

Armored School District No. 9

Mississippi County, Arkansas

**Regulatory Basis Financial Statements
And Other Reports**

June 30, 2013

LEGISLATIVE JOINT AUDITING COMMITTEE



ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
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Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
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Rep. John W. Walker
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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

Armored School District No. 9 and School Board Members
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Armored School District No. 9 (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the reporting requirements of the State of Arkansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by the District on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2013, or the changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Other Information

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

The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis have 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
July 10, 2014
EDSD24913

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

INDEPENDENT AUDITOR'S REPORT

Armored School District No. 9 and School Board Members
Legislative Joint Auditing Committee

We have audited, in accordance with the 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, the financial statements of each major governmental fund and the aggregate remaining fund information of the Armored School District No. 9 (the "District"), as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated July 10, 2014. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting 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 regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below in the Audit Findings section of this report, we identified a certain deficiency in internal control 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 regulatory basis financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below in the Audit Findings section of this report 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 from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state 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 July 10, 2014.

AUDIT FINDINGS

Material Weakness

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.

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, the same employee was responsible for receiving and depositing monies collected, preparation of payroll checks, maintenance of accounting records, and preparation of bank reconciliations, without compensating controls.

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

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 assertion embodied in the financial statements and that will safeguard District assets.

Management Response: Management personnel concur with the recommendation and will implement corrective procedures to the extent possible.

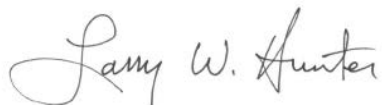
District's Response to Findings

The District's response to the findings identified in our audit, excluding the management letter findings, is described above. The District's response was not subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 10, 2014

Arkansas

Sen. Bryan B. King
Senate Chair

Rep. Kim Hammer
House Chair

Sen. Linda Chesterfield
Senate Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Armored School District No. 9 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 overpaid three classified employees in the central office a total of \$600, \$472, and \$469, respectively. District records indicated these employees were inadvertently paid for four days in excess of their contracted days. Additionally, three other employees were overpaid \$195, \$124, and \$77, respectively, due to clerical errors.
2. The District closed an Activity account containing Trap Shooting Team funds and transferred the remaining balance of \$2,058, which included state funds received from the Arkansas Game and Fish Commission, to an individual who served as the Team Sponsor. Ledgers reflecting the activities of this individual's account were not available and documentation for several expenditures appears to be from a business owned by the Sponsor. On April 9, 2014, the Sponsor closed the account and remitted the remaining balance of \$81 to the District, where it was deposited into an Activity account.

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, 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
July 10, 2014

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2013

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 4,250,766	\$ 7,818	\$ 294,265	\$ 28,194
Accounts receivable	220	32,899		
TOTAL ASSETS	\$ 4,250,986	\$ 40,717	\$ 294,265	\$ 28,194
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 178,793	\$ 15,014		\$ 385
Due student groups				20,341
Total Liabilities	178,793	15,014		20,726
Fund Balances:				
Restricted	141,775	25,998	\$ 257,459	7,468
Assigned	544,219		36,806	
Unassigned	3,386,199	(295)		
Total Fund Balances	4,072,193	25,703	294,265	7,468
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,250,986	\$ 40,717	\$ 294,265	\$ 28,194

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

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 5,338,498		
State assistance	792,896	\$ 1,407	
Federal assistance		394,631	
Activity revenues	67,592		
Meal sales		51,942	
Investment income	8,599		\$ 101
Other revenues	307,810		
TOTAL REVENUES	6,515,395	447,980	101
EXPENDITURES			
Regular programs	1,680,463	6,980	21,849
Special education	290,973	83,356	
Career education programs	219,316		
Compensatory education programs	17,126	40,002	
Other instructional programs	109,441		
Student support services	96,402	39,220	
Instructional staff support services	208,819	146,354	47,949
General administration support services	208,205	317	9,850
School administration support services	213,654		2,797
Central services support services	100,461		
Operation and maintenance of plant services	510,635		2,160
Student transportation services	191,900		
Other support services	6,960		
Food services operations	63	214,452	1,399
Facilities acquisition and construction services			218,103
Activity expenditures	69,592		
Debt Service:			
Principal retirement			190,000
Interest and fiscal charges			121,801
TOTAL EXPENDITURES	3,924,010	530,681	615,908
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,591,385	(82,701)	(615,807)
OTHER FINANCING SOURCES (USES)			
Transfers in		65,665	306,607
Transfers out	(372,272)		
TOTAL OTHER FINANCING SOURCES (USES)	(372,272)	65,665	306,607
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	2,219,113	(17,036)	(309,200)
FUND BALANCES - JULY 1	1,853,080	42,739	603,465
FUND BALANCES - JUNE 30	\$ 4,072,193	\$ 25,703	\$ 294,265

