

Lonoke School District No. 1

Lonoke County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2010

LEGISLATIVE JOINT AUDITING COMMITTEE



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LONOKE COUNTY, ARKANSAS
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JUNE 30, 2010

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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

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, 2010, 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, 2010, 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, 2010, 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 18, 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

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with a large initial "R".

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

Little Rock, Arkansas
January 18, 2011
EDSD23210

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*

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, 2010, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated January 18, 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, 2010, 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

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 2010-1 and 2010-2 to be material weaknesses.

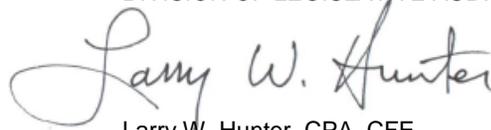
Compliance and Other Matters

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". The signature is written in black ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 18, 2011

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
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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

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

Compliance

We have audited the Lonoke School District No. 1's compliance (the "District") 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 its major federal programs for the year ended June 30, 2010. 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.

As described in item 2010-3 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding reporting that are applicable to its Special Education - Grants to States program of the Special Education Cluster (IDEA). Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The 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 in order to determine our 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.

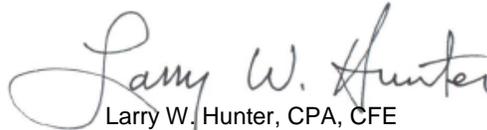
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-3 to be a material weakness.

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
January 18, 2011

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2010

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 815,686		\$ 6,025,281	\$ 46,434
Investments	15,000			89,130
Accounts receivable		\$ 78,957		
Due from other funds	26,779			
Deposit with paying agent			97,176	
TOTAL ASSETS	\$ 857,465	\$ 78,957	\$ 6,122,457	\$ 135,564
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 72,714	\$ 23,832	\$ 602,685	\$ 12,190
Due student groups				29,314
Due to other funds		26,779		
Deferred taxes	213,321			
Total Liabilities	286,035	50,611	602,685	41,504
Fund Balances:				
Reserved:				
Endowment				77,757
Scholarships				16,303
Debt service			97,176	
Capital projects			4,807,765	
Unreserved:				
Designated:				
Capital projects			614,831	
Undesignated	571,430	28,346		
Total Fund Balances	571,430	28,346	5,519,772	94,060
TOTAL LIABILITIES AND FUND BALANCES	\$ 857,465	\$ 78,957	\$ 6,122,457	\$ 135,564

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, 2010

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 3,067,951		\$ 1,146,961
State assistance	10,011,227	\$ 6,709	190,801
Federal assistance	9,033	2,652,675	
Activity revenues	176,134		
Meal sales		213,977	
Investment income	9,102		7,660
Other revenues	85,891	163,008	
TOTAL REVENUES	13,359,338	3,036,369	1,345,422
EXPENDITURES			
Regular programs	5,214,905	32,826	
Special education	733,897	419,444	
Workforce education	499,928		
Adult/continuing education	305,999	50,236	
Compensatory education	105,727	528,653	
Other instructional programs	577,356	117,240	
Student support services	555,593	157,633	
Instructional staff support services	633,605	478,579	
General administration support services	291,381	19,817	
School administration support services	926,923		
Central services support services	335,449		
Operation and maintenance of plant services	1,566,782		96,525
Student transportation services	763,962	40,896	
Other support services	8,859		
Food services operations		901,716	
Facilities acquisition and construction services		372,284	1,966,197
Non-programmed costs	2,323		
Activity expenditures	197,424		
Debt Service:			
Principal retirement			394,001
Interest and fiscal charges			756,193
TOTAL EXPENDITURES	12,720,113	3,119,324	3,212,916
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	639,225	(82,955)	(1,867,494)
OTHER FINANCING SOURCES (USES)			
Transfers in	29,996		627,868
Transfers out	(627,868)		(29,996)
Proceeds from bond issues			19,455,000
Net bond issuance costs			(469,689)
Payments to refunding bond escrow agents			(14,851,993)
TOTAL OTHER FINANCING SOURCES (USES)	(597,872)		4,731,190
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	41,353	(82,955)	2,863,696
FUND BALANCES - JULY 1	530,077	111,301	2,656,076
FUND BALANCES - JUNE 30	<u>\$ 571,430</u>	<u>\$ 28,346</u>	<u>\$ 5,519,772</u>

