012-1. 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: payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls. Non-payroll checks were prepared by the same employee responsible for the maintenance of the accounting records and such employee had unrestricted access to the District's signature stamp.

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: The District is currently working on an action plan to properly segregate financial accounting duties to the appropriate employees.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

MATERIAL WEAKNESSES (Continued)

2012-2. Misstatements not Detected by Internal Control System

Criteria or specific requirement: Financial accounting records should be accurate to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting.

Condition: The District's internal control system did not prevent or detect material errors in the financial accounting records. Such records are utilized in the preparation of the District's financial statements. Federal revenues of \$1,411,327 received for a Hazard Mitigation Grant were incorrectly posted to the District's general ledger as reductions of expenditures in the capital projects fund, a component of the other aggregate funds . A similar finding was reported in the previous two audits.

Context: Identification of misstatements not initially detected by the District's internal control system and necessary adjustments to the trial balance.

Effect: Misstatements were not detected by the District's internal control system.

Cause: Financial accounting records had not been properly monitored.

Recommendation: To achieve accurate financial accounting records, the District should exercise due care to ensure all transactions are properly recorded in the general ledger.

Views of responsible officials and planned corrective actions: In the future, the District will account for federal funds in a separate account in accordance with the APSCN handbook - source of funds coding. Revenues and expenditures will be properly reported for all federal and state funding.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 4

There were no findings in the prior audit.

LONOKE SCHOOL DISTRICT NO. 1
 LONOKE COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2012
 (Unaudited)

General Fund	Year Ended June 30,				
	2012	2011	2010	2009	2008
Total Assets	\$ 695,673	\$ 848,176	\$ 857,465	\$ 945,258	\$ 877,553
Total Liabilities	135,257	303,154	286,035	415,181	297,426
Total Fund Balances	560,416	545,022	571,430	530,077	580,127
Total Revenues	13,657,921	13,882,249	13,359,338	13,607,017	12,994,469
Total Expenditures	13,033,113	12,921,238	12,720,113	12,777,425	12,686,490
Total Other Financing Sources (Uses)	(609,414)	(987,419)	(597,872)	(879,642)	(299,583)
 Special Revenue Fund					
Total Assets	166,366	302,647	78,957	128,072	127,400
Total Liabilities	92,744	279,412	50,611	16,771	38,265
Total Fund Balances	73,622	23,235	28,346	111,301	89,135
Total Revenues	2,481,235	3,267,911	3,036,369	2,207,438	2,214,516
Total Expenditures	2,513,243	3,246,959	3,119,324	2,348,598	2,333,732
Total Other Financing Sources (Uses)	82,395	(15,802)		163,326	84,059
 Other Aggregate Funds					
Total Assets	10,406,931	10,024,189	6,122,457	2,656,076	3,191,721
Total Liabilities	359,844	603,748	602,685		100
Total Fund Balances	10,047,087	9,420,441	5,519,772	2,656,076	3,191,621
Total Revenues	5,264,674	4,641,751	1,345,422	776,225	947,247
Total Expenditures	7,167,565	7,477,539	3,212,916	2,028,086	1,989,175
Total Other Financing Sources (Uses)	2,529,537	6,726,196	4,731,190	716,316	1,315,230