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

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI 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, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 3,558,066	\$ 5,338,498	\$ 1,780,432			
State assistance	211,364	792,896	581,532	\$ 1,500	\$ 1,407	\$ (93)
Federal assistance				456,222	394,631	(61,591)
Activity revenues		67,592	67,592			
Meal sales				70,050	51,942	(18,108)
Investment income	20,000	8,599	(11,401)			
Other revenues	163,770	307,810	144,040			
TOTAL REVENUES	3,953,200	6,515,395	2,562,195	527,772	447,980	(79,792)
EXPENDITURES						
Regular programs	1,463,728	1,680,463	(216,735)		6,980	(6,980)
Special education	311,865	290,973	20,892	110,427	83,356	27,071
Career education programs	203,692	219,316	(15,624)			
Compensatory education programs	20,738	17,126	3,612	42,415	40,002	2,413
Other instructional programs	103,315	109,441	(6,126)			
Student support services	85,218	96,402	(11,184)	49,518	39,220	10,298
Instructional staff support services	151,167	208,819	(57,652)	163,082	146,354	16,728
General administration support services	181,149	208,205	(27,056)		317	(317)
School administration support services	209,667	213,654	(3,987)			
Central services support services	92,886	100,461	(7,575)			
Operation and maintenance of plant services	470,020	510,635	(40,615)			
Student transportation services	244,297	191,900	52,397			
Other support services	5,000	6,960	(1,960)			
Food services operations		63	(63)	194,611	214,452	(19,841)
Activity expenditures		69,592	(69,592)			
TOTAL EXPENDITURES	3,542,742	3,924,010	(381,268)	560,053	530,681	29,372

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI 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, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 410,458	\$ 2,591,385	\$ 2,180,927	\$ (32,281)	\$ (82,701)	\$ (50,420)
OTHER FINANCING SOURCES (USES)						
Transfers in	4,525,233		(4,525,233)	28,061	65,665	37,604
Transfers out	(4,796,223)	(372,272)	4,423,951			
TOTAL OTHER FINANCING SOURCES (USES)	(270,990)	(372,272)	(101,282)	28,061	65,665	37,604
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	139,468	2,219,113	2,079,645	(4,220)	(17,036)	(12,816)
FUND BALANCES - JULY 1	2,031,931	1,853,080	(178,851)	24,597	42,739	18,142
FUND BALANCES - JUNE 30	<u>\$ 2,171,399</u>	<u>\$ 4,072,193</u>	<u>\$ 1,900,794</u>	<u>\$ 20,377</u>	<u>\$ 25,703</u>	<u>\$ 5,326</u>

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

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 Armorel School District (District). There are no component units.

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

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

C. Measurement Focus and Basis of Accounting

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

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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:

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	10-50
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.

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2012 calendar year taxes collected by June 30, 2013 and 32 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2013 equaled or exceeded the 32 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. 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.

H. 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. Additionally, the District routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

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.

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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.

J. Minimum Fund Balance Policies

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

K. 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.

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department, or agent in the District's name	4,331,043	4,494,828
Total Deposits	\$ 4,581,043	\$ 4,744,828

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$33,119 at June 30, 2013 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance		\$ 32,872	\$ 32,872
Meal sales		27	27
Other	\$ 220		220
Totals	\$ 220	\$ 32,899	\$ 33,119

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2013:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
Network infrastructure improvements	October 1, 2013	\$ 297,319

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, 2013	Maturities To June 30, 2013
4/1/12	6/1/27	1 - 2.5%	\$ 4,295,000	\$ 4,145,000	\$ 150,000
11/1/09	2/1/27	2 - 4.35%	800,000	695,000	105,000
Totals			\$ 5,095,000	\$ 4,840,000	\$ 255,000

Changes in Long-term Debt

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013
Bonds payable	\$ 5,030,000	\$ 0	\$ 190,000	\$ 4,840,000

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

4: COMMITMENTS (Continued)

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

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 310,000	\$ 105,311	\$ 415,311
2015	310,000	101,411	411,411
2016	310,000	97,511	407,511
2017	315,000	93,611	408,611
2018	325,000	88,673	413,673
2019-2023	1,725,000	339,896	2,064,896
2024-2027	1,545,000	109,559	1,654,559
Totals	<u>\$ 4,840,000</u>	<u>\$ 935,973</u>	<u>\$ 5,775,973</u>

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$194,192 at June 30, 2013 was comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types	Total
	Major General	Special Revenue		
Vendor payables	\$ 22,857	\$ 2,384	\$ 385	\$ 25,626
Salaries payable	155,936	12,630		168,566
Totals	<u>\$ 178,793</u>	<u>\$ 15,014</u>	<u>\$ 385</u>	<u>\$ 194,192</u>

6: INTERFUND TRANSFERS

The District transferred \$306,607 from the general fund to the other aggregate funds for debt related payments. Additionally, the District transferred \$65,665 from the general fund to the special revenue fund to supplement its food services operations.

