

# **Dardanelle School District No. 15**

**Yell County, Arkansas**

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

**June 30, 2012**



DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
TABLE OF CONTENTS  
JUNE 30, 2012

Independent Auditor's Report

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Report on Compliance 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

REGULATORY BASIS FINANCIAL STATEMENTS

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

SUPPLEMENTARY INFORMATION

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

**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

Dardanelle School District No. 15 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 Dardanelle School District No. 15 (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 February 11, 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

A handwritten signature in dark ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first name "Roger" being more prominent.

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

Little Rock, Arkansas  
February 11, 2013  
EDSD41312

Sen. Bryan B. King  
Senate Chair  
Rep. Kim Hammer  
House Chair  
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Senate Vice Chair  
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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*

Dardanelle School District No. 15 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 Dardanelle School District No. 15 (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 February 11, 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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

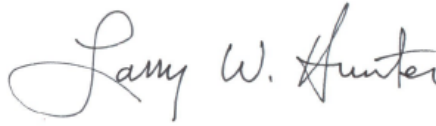
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 11, 2013

Sen. Bryan B. King  
Senate Chair  
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House 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

Dardanelle School District No. 15 and School Board Members  
Legislative Joint Auditing Committee

##### Compliance

We have audited the Dardanelle School District No. 15 (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.

##### Internal Control Over Compliance

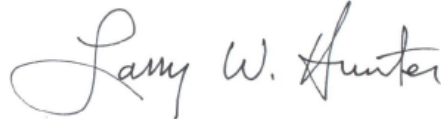
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 11, 2013



DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2012

Exhibit A

	Governmental Funds			
	Major			Fiduciary
	General	Special Revenue	Other Aggregate	Fund Types
ASSETS				
Cash	\$ 1,257,858	\$ 146,665	\$ 5,996,798	\$ 14,313
Investments	4,043,422			
Accounts receivable	5,734	359,274		
Due from other funds	224,263			
TOTAL ASSETS	<u>\$ 5,531,277</u>	<u>\$ 505,939</u>	<u>\$ 5,996,798</u>	<u>\$ 14,313</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 67,579	\$ 614	\$ 712,034	\$ 29
Due student groups				14,284
Due to other funds		224,263		
Total Liabilities	<u>67,579</u>	<u>224,877</u>	<u>712,034</u>	<u>14,313</u>
Fund Balances:				
Restricted	48,056	281,062	5,284,764	
Assigned	49,149			
Unassigned	5,366,493			
Total Fund Balances	<u>5,463,698</u>	<u>281,062</u>	<u>5,284,764</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,531,277</u>	<u>\$ 505,939</u>	<u>\$ 5,996,798</u>	<u>\$ 14,313</u>

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

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL 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
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 3,129,061		
State assistance	11,095,247	\$ 7,481	
Federal assistance	19,731	2,375,319	\$ 8,291
Activity revenues	182,487		
Meal sales		116,208	
Investment income	41,338		10,758
Other revenues	79,641	66,434	
<b>TOTAL REVENUES</b>	<b>14,547,505</b>	<b>2,565,442</b>	<b>19,049</b>
EXPENDITURES			
Regular programs	6,810,981	279,816	
Special education	794,248	394,976	
Workforce education programs	484,320		8,291
Compensatory education programs		397,608	
Other instructional programs	851,559	115,234	
Student support services	509,264	105,341	
Instructional staff support services	493,805	236,009	
General administration support services	196,958	95,142	
School administration support services	999,766		
Central services support services	364,470		
Operation and maintenance of plant services	1,404,959		
Student transportation services	618,586		
Other support services	122,761		
Food services operations	45,371	922,310	
Community services operations		32	
Facilities acquisition and construction services	27,300		1,651,733
Non-programmed costs		7,471	
Activity expenditures	198,169		
Debt Service:			
Principal retirement			205,000
Interest and fiscal charges			86,786
<b>TOTAL EXPENDITURES</b>	<b>13,922,517</b>	<b>2,553,939</b>	<b>1,951,810</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>624,988</b>	<b>11,503</b>	<b>(1,932,761)</b>
OTHER FINANCING SOURCES (USES)			
Transfers in			406,373
Transfers out	(406,373)		
Proceeds from construction bonds			6,995,000
Proceeds from refunding bonds			3,510,000
Payment to refunding bond escrow agent			(3,439,417)
Net bond issuance costs			(254,432)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(406,373)</b>		<b>7,217,524</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>218,615</b>	<b>11,503</b>	<b>5,284,763</b>
<b>FUND BALANCES - JULY 1</b>	<b>5,245,083</b>	<b>269,559</b>	<b>1</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 5,463,698</b>	<b>\$ 281,062</b>	<b>\$ 5,284,764</b>

