

Helena-West Helena School District No. 2

Phillips County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
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JUNE 30, 2011

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Sen. Bill Pritchard
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Rep. Tim Summers
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Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Helena-West Helena School District No. 2 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 Helena-West Helena School District No. 2 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 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 the first name "Roger" being more prominent than the last name "Norman".

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

Little Rock, Arkansas
December 8, 2011
EDSD28811

Sen. Bill Pritchard
Senate Chair
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Arkansas



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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*

Helena-West Helena School District No. 2 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 Helena-West Helena School District No. 2 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated December 8, 2011. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified 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 2011-1 and 2011-2 to be material weaknesses.

Compliance and Other Matters

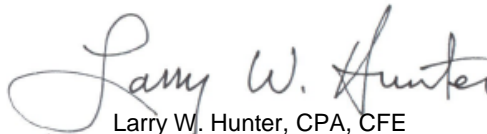
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, 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*.

We noted certain matters that we reported to management of the District in a separate letter dated December 8, 2011.

The District's responses to the findings identified in our audit, excluding the management letter findings, 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 dark ink, reading "Larry W. Hunter". The signature is fluid and cursive, with the first name "Larry" being the most prominent.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 8, 2011

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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

Helena-West Helena School District No. 2 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Helena-West Helena School District No. 2 (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in items 2011-3, 2011-4, and 2011-5 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding reporting and allowable costs/cost principles that are applicable to the Title I Grants to Local Educational Agencies program and equipment and real property management that are applicable to the Title I, Part A Cluster. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program or cluster.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-6 and 2011-7.

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.

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 certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

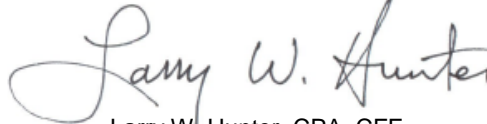
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-3, 2011-4, and 2011-5 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-6 and 2011-7 to be significant deficiencies.

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

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Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 8, 2011

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LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Helena-West Helena School District No. 2 and School Board Members
Legislative Joint Auditing Committee

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and to improve internal control. These matters were discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

1. The District identified unaccounted for equipment items valued at approximately \$25,000. This equipment, which consisted of laptop computers and musical instruments, had been assigned to a band director and a band consultant, both no longer employed by the District. The District filed a report with the Helena-West Helena Police Department on June 15, 2011, alleging theft of property. Subsequently, the District recovered the equipment
2. The District issued two checks totaling \$10,050 to a business for painting a District-owned house. A bid sheet on file at the District indicated two individuals as well as the business that was awarded the contract submitted competitive bids. The two individuals were contacted, and both indicated they had not submitted a bid for the project. Therefore, it appears the District failed to solicit competitive bids for a project costing over \$10,000, as required by law.
3. The District was unable to provide adequate documentation for two checks totaling \$1,397 that were issued to a former employee after employment with the District ended.
4. The District overstated property taxes receivable by \$73,832. The financial statements were corrected during the audit fieldwork.
5. Districts are required to have written salary schedules that reflect actual paying practices of the District for certified and classified personnel. During our examination of payroll records for 61 employees, we detected the following:
 - a. Four employees' actual pay did not agree with the salary schedules.
 - b. Eleven employees' contracted positions were not reflected on the classified salary schedule.
 - c. District personnel could not provide contracts for five classified employees.
 - d. Review of time sheets for the former payroll preparer indicated no supervisory approval for paid overtime hours of \$2,855.
 - e. According to documentation provided, we observed four employees' actual pay exceeded their contracted pay by \$200 to \$5,177, and one employee appeared to have been underpaid \$214.

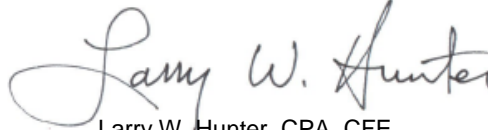
A similar finding was reported in the previous audit.