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 -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 2,977,437	\$ 3,067,951	\$ 90,514			
State assistance	9,707,549	10,011,227	303,678	\$ 6,744	\$ 6,709	\$ (35)
Federal assistance		9,033	9,033	2,106,821	2,652,675	545,854
Activity revenues		176,134	176,134			
Meal sales				224,144	213,977	(10,167)
Investment income	35,000	9,102	(25,898)			
Other revenues	87,000	85,891	(1,109)		163,008	163,008
TOTAL REVENUES	12,806,986	13,359,338	552,352	2,337,708	3,036,369	698,661
EXPENDITURES						
Regular programs	5,335,857	5,214,905	120,952		32,826	(32,826)
Special education	738,674	733,897	4,777	270,568	419,444	(148,876)
Workforce education	482,105	499,928	(17,823)			
Adult/continuing education	302,160	305,999	(3,839)	69,922	50,236	19,686
Compensatory education	102,873	105,727	(2,854)	588,296	528,653	59,643
Other instructional programs	601,720	577,356	24,364	138,677	117,240	21,437
Student support services	566,599	555,593	11,006	160,247	157,633	2,614
Instructional staff support services	645,352	633,605	11,747	388,226	478,579	(90,353)
General administration support services	271,676	291,381	(19,705)	17,114	19,817	(2,703)
School administration support services	874,932	926,923	(51,991)			
Central services support services	340,255	335,449	4,806			
Operation and maintenance of plant services	1,459,183	1,566,782	(107,599)			
Student transportation services	586,857	763,962	(177,105)	46,340	40,896	5,444
Other support services	59,000	8,859	50,141			
Food services operations				811,867	901,716	(89,849)
Community services operations				5,000		5,000
Facilities acquisition and construction services					372,284	(372,284)
Non-programmed costs		2,323	(2,323)			
Activity expenditures		197,424	(197,424)			
TOTAL EXPENDITURES	12,367,244	12,720,113	(352,869)	2,496,255	3,119,324	(623,069)

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, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 439,742	\$ 639,225	\$ 199,483	\$ (158,546)	\$ (82,955)	\$ 75,591
OTHER FINANCING SOURCES (USES)						
Transfers in	6,869,267	29,996	(6,839,271)	75,000		(75,000)
Transfers out	(7,330,134)	(627,868)	6,702,266			
TOTAL OTHER FINANCING SOURCES (USES)	(460,867)	(597,872)	(137,005)	75,000		(75,000)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(21,125)	41,353	62,478	(83,546)	(82,955)	591
FUND BALANCES - JULY 1	825,271	530,077	(295,194)	83,546	111,301	27,755
FUND BALANCES - JUNE 30	\$ 804,146	\$ 571,430	\$ (232,716)	\$ 0	\$ 28,346	\$ 28,346

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, 2010

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 the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

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.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 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 Designations

1. Reserved fund balance – represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Designated fund balance – represents that portion of the fund balance which indicates tentative plans for financial resource utilization in a future period.
3. Undesignated fund balance – indicates that portion of the fund balance not reserved or designated.

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.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Budget and Budgetary Accounting (Continued)

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.

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)	\$ 354,130	\$ 354,130
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	6,637,401	7,180,502
Total Deposits	\$ 6,991,531	\$ 7,534,632

The above total deposits include certificates of deposit of \$104,130 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$78,957 at June 30, 2010 was comprised of the following:

	Governmental Fund
Description	Major Special Revenue
Federal assistance	\$ 78,957

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2010:

A. Construction Contracts

<u>Project Name</u>	<u>Estimated Completion Date</u>	<u>Contract Balance</u>
High School addition	July 1, 2011	\$ 6,789,991
Primary School parking lot	August 1, 2010	20,647
High School temporary alarm system	September 1, 2010	3,691

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

General description of leases and leasing arrangements:

On April 30, 2008, the District executed a lease for copiers at \$5,860 per month for 36 months.

On November 17, 2009, the District executed a lease for four portable classroom buildings at \$3,700 per month for 24 months.