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

## DARDANELLE SCHOOL DISTRICT NO. 15

Exhibit C

## YELL 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

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 3,057,180	\$ 3,129,061	\$ 71,881			
State assistance	10,999,769	11,095,247	95,478	\$ 7,500	\$ 7,481	\$ (19)
Federal assistance	18,000	19,731	1,731	2,183,333	2,375,319	191,986
Activity revenues	71,500	182,487	110,987			
Meal sales				122,500	116,208	(6,292)
Investment income	59,500	41,338	(18,162)			
Other revenues	67,000	79,641	12,641		66,434	66,434
<b>TOTAL REVENUES</b>	<b>14,272,949</b>	<b>14,547,505</b>	<b>274,556</b>	<b>2,313,333</b>	<b>2,565,442</b>	<b>252,109</b>
EXPENDITURES						
Regular programs	7,162,343	6,810,981	351,362	272,679	279,816	(7,137)
Special education	768,110	794,248	(26,138)	404,229	394,976	9,253
Workforce education programs	445,978	484,320	(38,342)			
Compensatory education programs				507,786	397,608	110,178
Other instructional programs	786,403	851,559	(65,156)	110,100	115,234	(5,134)
Student support services	437,382	509,264	(71,882)	58,072	105,341	(47,269)
Instructional staff support services	547,379	493,805	53,574	57,417	236,009	(178,592)
General administration support services	194,736	196,958	(2,222)	44,150	95,142	(50,992)
School administration support services	1,033,763	999,766	33,997			
Central services support services	358,346	364,470	(6,124)			
Operation and maintenance of plant services	1,419,216	1,404,959	14,257			
Student transportation services	537,496	618,586	(81,090)			
Other support services	73,500	122,761	(49,261)			
Food services operations	23,447	45,371	(21,924)	871,298	922,310	(51,012)
Community services operations					32	(32)
Facilities acquisition and construction services		27,300	(27,300)			
Non-programmed costs				3,000	7,471	(4,471)
Activity expenditures	71,500	198,169	(126,669)			
<b>TOTAL EXPENDITURES</b>	<b>13,859,599</b>	<b>13,922,517</b>	<b>(62,918)</b>	<b>2,328,731</b>	<b>2,553,939</b>	<b>(225,208)</b>

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL 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	\$ 413,350	\$ 624,988	\$ 211,638	\$ (15,398)	\$ 11,503	\$ 26,901
OTHER FINANCING SOURCES (USES)						
Transfers in	7,055,539		(7,055,539)			
Transfers out	(7,462,339)	(406,373)	7,055,966			
TOTAL OTHER FINANCING SOURCES (USES)	(406,800)	(406,373)	427			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	6,550	218,615	212,065	(15,398)	11,503	26,901
FUND BALANCES - JULY 1	5,341,064	5,245,083	(95,981)	278,221	269,559	(8,662)
FUND BALANCES - JUNE 30	\$ 5,347,614	\$ 5,463,698	\$ 116,084	\$ 262,823	\$ 281,062	\$ 18,239

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

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Dardanelle School District (District). There are no component units.

**B. Description of Funds**

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the District's food services operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

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

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Fund – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Fiduciary Fund types include the following:

Agency Funds – Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

**C. Measurement Focus and Basis of Accounting**

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

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.

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL 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:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
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.

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

**H. Fund Balance Classifications**

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

**I. Budget and Budgetary Accounting**

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

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

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.

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL 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)	\$ 581,343	\$ 581,343
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	10,877,713	11,634,413
Total Deposits	<u>\$ 11,459,056</u>	<u>\$ 12,215,756</u>

The above total deposits include certificates of deposit of \$4,043,422 reported as investments and classified as nonparticipating contracts.