6. The District was unable to locate 4 of 10 equipment items during our verification of equipment.

7. Ark. Code Ann. § 6-20-1907 prohibits a school district identified as being in fiscal distress from incurring debt without prior written approval from the Arkansas Department of Education (ADE). On September 13, 2010, the District was classified as being in fiscal distress. We noted the following instances of noncompliance on February 14, 2011:
 - a. An employee was promoted from the position of Secretary to Student Services to the Secretary to Superintendent with an annual salary increase from \$27,350 to \$33,150.
 - b. An employee was promoted from the position of Human Resources Secretary to Payroll Clerk with an annual salary increase from \$25,950 to \$35,350.
8. The District failed to reconcile the general ledger and payroll records; therefore, the District was unable to provide documentation supporting the general ledger's payroll liability of \$308,437.
9. As required by Ark. Code Ann. § 6-17-414, the District failed to obtain required criminal background and Child Maltreatment Central Registry checks for three substitutes during fiscal year 2011. Subsequently, the District obtained the required documentation on September 22, 2011.

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

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Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 8, 2011

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2011

Exhibit A

	Governmental Funds			
	Major			Fiduciary
	General	Special Revenue	Other Aggregate	Fund Types
ASSETS				
Cash	\$ 3,862,939		\$ 92,962	\$ 32,155
Investments	3,614			
Accounts receivable	48,784	\$ 2,175,448		
Property taxes receivable	242,803			
Due from other funds	603,972		15,548	
Accrued interest	5			
TOTAL ASSETS	\$ 4,762,117	\$ 2,175,448	\$ 108,510	\$ 32,155
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 347,527	\$ 306,298	\$ 15,548	\$ 2,313
Due student groups				29,342
Due to other funds	15,548	603,972		
Total Liabilities	363,075	910,270	15,548	31,655
Fund Balances:				
Restricted	1,143,932	1,265,178		500
Assigned	116,899		92,962	
Unassigned	3,138,211			
Total Fund Balances	4,399,042	1,265,178	92,962	500
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,762,117	\$ 2,175,448	\$ 108,510	\$ 32,155

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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,944,285		\$ 664,481
State assistance	16,214,082	\$ 10,790	187,878
Federal assistance	19,180	8,864,682	
Activity revenues	46,549		
Meal sales		107,601	
Investment income	23,663		
Other revenues	438,286	56,134	
TOTAL REVENUES	19,686,045	9,039,207	852,359
EXPENDITURES			
Regular programs	5,574,390	3,204,874	
Special education	999,904	444,825	
Workforce education programs	472,448	38,728	
Compensatory education programs	453,433	580,133	
Other instructional programs	894,749	128,483	
Student support services	787,646	403,907	
Instructional staff support services	1,816,494	1,045,920	
General administration support services	608,560	117,993	
School administration support services	1,489,962	213,142	
Central services support services	538,290	70,157	
Operation and maintenance of plant services	1,832,255	834,889	491,316
Student transportation services	1,068,057		
Other support services	19,420		
Food services operations	90,874	1,327,830	353,503
Facilities acquisition and construction services		61,469	85,699
Activity expenditures	34,966		
Debt Service:			
Principal retirement			450,000
Interest and fiscal charges			309,397
TOTAL EXPENDITURES	16,681,448	8,472,350	1,689,915
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,004,597	566,857	(837,556)
OTHER FINANCING SOURCES (USES)			
Transfers in		87,675	930,518
Transfers out	(1,018,193)		
Refund to grantor		(26,484)	
Compensation for loss of capital assets		48,803	
TOTAL OTHER FINANCING SOURCES (USES)	(1,018,193)	109,994	930,518
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,986,404	676,851	92,962
FUND BALANCES - JULY 1	2,412,638	588,327	
FUND BALANCES - JUNE 30	\$ 4,399,042	\$ 1,265,178	\$ 92,962