1. Future minimum rental payments (aggregate) at June 30, 2010: \$148,640
2. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2011	\$ 114,720
2012	33,920
Total	<u>\$ 148,640</u>

Rental payments for the operating leases described above were approximately \$92,520 for the year ended June 30, 2010.

C. Long-Term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2010</u>	<u>Maturities To June 30, 2010</u>
3/1/08	2/1/35	3 - 4.15%	\$ 1,045,000	\$ 995,000	\$ 50,000
11/1/09	2/1/35	2.25 - 4.5%	4,220,000	4,220,000	
3/1/10	2/1/33	1.5 - 4.2%	6,620,000	6,620,000	
3/15/10	2/1/35	1.5 - 4.3%	8,615,000	8,615,000	
6/11/03	6/18/13		141,175	141,175	
12/3/07	12/3/14	1%	100,000	72,136	27,864
Totals			<u>\$ 20,741,175</u>	<u>\$ 20,663,311</u>	<u>\$ 77,864</u>

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4: COMMITMENTS (CONTINUED)

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

Changes in Long-term Debt

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Bonds payable	\$ 16,070,000	\$ 19,455,000	\$ 15,075,000	\$ 20,450,000
Postdated warrants	227,312		14,001	213,311
Totals	\$ 16,297,312	\$ 19,455,000	\$ 15,089,001	* \$ 20,663,311

* Includes \$14,695,000 early retirement of debt - See Note 6.

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

Year Ended June 30,	Principal	Interest	Total
2011	\$ 109,141	\$ 677,915	\$ 787,056
2012	534,283	731,107	1,265,390
2013	775,601	721,965	1,497,566
2014	649,570	710,803	1,360,373
2015	659,716	698,492	1,358,208
2016-2020	3,480,000	3,238,485	6,718,485
2021-2025	4,130,000	2,520,486	6,650,486
2026-2030	5,030,000	1,765,002	6,795,002
2031-2035	5,295,000	641,642	5,936,642
Totals	\$ 20,663,311	\$ 11,705,897	\$ 32,369,208

Qualified Zone Academy Bond (QZAB)

On June 11, 2003, the District obtained funding through the Qualified Zone Academy Bond (QZAB) program, a financial arrangement authorized under the Taxpayer Relief Act of 1997. A QZAB does not generally require interest payments from the borrower. The eligible financial institution holding the bond receives a tax credit in lieu of interest payments. The principal is not due until the end of the term. The District borrowed \$141,175 through this program by issuing postdated warrants. The District will deposit \$13,037 annually into a sinking fund for 10 years for a total of \$130,370. This amount plus interest will be used to retire the debt when due. The balance in the sinking fund at June 30, 2010 was \$97,176.

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.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

5: ACCOUNTS PAYABLE

The accounts payable balance of \$711,421 at June 30, 2010 was comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types	Total
	Major				
	General	Special Revenue	Other Aggregate		
Vendor payables	\$ 72,714	\$ 23,832	\$ 602,685	\$ 12,190	\$ 711,421

6: DEBT REFUNDINGS

On March 1, 2010, the District issued \$6,620,000 in general obligation bonds with interest rates of 1.5 to 4.2 percent to advance refund \$6,380,000 of 2003 Series outstanding bonds with interest rates of 3.85 to 4.8 percent. This refunding resulted in a savings of \$473,790. The net proceeds of \$6,449,181 were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003 Series bonds. The 2003 Series bonds were called on April 22, 2010. The remaining proceeds of \$12,668, after payment of net bond issuance costs of \$158,151, were applied to subsequent debt payments.

On March 15, 2010, the District issued \$8,615,000 in general obligation bonds with interest rates of 1.5 to 4.3 percent to advance refund \$8,315,000 of 2004 Series outstanding bonds with interest rates from 4 to 4.75 percent. This refunding resulted in a savings of \$464,100. The net proceeds of \$8,402,812 were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 Series bonds. The 2004 Series bonds were called on April 22, 2010. The remaining proceeds of \$5,698, after payment of net bond issuance costs of \$206,490, were applied to subsequent debt payments.

7: INTERFUND TRANSFERS

The District transferred \$627,868 from the general fund to the other aggregate funds for capital expenditures of \$614,831 and debt related payments of \$13,037. Additionally, the District transferred \$29,996 from the other aggregate funds to the general fund for excess property taxes.