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$365,008 at June 30, 2012 was comprised of the following:

	Governmental Funds		
	Major		
Description	General	Special Revenue	Total
Federal assistance	\$ 5,514	\$ 359,274	\$ 364,788
Activity fund accounts	45		45
Other	175		175
Totals	<u>\$ 5,734</u>	<u>\$ 359,274</u>	<u>\$ 365,008</u>

**4: COMMITMENTS**

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
High School additions	October 2, 2012	\$ 849,952
Dardanelle Primary School	July 31, 2013	12,212,883



DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**4: COMMITMENTS (Continued)**

B. 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
12/1/01	2/1/13	3 - 3.875%	\$ 1,962,890	\$ 215,000	\$ 1,747,890
11/1/11	2/1/40	3 - 4.25%	6,995,000	6,995,000	
1/1/12	2/1/23	1 - 2.125%	3,510,000	3,510,000	
Totals			<u>\$ 12,467,890</u>	<u>\$ 10,720,000</u>	<u>\$ 1,747,890</u>

Changes in Long-term Debt

	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012
Bonds payable	<u>\$ 3,785,000</u>	<u>\$ 10,505,000</u>	<u>\$ 3,570,000 *</u>	<u>\$ 10,720,000</u>

\*Includes \$3,365,000 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
2013	\$ 220,000	\$ 403,607	\$ 623,607
2014	165,000	323,675	488,675
2015	355,000	321,925	676,925
2016	360,000	318,275	678,275
2017	365,000	314,131	679,131
2018-2022	1,910,000	1,481,919	3,391,919
2023-2027	1,685,000	1,274,738	2,959,738
2028-2032	1,860,000	988,819	2,848,819
2033-2037	2,240,000	611,137	2,851,137
2038-2040	1,560,000	134,300	1,694,300
Totals	<u>\$ 10,720,000</u>	<u>\$ 6,172,526</u>	<u>\$ 16,892,526</u>

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$780,256 at June 30, 2012 was comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types	Total
	Major		Other Aggregate		
	General	Special Revenue			
Vendor payables	\$ 67,579	\$ 614	\$ 712,034	\$ 29	\$ 780,256

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**6: DEBT REFUNDINGS**

On January 1, 2012, the District issued \$3,510,000 in refunding bonds with interest rates of 1 to 2.125 percent. A portion of the bond proceeds of \$3,439,417 were deposited with an escrow agent to advance refund \$3,365,000 of bonds dated November 1, 2003 with interest rates of 2.75 to 4.5 percent. As a result, the 2003 bonds were considered to be defeased and the commitment for the bonds was eliminated. The 2003 Series bonds were called on February 6, 2012. The remaining proceeds of \$785, after payment of net bond issuance costs of \$69,798, were remitted to the District and utilized for future debt service payments. The District advance refunded the 2003 bonds to reduce the total debt service payments over a period of 12 fiscal years by \$444,557.

**7: INTERFUND TRANSFERS**

The District transferred \$406,373 from the general fund to the other aggregate funds for debt related payments of \$291,001 and refunding savings of \$115,372 required to be utilized for capital expenditures.

**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 \$1,459,295, \$1,425,162, and \$1,368,063, 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 \$1,290, \$1,292, and \$1,289, respectively, equal to the required contributions for each year.

**9: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$12,467,890 issued from December 1, 2001 through January 1, 2012. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$16,892,526, payable through February 1, 2040. Principal and interest paid for the current year and total property taxes pledged for debt service were \$290,863 and \$1,183,128, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 24.58 percent.

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**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 coverage of student accidents and board liability. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

The District participates in the Arkansas School Boards Association - Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

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

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

**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 \$165,895 for the year ended June 30, 2012.

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Fund Balances:				
Restricted for:				
Educational programs -				
national school lunch state				
categorical funding	\$ 19,483			\$ 19,483
English-language learners	12,198			12,198
Capital projects			\$ 5,284,764	5,284,764
Child nutrition programs		\$ 213,188		213,188
Medical services		40,464		40,464
Special education programs	1,421			1,421
Other purposes	14,954	27,410		42,364
Total Restricted	48,056	281,062	5,284,764	5,613,882
Assigned to:				
Student activities	37,666			37,666
Other purposes	11,483			11,483
Total Assigned	49,149			49,149
Unassigned	5,366,493			5,366,493
Totals	\$5,463,698	\$ 281,062	\$ 5,284,764	\$ 11,029,524

**13: SUBSEQUENT EVENTS**

On December 26, 2012, the District entered into a construction contract of \$816,905 to make renovations to the Middle School locker room and restrooms.

