

BEFORE THE ARKANSAS DEPARTMENT OF EDUCATION
STATE BOARD OF EDUCATION

April 9, 2015

E X H I B I T S

A-3: HUGHES SCHOOL DISTRICT CONSOLIDATION

ADE EXHIBIT ONE (1)

Commissioner's Memo No. COM-15-010 (07/22/14) -
Publication of Lists in Accordance w/ Arkansas Code
Annotated 6-13-1602

ADE EXHIBIT TWO (2)

Commissioner's Memo No. COM-14-005 (08/09/13) -
Publication of Lists in Accordance w/ Arkansas Code
Annotated 6-13-1602

ADE EXHIBIT THREE (3)

Fiscal Distress Communications and Reports

ADE EXHIBIT FOUR (4)

Mileage from Hughes School District to Surrounding
Districts

ADE EXHIBIT FIVE (5)

Letter to Commissioner Key from Rosalyn Middleton,
Assistant Attorney General (04/06/15)

ADE EXHIBIT SIX (6)

Memorandum and Order from US District Court, Eastern
District of Arkansas, Jonesboro Division (10/14/76)

(Cont.)

ADE EXHIBIT SEVEN (7)

Letter to Supt. Bill Kessinger (West Memphis Public Schools) from Farella Robinson, Civil Rights Analyst (02/23/07)

DISTRICT'S EXHIBIT ONE (1)

Highlights of Findings of the Interim Study Committee for Act 60

DISTRICT'S EXHIBIT TWO (2)

Petition by the Hughes School District for Waiver of Consolidation or Reorganization Based Upon Act 377 of 2015 as Codified at ACA Section 6-13-1601 et.seq.

A-5: LITTLE ROCK SCHOOL DISTRICT

EXHIBIT ONE (1)

Memo from Supt. Dexter Suggs to Commissioner Johnny Key re: LRSD Update

C E R T I F I C A T E

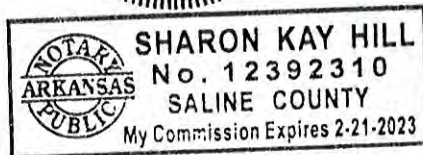
I, SHARON K. HILL, A CERTIFIED COURT REPORTER AND NOTARY PUBLIC, do hereby certify that the exhibits contained herein, as listed above, are true and correct copies of the exhibits provided to me during the captioned proceeding.

WITNESS MY HAND AND SEAL THIS DATE: April 18, 2015.



Sharon K. Hill

SHARON K. HILL, CCR
Certified Court Reporter
Certificate No. 670



ADE EXHIBIT ONE (1)

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Approved Memos: Publication of Lists in Accordance with Ark. Code Ann. § 6-13-1602



**ARKANSAS
DEPARTMENT
OF EDUCATION**

Version History

Title	Publication of Lists in Accordance with Ark. Code Ann. § 6-13-1602
Memo Number	COM-15-010
Memo Date	7/22/2014
Attention	Co-op Directors; Superintendents; Charter School Administrators
Memo Type	Informational
Response Required	No
Section	Legal Services
Regulatory Authority	Ark. Code Ann. §§ 6-13-1602, 6-13-1603, 6-13-1608
Contact Person	Jeremy Lasiter
Phone Number	501-682-4227
E-Mail	jeremy.lasiter@arkansas.gov
Memo Text	

Ark. Code Ann. § 6-13-1602 requires that the Arkansas Department of Education (ADE) publish two lists by January 1 of each year. This Commissioner's Memo is provided in fulfillment of the publication requirement contained in Ark. Code Ann. § 6-13-1602:

List #1: Ark. Code Ann. § 6-13-1602(1) List

Ark. Code Ann. § 6-13-1602(1) requires the ADE to publish a list of all school districts with fewer than three hundred fifty (350) students according to the school district average daily membership in the school year immediately preceding the current school year. Pursuant to Ark. Code Ann. § 6-13-1608(f), school districts appearing on this list may not incur debt without the prior written approval of the ADE. The following school districts meet the requirement for inclusion on the Ark. Code Ann. § 6-13-1602(1) list:

Hartford School District
Hughes School District
Kirby School District



School districts should refer to the following definition of “debt” in determining which transactions require ADE approval: “a legal liability, encumbrance or contract, including employment contracts, to be paid out of future revenues or current reserves of the district.”

List #2: Ark. Code Ann. § 6-13-1602(2) List (Administrative Consolidation List)

Ark. Code Ann. § 6-13-1602(2) requires the ADE to publish a list of all school districts with fewer than three hundred fifty (350) students according to the school district average daily membership in each of the two (2) school years immediately preceding the current school year. Pursuant to Ark. Code Ann. § 6-13-1603, school districts appearing on this list must be administratively consolidated with or annexed to another school district or districts. The following school district meets the requirement for inclusion on the Ark. Code Ann. § 6-13-1602(2) list:

Hughes School District

The ADE continues to monitor and further examine school district attendance records and will notify any affected school districts of any changes in status for administrative annexation, administrative consolidation, or other purposes. District administrators are urged to ensure that their respective districts are in compliance with all attendance and reporting laws, including, but not limited to Ark. Code Ann. § 6-18-213.