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, 2010, 2009, and 2008 were \$1,296,953, \$1,240,894, and \$1,228,418, respectively, equal to the required contributions for each year.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8: RETIREMENT PLANS (CONTINUED)

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, 2010, 2009, and 2008 were \$4,002, \$3,890, and \$3,949, respectively, equal to the required contributions for each year.

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 6,605
Interest	<u>1,735</u>
TOTAL ADDITIONS	8,340
DEDUCTIONS	
Scholarships	<u>14,500</u>
CHANGE IN FUND BALANCE	(6,160)
FUND BALANCE - JULY 1	<u>100,220</u>
FUND BALANCE - JUNE 30	<u><u>\$ 94,060</u></u>

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 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.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

10: RISK MANAGEMENT (CONTINUED)

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

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.

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 \$149,541 for the year ended June 30, 2010.

12: 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, 2010, the endowment balance was \$77,757. The entire endowed portion was invested in certificates of deposit classified as nonparticipating contracts at June 30, 2010.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(Unaudited)

Schedule 1

	Balance June 30, 2010
<i>Nondepreciable capital assets:</i>	
Land	\$ 152,098
Construction in progress	1,707,536
Total nondepreciable capital assets	1,859,634
 <i>Depreciable capital assets:</i>	
Buildings	21,417,839
Improvements/infrastructure	101,069
Equipment	3,417,320
Total depreciable capital assets	24,936,228
 Less accumulated depreciation for:	
Buildings	5,211,030
Improvements/infrastructure	90,004
Equipment	2,327,344
Total accumulated depreciation	7,628,378
Total depreciable capital assets, net	17,307,850
Capital assets, net	\$ 19,167,484

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	43-01	\$ 162,470
National School Lunch Program - Cash Assistance	10.555	43-01	414,122
Total State Department of Education			576,592
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 2)	10.555	4305	50,498
TOTAL CHILD NUTRITION CLUSTER			627,090
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	485,237
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	43-01	101,017
TOTAL TITLE I, PART A CLUSTER			586,254
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	403,748
ARRA - Special Education - Grants to States, Recovery Act	84.391	43-01	225,292
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			629,040
STATE FISCAL STABILIZATION FUND CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	43-01	356,327
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	43-01	15,957
TOTAL STATE FISCAL STABILIZATION FUND CLUSTER			372,284
CCDF CLUSTER			
<u>U. S. Department of Health and Human Services:</u>			
Passed Through State Department of Human Services:			
Child Care and Development Block Grant	93.575	43-01	4,792
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	43-01	582
ARRA - Child Care and Development Block Grant	93.713	43-01	4,241
TOTAL CCDF CLUSTER			9,615

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Human Services:			
Child and Adult Care Food Program	10.558	A635	\$ 223
Passed Through State Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	43-01	13,860
Total U. S. Department of Agriculture			<u>14,083</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Adult Education - Basic Grants to States	84.002	43-01	50,237
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	43-01	5,499
Twenty-First Century Community Learning Centers	84.287	43-01	199,277
Improving Teacher Quality State Grants	84.367	43-01	90,978
Total State Department of Education			<u>295,754</u>
Total U. S. Department of Education			<u>345,991</u>
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Human Services:			
Foster Care - Title IV-E	93.658	43-01	311
ARRA - Foster Care - Title IV-E	93.658	43-01	26
Total U. S. Department of Health and Human Services			<u>337</u>
<u>Corporation for National and Community Service</u>			
Passed Through State Department of Human Services:			
AmeriCorps	94.006	Unavailable	117,240
TOTAL OTHER PROGRAMS			<u>477,651</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,701,934</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 includes the federal grant activity of Lonoke School District No. 1 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.
- Note 2: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 3: During the year ended June 30, 2010, the District received Medicaid funding of \$140,874 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, 2010

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2010-1. 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: A deficiency in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. The District has not segregated the financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting.