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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 3,488,587	\$ 2,944,285	\$ (544,302)			
State assistance	16,035,197	16,214,082	178,885		\$ 10,790	\$ 10,790
Federal assistance	30,000	19,180	(10,820)	\$ 9,996,826	8,864,682	(1,132,144)
Activity revenues		46,549	46,549			
Meal sales				132,000	107,601	(24,399)
Investment income		23,663	23,663			
Other revenues	441,890	438,286	(3,604)		56,134	56,134
TOTAL REVENUES	19,995,674	19,686,045	(309,629)	10,128,826	9,039,207	(1,089,619)
EXPENDITURES						
Regular programs	9,785,300	5,574,390	4,210,910	994,785	3,204,874	(2,210,089)
Special education	813,398	999,904	(186,506)	718,722	444,825	273,897
Workforce education programs	509,033	472,448	36,585		38,728	(38,728)
Compensatory education programs	986,408	453,433	532,975	1,441,984	580,133	861,851
Other instructional programs	856,047	894,749	(38,702)	53,994	128,483	(74,489)
Student support services	956,728	787,646	169,082	403,482	403,907	(425)
Instructional staff support services	4,060,630	1,816,494	2,244,136	2,195,826	1,045,920	1,149,906
General administration support services	466,010	608,560	(142,550)	126,645	117,993	8,652
School administration support services	1,722,046	1,489,962	232,084	210,425	213,142	(2,717)
Central services support services	410,969	538,290	(127,321)	68,851	70,157	(1,306)
Operation and maintenance of plant services	1,783,519	1,832,255	(48,736)	1,232,557	834,889	397,668
Student transportation services	1,027,905	1,068,057	(40,152)	42,324		42,324
Other support services	6,000	19,420	(13,420)			
Food services operations	96,192	90,874	5,318	2,068,878	1,327,830	741,048
Community services operations				2,000		2,000
Facilities acquisition and construction services				1,480,028	61,469	1,418,559
Activity expenditures		34,966	(34,966)			
TOTAL EXPENDITURES	23,480,185	16,681,448	6,798,737	11,040,501	8,472,350	2,568,151

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (3,484,511)</u>	<u>\$ 3,004,597</u>	<u>\$ 6,489,108</u>	<u>\$ (911,675)</u>	<u>\$ 566,857</u>	<u>\$ 1,478,532</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	9,630,230		(9,630,230)		87,675	87,675
Transfers out	(9,557,329)	(1,018,193)	8,539,136			
Refund to grantor					(26,484)	(26,484)
Compensation for loss of capital assets					48,803	48,803
TOTAL OTHER FINANCING SOURCES (USES)	<u>72,901</u>	<u>(1,018,193)</u>	<u>(1,091,094)</u>		<u>109,994</u>	<u>109,994</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,411,610)	1,986,404	5,398,014	(911,675)	676,851	1,588,526
FUND BALANCES - JULY 1	<u>2,470,740</u>	<u>2,412,638</u>	<u>(58,102)</u>	<u>658,095</u>	<u>588,327</u>	<u>(69,768)</u>
FUND BALANCES - JUNE 30	<u><u>\$ (940,870)</u></u>	<u><u>\$ 4,399,042</u></u>	<u><u>\$ 5,339,912</u></u>	<u><u>\$ (253,580)</u></u>	<u><u>\$ 1,265,178</u></u>	<u><u>\$ 1,518,758</u></u>

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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Helena-West Helena School District (District), as of June 20, 2011, is under the control of the Arkansas Department of Education. The local school board was dissolved as of that date. See Note 12. There are no component units.

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

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

C. Measurement Focus and Basis of Accounting

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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

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

Amendment no. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. Fund Balance Classifications

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

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.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.

J. Stabilization Arrangements

The Arkansas Department 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 Arkansas Department of Education has not formally adopted a minimum fund balance policy.

L. Fund Balance Classification Policies and Procedures

The Chief Executive Officer, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The Arkansas Department of Education has not adopted a formal policy addressing this authorization.

The District's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the District's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The District does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

M. Encumbrances

The District does not utilize encumbrance accounting.

N. Change in Accounting Principle

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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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)	\$ 322,946	\$ 2,287,811
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	3,668,724	4,210,474
Total Deposits	<u>\$ 3,991,670</u>	<u>\$ 6,498,285</u>

The above total deposits include certificates of deposit of \$3,614 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$2,224,232 at June 30, 2011 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance		\$ 2,167,590	\$ 2,167,590
Other	\$ 48,784	7,858	56,642
Totals	\$ 48,784	\$ 2,175,448	\$ 2,224,232

4: COMMITMENTS

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
ARRA - HVAC equipment renovations	October 1, 2011	\$ 153,505
Intercom system	December 31, 2011	197,676

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011	Maturities To June 30, 2011
6/1/03	2/1/23	3.1 - 4.5%	<u>\$ 8,075,000</u>	<u>\$ 7,300,000</u>	<u>\$ 775,000</u>

Changes in Long-term Debt

	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011
Bonds payable	<u>\$ 7,750,000</u>	<u>\$ 0</u>	<u>\$ 450,000</u>	<u>\$ 7,300,000</u>