7: RETIREMENT PLAN

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.

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

7: RETIREMENT PLAN (Continued)

Arkansas Teacher Retirement System (Continued)

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, 2013, 2012, and 2011 were \$362,124, \$363,896, and \$351,993, respectively, equal to the required contributions for each year.

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 4,800
DEDUCTIONS	
Scholarships	<u>500</u>
CHANGE IN FUND BALANCE	4,300
FUND BALANCE - JULY 1	<u>3,168</u>
FUND BALANCE - JUNE 30	<u>\$ 7,468</u>

9: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$5,095,000 issued from November 1, 2009 to April 1, 2012. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$5,775,973, payable through June 1, 2027. Principal and interest paid for the current year and total property taxes pledged for debt service were \$310,887 and \$1,642,615, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 18.93 percent.

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 \$44,966 for the year ended June 30, 2013.

11: 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 accident, catastrophic crop failure, and school board liability coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

11: RISK MANAGEMENT (Continued)

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.

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

Description	Governmental Funds			Total
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted for:				
English-language learners	\$ 1,010			\$ 1,010
Professional development	14,445			14,445
Capital projects			\$ 257,359	257,359
Debt service			100	100
Medical services		\$ 24,175		24,175
Special education programs	52,109			52,109
Other purposes	74,211	1,823		76,034
Total Restricted	<u>141,775</u>	<u>25,998</u>	<u>257,459</u>	<u>425,232</u>
Assigned to:				
Capital projects	505,216		36,806	542,022
Student activities	39,003			39,003
Total Assigned	<u>544,219</u>		<u>36,806</u>	<u>581,025</u>
Unassigned	<u>3,386,199</u>	<u>(295)</u>		<u>3,385,904</u>
Totals	<u>\$ 4,072,193</u>	<u>\$ 25,703</u>	<u>\$ 294,265</u>	<u>\$ 4,392,161</u>

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

13: DEFICIT FUND BALANCE

The deficit fund balance of \$295 in the special revenue fund in the table above pertains to the child nutrition program. This temporary deficit was caused by the recognition of minor accounts payable at year-end.

14: SUBSEQUENT EVENTS

On May 30, 2014, the District received notice from the Arkansas Department of Education that the District had received net revenues of \$488,942 in excess of ninety-eight percent of the uniform rate of tax, calculated in accordance with Ark. Code Ann. § 6-20-2305. The District paid this amount to the Arkansas Department of Education on June 26, 2014.

ARMOREL SCHOOL DISTRICT NO. 9
 MISSISSIPPI COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2013
 (Unaudited)

Schedule 1

	Balance June 30, 2013
<i>Nondepreciable capital assets:</i>	
Land	\$ 494,134
<i>Depreciable capital assets:</i>	
Buildings	5,491,935
Improvements/infrastructure	1,297,575
Equipment	1,561,340
Total depreciable capital assets	8,350,850
Less accumulated depreciation for:	
Buildings	1,416,664
Improvements/infrastructure	261,062
Equipment	976,883
Total accumulated depreciation	2,654,609
Total depreciable capital assets, net	5,696,241
Capital assets, net	\$ 6,190,375

ARMOREL SCHOOL DISTRICT NO. 9
MISSISSIPPI COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2013
(Unaudited)

Schedule 2

General Fund	Year Ended June 30,				
	2013	2012	2011	2010	2009
Total Assets	\$ 4,250,986	\$ 2,057,185	\$ 2,006,738	\$ 1,851,411	\$ 859,102
Total Liabilities	178,793	204,105	330,420	1,461,224	506,351
Total Fund Balances	4,072,193	1,853,080	1,676,318	390,187	352,751
Total Revenues	6,515,395	4,542,055	4,925,116	4,445,813	4,100,512
Total Expenditures	3,924,010	3,820,290	3,504,383	4,010,371	4,356,395
Total Other Financing Sources (Uses)	(372,272)	(545,003)	(134,602)	(398,006)	(442,977)
 Special Revenue Fund					
Total Assets	40,717	46,216	150,941	41,681	83,896
Total Liabilities	15,014	3,477	3,526	11,838	6,264
Total Fund Balances	25,703	42,739	147,415	29,843	77,632
Total Revenues	447,980	457,895	416,066	375,655	314,328
Total Expenditures	530,681	596,865	356,011	469,576	409,626
Total Other Financing Sources (Uses)	65,665	34,294	57,517	46,132	89,775
 Other Aggregate Funds					
Total Assets	294,265	604,665	379,753	1,689,066	1,866,433
Total Liabilities		1,200	37,090	48,146	628
Total Fund Balances	294,265	603,465	342,663	1,640,920	1,865,805
Total Revenues	101	1,000		10,069	91,348
Total Expenditures	615,908	256,086	1,343,204	1,351,425	413,329
Total Other Financing Sources (Uses)	306,607	515,888	44,947	1,116,471	347,912