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 weakness 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 deficiency 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 will continue to try to segregate duties to ensure proper internal controls. This will be an on-going challenge to the District due to the limited number of employees.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS
(CONTINUED)**

MATERIAL WEAKNESSES (CONTINUED)

2010-2. Misstatements not Detected by Internal Control System

Criteria or specific requirement: Financial accounting records should be accurate to ensure the preparation of 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. Significant errors included the failure to record the carryover balance and audit year investment income of the deposit with paying agent of \$82,632 and \$1,507, respectively, pertaining to the Qualified Zone Academy Bond (QZAB) program. Additionally, the current year QZAB sinking fund requirement of \$13,037 was recorded as an expenditure instead of being added to the deposit with paying agent balance. Also, proceeds from the sale of bonds of \$4,114,953 were recorded as other earnings on investments. The financial statements were subsequently corrected by adjusting entries during the audit fieldwork.

Context: Examination of adjustments to the accounting records.

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

Cause: District personnel did not record financial activity pertaining to the QZAB program in accordance with the Arkansas Department of Education guidelines, misclassified bond proceeds, and accounting records were not properly monitored.

Recommendation: To achieve accurate financial accounting records, District management should implement procedures to ensure all assets are properly recognized, all financial activity is properly recorded, and financial records are properly monitored.

Views of responsible officials and planned corrective actions: The District has made appropriate adjustments to correct the carryover balance and interest to date of \$84,139 for the Qualified Zone Academy Bonds. In addition, the QZAB sinking fund requirement of \$13,037 has been posted as an asset instead of an expenditure. Also, the District will take greater care to ensure that bond proceeds are recorded correctly. The second lien bonds for the construction of our high school addition were recorded as other investment earnings instead of proceeds from the sale of bonds.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESS

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - GRANTS TO STATE - CFDA NUMBER 84.027
PASS-THROUGH NUMBER 43-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2010

2010-3. Reporting

Criteria or specific requirement: The Arkansas Department of Education requires the District to submit a budget and an annual financial report for its special education grant activity. Expenditures may not exceed the budgeted amounts for each cell (function/object) by more than 10% without prior approval from the Arkansas Department of Education and the submission of budget amendments.

Condition: The District's special education grant expenditures exceeded the budget in five budget cells (function/object) by a total of \$44,898 more than the 10% allowed.

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

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

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

Recommendation: The District should implement procedures to ensure program expenditures are incurred within the applicable budget categories and consult with the Arkansas Department of Education for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: To ensure that the special education budget will not exceed the 10% maximum by object and function code, the special education budget will be monitored through monthly analysis of expenditures and completion of required forms reflecting source of funds, function code and object code when funds are moved or revised due to unforeseen changes in expenditures. The special education director will provide her signature ensuring the same and will receive signed confirmation from the superintendent on a monthly basis.

LONOKE SCHOOL DISTRICT NO. 1
LONOKE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

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, 2010
(Unaudited)

General Fund	Year Ended June 30,				
	2010	2009	2008	2007	2006
Total Assets	\$ 857,465	\$ 945,258	\$ 877,553	\$ 832,701	\$ 748,466
Total Liabilities	286,035	415,181	297,426	260,970	84,652
Total Fund Balances	571,430	530,077	580,127	571,731	663,814
Total Revenues	13,359,338	13,607,017	12,994,469	13,247,364	12,631,176
Total Expenditures	12,720,113	12,777,425	12,686,490	12,487,727	11,740,154
Total Other Financing Sources (Uses)	(597,872)	(879,642)	(299,583)	(851,720)	(1,308,209)
 Special Revenue Fund					
Total Assets	78,957	128,072	127,400	168,995	159,893
Total Liabilities	50,611	16,771	38,265	44,703	21,765
Total Fund Balances	28,346	111,301	89,135	124,292	138,128
Total Revenues	3,036,369	2,207,438	2,214,516	2,213,034	2,362,164
Total Expenditures	3,119,324	2,348,598	2,333,732	2,420,377	2,441,406
Total Other Financing Sources (Uses)		163,326	84,059	193,507	132,182
 Other Aggregate Funds					
Total Assets	6,122,457	2,656,076	3,191,721	3,027,369	7,731,266
Total Liabilities	602,685		100	109,050	677,417
Total Fund Balances	5,519,772	2,656,076	3,191,621	2,918,319	7,053,849
Total Revenues	1,345,422	776,225	947,247	893,777	948,417
Total Expenditures	3,212,916	2,028,086	1,989,175	5,687,520	5,803,874
Total Other Financing Sources (Uses)	4,731,190	716,316	1,315,230	658,213	831,677