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

Year Ended June 30,	Principal	Interest	Total
2012	\$ 470,000	\$ 289,003	\$ 759,003
2013	490,000	273,492	763,492
2014	510,000	256,832	766,832
2015	535,000	238,983	773,983
2016	560,000	219,722	779,722
2017-2021	3,215,000	748,663	3,963,663
2022-2023	<u>1,520,000</u>	<u>102,390</u>	<u>1,622,390</u>
Totals	<u>\$ 7,300,000</u>	<u>\$ 2,129,085</u>	<u>\$ 9,429,085</u>

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$671,686 at June 30, 2011 was comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types	Total
	Major		Other Aggregate		
	General	Special Revenue			
Vendor payables	\$ 39,090	\$ 213,569	\$ 15,548	\$ 2,313	\$ 270,520
Payroll withholdings and matching	308,437				308,437
Due to grantors		92,729			92,729
Totals	\$ 347,527	\$ 306,298	\$ 15,548	\$ 2,313	\$ 671,686

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

6: INTERFUND TRANSFERS

The District transferred \$87,675 from the general fund to the special revenue fund to supplement its food services operations. The District also transferred \$930,518 from general fund to the other aggregate funds to supplement capital expenditures.

7: RETIREMENT PLANS

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2011, 2010, and 2009 were \$2,136,232, \$2,219,617, and \$2,184,829, 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, 2011, 2010, and 2009 were \$16,594, \$21,059, and \$21,202, respectively, equal to the required contributions for each year.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS

Donations	\$ 500
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FUND BALANCE - JULY 1	<u>0</u>
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FUND BALANCE - JUNE 30	<u><u>\$ 500</u></u>
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9: 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 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.

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 buildings, contents, and vehicles.

10: 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 \$401,193 for the year ended June 30, 2011.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Fund Balances:				
Restricted for:				
Alternative learning environment	\$ 160,124			\$ 160,124
Educational programs - national school lunch state categorical funding	756,561			756,561
English-language learners	3,179			3,179
Professional development	35,312			35,312
Secondary workforce center	89,106			89,106
Child nutrition programs		\$ 189,846		189,846
Medical services		122,652		122,652
Reading First program		69,108		69,108
Comprehensive School Reform Demonstration program		57,304		57,304
Special education programs	7,065	20,412		27,477
Title I programs		703,670		703,670
Other purposes	92,585	102,186		194,771
Total Restricted	<u>1,143,932</u>	<u>1,265,178</u>		<u>2,409,110</u>
Assigned to:				
Debt service			\$ 92,962	92,962
Student activities	76,860			76,860
Other purposes	40,039			40,039
Total Assigned	<u>116,899</u>		<u>92,962</u>	<u>209,861</u>
Unassigned	<u>3,138,211</u>			<u>3,138,211</u>
Totals	<u>\$ 4,399,042</u>	<u>\$ 1,265,178</u>	<u>\$ 92,962</u>	<u>\$ 5,757,182</u>

12: FISCAL DISTRESS STATUS

On September 13, 2010, the State Board of Education classified the District in Fiscal Distress. On June 20, 2011, the Arkansas Department of Education assumed control of the Helena-West Helena School District. Under the authority of Ark. Code Ann. § 6-20-1909, the Arkansas Department of Education dismissed the superintendent, dissolved the local school board, and appointed individuals as chief executive officer and chief operations officer. A plan to implement effective cost reduction measures has been adopted.

13: COMPENSATION FOR LOSS OF CAPITAL ASSETS

As a result of thefts on October 11, 2010 and November 6, 2010 at the Central High School, the District received insurance proceeds of \$48,803.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

Schedule 1

	Balance June 30, 2011
<i>Nondepreciable capital assets:</i>	
Land	\$ 528,625
<i>Depreciable capital assets:</i>	
Buildings	14,327,126
Improvements/infrastructure	8,278,221
Equipment	8,733,466
Total depreciable capital assets	31,338,813
Less accumulated depreciation for:	
Buildings	14,904,365
Improvements/infrastructure	204,861
Equipment	6,352,953
Total accumulated depreciation	21,462,179
Total depreciable capital assets, net	9,876,634
Capital assets, net	\$ 10,405,259