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL 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	\$ 576,302
Construction in progress	1,670,633
Total nondepreciable capital assets	<u>2,246,935</u>
<i>Depreciable capital assets:</i>	
Buildings	10,733,739
Improvements/infrastructure	623,841
Equipment	3,356,692
Total depreciable capital assets	<u>14,714,272</u>
Less accumulated depreciation for:	
Buildings	4,590,906
Improvements/infrastructure	433,359
Equipment	2,476,122
Total accumulated depreciation	<u>7,500,387</u>
Total depreciable capital assets, net	<u>7,213,885</u>
Capital assets, net	<u><u>\$ 9,460,820</u></u>

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL 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
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 2,409
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	75-04	177,831
National School Lunch Program - Cash Assistance	10.555	75-04	558,830
Total State Department of Education			736,661
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	7504000	59,685
<b>TOTAL CHILD NUTRITION CLUSTER</b>			798,755
<b>TITLE I, PART A CLUSTER</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	7504	511,439
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	7504	49,672
<b>TOTAL TITLE I, PART A CLUSTER</b>			561,111
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 5)	12.AR20008		61,576
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	75-04	432,187
Education for Homeless Children and Youth	84.196	75-04	8
Twenty-First Century Community Learning Centers	84.287	75-04	97,417
Rural Education	84.358	75-04	41,983
English Language Acquisition Grants	84.365	75-04	54,600
Improving Teacher Quality State Grants	84.367	75-04	74,604
ARRA - Education Jobs Fund, Recovery Act	84.410	75-04	197,894
Total U. S. Department of Education			898,693
<b>TOTAL OTHER PROGRAMS</b>			960,269
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 2,320,135

The accompanying notes are an integral part of this schedule.

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Dardanelle School District No. 15 (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 \$24,610 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

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

**FINANCIAL STATEMENTS**

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?      ☐ yes      ☒ no

**FEDERAL AWARDS**

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: unqualified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010 and 84.389	Title I, Part A Cluster
84.410	ARRA - Education Jobs Fund, Recovery Act

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

Auditee qualified as low-risk auditee?      ☐ yes      ☒ no



DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

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 misstatement 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: the duties of receipting, depositing, and reconciliation procedures were not segregated. Also payroll checks were prepared by the same employee responsible for preparing contracts, adding new employees, and processing payroll, without compensating controls.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect: The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weaknesses in the above internal control component.

Cause: District management, due to cost/benefit implications, which hindered the District's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiencies in internal control.

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Views of responsible officials and planned corrective actions: We concur with the recommendation and will implement corrective procedures to the extent possible.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL 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.

DARDANELLE SCHOOL DISTRICT NO. 15  
YELL COUNTY, ARKANSAS  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Unaudited)

<b>General Fund</b>	Year Ended June 30,				
	2012	2011	2010	2009	2008
Total Assets	\$ 5,531,277	\$ 5,416,847	\$ 5,197,341	\$ 5,607,900	\$ 5,599,456
Total Liabilities	67,579	171,764	124,023	81,155	215,095
Total Fund Balances	5,463,698	5,245,083	5,073,318	5,526,745	5,384,361
Total Revenues	14,547,505	14,114,327	14,074,956	13,762,002	12,951,423
Total Expenditures	13,922,517	13,593,394	14,124,330	13,212,662	12,136,932
Total Other Financing Sources (Uses)	(406,373)	(349,168)	(404,053)	(406,956)	(517,001)
<b><u>Special Revenue Fund</u></b>					
Total Assets	505,939	278,220	310,211	282,047	248,411
Total Liabilities	224,877	8,661	3,020	54,823	1,104
Total Fund Balances	281,062	269,559	307,191	227,224	247,307
Total Revenues	2,565,442	2,694,461	3,409,319	2,001,629	1,791,102
Total Expenditures	2,553,939	2,725,886	3,329,352	2,021,712	1,801,740
Total Other Financing Sources (Uses)					
<b><u>Other Aggregate Funds</u></b>					
Total Assets	5,996,798	1			
Total Liabilities	712,034				
Total Fund Balances	5,284,764	1			
Total Revenues	19,049	114,757	293,383		
Total Expenditures	1,951,810	470,131	697,436	406,956	517,001
Total Other Financing Sources (Uses)	7,217,524	349,168	404,053	406,956	517,001