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	54-03	\$ 403,928
National School Lunch Program - Cash Assistance	10.555	54-03	785,635
Total State Department of Education			<u>1,189,563</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	5403000	<u>79,143</u>
TOTAL CHILD NUTRITION CLUSTER			<u>1,268,706</u>
TITLE I, PART A CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	54-03	1,374,044
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	54-03	<u>197,408</u>
TOTAL TITLE I, PART A CLUSTER			<u>1,571,452</u>
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	54-03	449,179
ARRA - Special Education - Grants to States, Recovery Act	84.391	54-03	<u>97,685</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>546,864</u>
OTHER PROGRAMS			
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 4)	12.AR05		<u>58,258</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Career and Technical Education - Basic Grants to States	84.048	54-03	32,490
Tech-Prep Education	84.243	54-03	10,496
Total State Department of Career Education			<u>42,986</u>
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	54-03	4,780
Reading First State Grants	84.357	54-03	74,707
Rural Education	84.358	54-03	6,527
Improving Teacher Quality State Grants	84.367	54-03	113,920
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	54-03	4,234,836
ARRA - Education Jobs Fund, Recovery Act	84.410	54-03	430,545
Total State Department of Education			<u>4,865,315</u>
Total U. S. Department of Education			<u>4,908,301</u>
TOTAL OTHER PROGRAMS			<u>4,966,559</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 8,353,581</u>

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Helena-West Helena School District No. 2 (District) under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 5: During the year ended June 30, 2011, the District received Medicaid funding of \$12,482 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

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

FEDERAL AWARDS

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: unqualified for all major programs except for the Title I, Part A Cluster, which was qualified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010 and 84.389	Title I, Part A Cluster
84.027 and 84.391	Special Education Cluster (IDEA)
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2011-1. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five interrelated components - *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: the same employee was responsible for receiving and depositing monies collected, maintenance of accounting records, and preparation of journal entries, without compensating controls. Non-payroll checks were prepared by the same employee responsible for the maintenance of accounting records and such employee has unrestricted access to the District's signature stamp. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, 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.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

2011-2. Misstatements not Detected by Internal Control System

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

Condition: The District's internal control 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. The District did not record accounts payable and accounts receivable of \$306,298 and \$486,745, respectively, in the special revenue fund. Additionally, expenditures of \$139,856 were incorrectly recorded as food service operations instead of operations and maintenance of plant services in the other aggregate funds. The financial statements were corrected during the audit fieldwork.

Context: Identification of misstatements not initially detected by the District's internal control.

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

Cause: Financial records had not been properly monitored.

Recommendation: To achieve reliable financial reporting, the District should exercise due care to ensure all applicable general ledger accounts are properly stated.

Views of responsible officials and planned corrective actions: Actions have been taken to aid the District in its efforts to prevent and detect material errors in its financial accounting records in a timely manner.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESSES

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010
PASS-THROUGH NUMBER 54-03
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011- 3. Reporting

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

Condition: The District exceeded the following functions and object by more than the 10 percent allowed:

Function/Object	Expended amount exceeding 10 percent
Function 1591 - Title I Schoolwide Instruction	\$ 206,008
Function 2170 - Parental Involvement	17,709
Function 2220 - Library/Media Services	24,658
Function 2240 - Academic Student Assessment	26,799
Function 2294 - Instructional Facilitator, Math	40,970
Function 2610 - Operation of Buildings	187
Object 66000 - Supplies and Materials	25,657
Total	<u>\$ 341,988</u>

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

Effect: Expenditures in various functions and objects exceeded the budgeted amounts by more than 10 percent without prior approval.

Cause: Lack of management oversight in the preparation of the budget and monitoring of budgeted expenditures to actual expenditures.

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

Views of responsible officials and planned corrective actions: The District has taken steps including communicating with the specific personnel who direct/coordinate the affected programs to take the necessary actions to ensure expenditures are within the function and object as required.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I, PART A CLUSTER - CFDA NUMBERS 84.010 AND 84.389
PASS-THROUGH NUMBER 54-03
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-4. Equipment and Real Property Management

Criteria or specific requirement: Proper records should be maintained for equipment acquired with federal awards. Additionally, the District should ensure that disposition of such equipment is in accordance with federal requirements, including the federal awarding agency is appropriately compensated for its share of any property sold or converted to non-federal use.

Condition: The District could not account for seventeen of twenty-seven equipment items for the Title I program with an initial cost of \$22,522.

Context: Observation of equipment recorded on subsidiary records, review of available documentation for dispositions, and interview of Title I coordinator and employees.

Effect: The District's equipment subsidiary records were not accurate.

Cause: The District failed to properly account for all equipment items to ensure accurate equipment subsidiary records.

Recommendation: The District should properly account for all equipment items purchased with federal awards.

Views of responsible officials and planned corrective actions: The District has taken steps to ensure increased accountability of its equipment which include randomly checking and the physical viewing of randomly selected equipment periodically during the school year.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010
PASS-THROUGH NUMBER 54-03
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-5. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular No. A-87 establishes principles and standards for determining allowable costs from federal awards.

Condition: The District did not provide documentation for one invoice totaling \$5,902.

Questioned Costs: Total questioned costs for federal program was \$5,902.

Context: Examination of eight invoices pertaining to Title I expenditures.

Effect: The District was unable to provide documents to substantiate the payment of \$5,902.

Cause: Lack of management oversight and controls over program expenditures.

Recommendation: The District should maintain documentation to support all payments.

Views of responsible officials and planned corrective actions: The District has established and implemented procedures and regulations regarding the developing and maintaining of appropriate and adequate documentation for all expenditures. These actions/procedures are monitored by Central Office administration.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

SIGNIFICANT DEFICIENCIES

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I, PART A CLUSTER - CFDA NUMBERS 84.010 AND 84.389
SPECIAL EDUCATION CLUSTER (IDEA) - CFDA NUMBERS 84.027 AND 84.391
PASS-THROUGH NUMBER 54-03
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-6. Procurement and Suspension and Debarment

Criteria or specific requirement: In accordance with 34 CFR 80.35 and part 85, the District must not make or permit any applicable transaction to any vendor which is suspended or debarred or otherwise excluded from participation in federal assistance programs. The District is required to verify the vendor is not suspended or debarred or otherwise excluded. This verification can be accomplished by (a) checking the *Excluded Parties List System (EPLS)*, (b) collecting a certification from the vendor, or (c) adding a clause or condition to the applicable transaction with the vendor. Additionally, the Arkansas Department of Education issued a memorandum to all school districts on December 17, 2009 stipulating verification procedures to be followed regarding suspension and debarment when federal funds are utilized for applicable transactions.

Condition: The District failed to establish internal controls to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. Although goods and services had been properly received or rendered, the District did not verify that applicable vendors had not been suspended or debarred by the Federal Government. However, no vendors with which the District conducted business were identified during the audit period as suspended or debarred parties. A similar finding was reported in the previous audit.

Context: Examination of controls related to the procurement and suspension and debarment and the examination of procurement contracts that were equal to or exceeded \$25,000.

Effect: Without adequate internal controls, payments could be made to suspended or debarred vendors with federal funds, which could require repayment to the grantor.

Cause: Lack of internal controls and adequate management oversight.

Recommendation: Establish an internal control system to ensure applicable transactions are not conducted with suspended or debarred parties.

Views of responsible officials and planned corrective actions: Necessary actions have been taken to ensure that all vendors who do business with the District have not been suspended/debarred by the Federal Government.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - GRANTS TO STATES - CFDA NUMBER 84.027
PASS-THROUGH NUMBER 54-03
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-7. Equipment and Real Property Management

Criteria or specific requirement: Proper records should be maintained for equipment acquired with federal awards. Additionally, the District should ensure that disposition of such equipment is in accordance with federal requirements including the federal awarding agency is appropriately compensated for its share of any property sold or converted to non-federal use.

Condition: The District could not account for one of eleven equipment items for the special education program with an initial cost of \$1,477.

Context: Observation of equipment recorded on subsidiary records, review of available documentation for dispositions, and interview of special education director and employees.

Effect: The District's equipment subsidiary records were not accurate.

Cause: The District failed to properly account for all equipment items to ensure accurate equipment subsidiary records.

Recommendation: The District should properly account for all equipment items purchased with federal awards.

Views of responsible officials and planned corrective actions: The District has taken actions to ensure proper accounting of equipment purchases which include random monitoring and periodical physical viewing of the equipment purchases.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

NONCOMPLIANCE (FEDERAL PROGRAM NOT AUDITED AS A MAJOR PROGRAM)

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS) - CFDA NUMBERS 10.553 AND 10.555
PASS-THROUGH NUMBER 54-03
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-8. Reporting

Criteria or specific requirement: The Arkansas Department of Education, Child Nutrition Unit (ADE, CNU) requires school districts to submit monthly claims for reimbursement for meals served to all students based on eligibility status.

Condition: A Coordinated Review Effort was completed by ADE, CNU in March 2011. The review noted the District was utilizing an inaccurate method of counting the number of lunches served (tray counting). As a result of this review, the District refunded \$92,729 to ADE, CNU on July 13, 2011 for overclaims incurred in the months of November 2010, December 2010, and January 2011.

As part of our audit, we examined the March 2011 through June 2011 claims for reimbursement and daily record forms and observed the following discrepancies:

- a. March 2011 - 4 free lunches were over claimed.
- b. April 2011 - 92 free breakfasts were over claimed; 3 reduced price breakfasts were over claimed; 5 paid breakfasts were over claimed; and 42 reduced price lunches exceeded the maximum allowable lunches.
- c. May 2011 - 369 free breakfasts were under claimed; 74 reduced price breakfasts were over claimed; and 295 paid breakfasts were over claimed.
- d. June 2011 - 22 free breakfasts were over claimed; 1 reduced price breakfast was over claimed; 1 free breakfast was over claimed; 30 free lunches were under claimed; 1 reduced price lunch was under claimed; and 3 paid lunches were under claimed.

These discrepancies resulted in a net underclaim of \$233.

Additionally, we noted on the claims for reimbursement, the maximum number of students eligible for free and reduced price meals should agree for the breakfast and lunch components; however, all four months differed.

Context: Our examination of claims for reimbursement disclosed numerous errors still exist.

Effect: Meals were not properly reported on the applicable claims for reimbursement.

Cause: Lack of internal controls and management oversight resulted in the reporting errors.

Recommendation: We recommend the District contact ADE, CNU to resolve this matter.

Views of responsible officials and planned corrective actions: The stated findings have been reviewed. Corrective actions including implementing a system which accurately reflects the number of students served and their status; also, the District replaced the Food Service Director who was responsible for the overall operation of the Child Nutrition Program.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I, PART A CLUSTER
SPECIAL EDUCATION CLUSTER (IDEA)
STATE FISCAL STABILIZATION FUND CLUSTER

2010 - Finding 2010-3: Title I, Part A Cluster - CFDA Numbers 84.010 and 84.389, Special Education Cluster (IDEA) - CFDA Numbers 84.027 and 84.391, and State Fiscal Stabilization Fund Cluster - CFDA Numbers 84.394 and 84.397

Condition: The District failed to establish internal controls to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. Although goods and services had been properly received or rendered, the District did not verify that applicable vendors had not been suspended or debarred by the Federal Government. However, no vendors with which the District conducted business were identified during the audit period as suspended or debarred parties.

Recommendation: Establish an internal control system to ensure applicable transactions are not conducted with suspended or debarred parties.

Current Status: Exceptions were observed during the current audit period for the Title I, Part A Cluster and Special Education Cluster (IDEA). See Finding No. 2011-6 at Schedule 3.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

<u>General Fund</u>	Year Ended June 30,				
	2011	2010	2009	2008	2007
Total Assets	\$ 4,762,117	\$ 2,480,265	\$ 4,853,169	\$ 6,298,052	\$ 6,616,656
Total Liabilities	363,075	67,627	9,992	207,621	
Total Fund Balances	4,399,042	2,412,638	4,843,177	6,090,431	6,616,656
Total Revenues	19,686,045	21,924,790	23,201,790	24,127,471	24,498,802
Total Expenditures	16,681,448	23,823,296	24,014,827	24,066,224	23,800,360
Total Other Financing Sources (Uses)	(1,018,193)	(532,033)	(434,217)	(587,472)	(710,717)
<u>Special Revenue Fund</u>					
Total Assets	2,175,448	761,342	1,049,051	1,538,115	1,978,170
Total Liabilities	910,270	173,015	72,136	32,730	6,653
Total Fund Balances	1,265,178	588,327	976,915	1,505,385	1,971,517
Total Revenues	9,039,207	6,710,342	5,040,504	5,824,270	6,230,708
Total Expenditures	8,472,350	7,086,614	5,568,894	6,424,260	6,019,290
Total Other Financing Sources (Uses)	109,994	(12,316)	(80)	133,858	
<u>Other Aggregate Funds</u>					
Total Assets	108,510			264,531	
Total Liabilities	15,548			235,663	
Total Fund Balances	92,962			28,868	
Total Revenues	852,359	280,838		293,399	
Total Expenditures	1,689,915	812,871	756,524	755,155	785,175
Total Other Financing Sources (Uses)	930,518	532,033	727,656	490,624	752,081