Version: 8.0

Created at 7/17/2014 1:25 PM by Jeremy Lasiter (ADE)

Last modified at 7/29/2014 8:10 AM by Deborah Coffman (ADE)

ADE EXHIBIT TWO (2)

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**ARKANSAS
DEPARTMENT
OF EDUCATION**

Version History

Title	Publication of Lists in Accordance with Ark. Code Ann. 6-13-1602
Memo Number	COM-14-005
Memo Date	8/9/2013
Attention	Co-op Directors; Superintendents
Memo Type	Informational
Response Required	No
Section	Legal Services
Regulatory Authority	Ark. Code Ann. § 6-13-1602, 6-13-1603, 6-13-1608
Contact Person	Jeremy Lasiter
Phone Number	501-682-4227
E-Mail	jeremy.lasiter@arkansas.gov
Memo Text	<p>Ark. Code Ann. § 6-13-1602 requires that the Arkansas Department of Education (ADE) publish two lists by January 1 of each year. This Commissioner's Memo is provided in fulfillment of the publication requirement contained in Ark. Code Ann. § 6-13-1602:</p>

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Hughes School District
Mulberry/Pleasant View Bi-County School District
Stephens School District



School districts should refer to the following definition of “debt” in determining which transactions require ADE approval: “a legal liability, encumbrance or contract, including employment contracts, to be paid out of future revenues or current reserves of the district.”

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Stephens School District

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Version: 10.0

Created at 7/17/2013 5:42 PM by Jeremy Lasiter (ADE)

Last modified at 8/9/2013 9:54 AM by Deborah Coffman (ADE)

ADE EXHIBIT THREE (3)

April 1, 2015

RE: Hughes School District

Commissioner Key,

Pursuant to Ark. Code Ann. § 6-20-1905, on February 19, 2013, the Arkansas Department of Education identified the Hughes School District as a school district in fiscal distress. The Arkansas Department of Education made this identification because the Hughes School District met the following fiscal distress indicator(s) as set forth in Ark. Code Ann. § 6-20-1904: Material state or federal audit exceptions or violations.

On April 8, 2013, the State Board of Education classified the Hughes School District as a school district in fiscal distress, pursuant to Ark. Code Ann. § 6-20-1906.

Additional information is attached.

- Hughes ID In Fiscal Distress Letter 02/19/13
- Hughes SD Classification SBE Letter 04/08/13
- Hughes Fiscal Distress Plan
- Hughes Distress Letter to ADE 03/10/15
- Hughes SD Audit 2014

Based on my review of the 2014 Legislative Audit report the Hughes School District has not corrected the criteria for removal of fiscal distress at this time.

Let me know if you have additional questions.



Hazel Burnett (ADE)

501-683-5288



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APR 17 2013

FINANCIAL ACCOUNTABILITY
IS A RESPONSIBILITY

Arkansas Department of Education
Fiscal Distress Financial Improvement Plan
Plan Year 2013-2014

School District Hughes #27

Superintendent Sherry Owens

Phone Number 870/339-2570

PART A. NARRATIVE OVERVIEW OF DISTRICT

Insert the narrative overview of the District


The Hughes School District is located in a rural, poor, isolated area of St. Francis County in Eastern Arkansas. The district encompasses territory in St. Francis County and Crittenden County and covers 226.1 square miles. The 2012-2013 current enrollment is 348 students. The district operates 5 bus routes that cover 280 miles daily and employs 1 maintenance person to service the busses and other vehicles owned by the district. The district has 180,485 square feet of classroom space which includes K-12 classrooms and 2 gyms located in four buildings. The district employs 4 maintenance people and 2.5 FTE (based on an eight hour day) custodians. Hughes School District has 37 M&O mills and 2.4 debt service mills for a total of 39.4 mills. The 2011 assessed valuation was \$2,381,807.90. Bonded debt payments for the 2012-2013 fiscal year include: A bond payment to US Bank in the amount of \$83,183.50 and a post-dated warrant of \$9,736.44. Hughes School District currently employs 43 certified employees and 28 classified employees.

ACTION AGENDA - A-3

PART B. PLAN OBJECTIVES

2

1 OF


Superintendent Signature
4-16-13
Date

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FINANCIAL ACCOUNTABILITY

**Arkansas Department of Education
Fiscal Distress Financial Improvement Plan
Plan Year 2013-2014**

Plan Objective	Responsible Party	Specific Strategy	Board Action	Date of Action	Funding Sources	Amount of Net Savings	Objective Met
							Yes No
Objective 1 To reduce expenditures by Reduction in Force and/or Employee Attrition	Superintendent School Board	RIF 2 Certified Positions	Yes	April 16, 2013	1000	\$188,881	
Objective 2 To reduce expenditures by Reduction in Force and/or Employee Attrition	Superintendent School Board	Partial RIF - One Position	Yes	April 16, 2013	2000	\$42,802	
Objective 3 To reduce expenditures by reducing Contracted Days	Superintendent School Board	Reduce Contracted Days	Yes	April 16, 2013	10300200022861/6501	\$94,500	
Objective 4 To reduce expenditures by removing Stipends	Superintendent School Board	Remove Stipends	Yes	April 16, 2013	10300200036930	\$13,560	
Objective 5 To reduce expenditures by Reduction in Force and Employee Attrition	Superintendent School Board	RIF 1 Classified Position	Yes	April 16, 2013	2000	33,380	
Objective 6 To reduce expenditures by Combining Bus Routes	Superintendent School Board	Combine Bus Routes	Yes	April 16, 2013	2000	18,123	
Objective 7 To reduce expenditures by Reduction in Force and Employee Attrition	Superintendent School Board	Not Replacing Positions	Yes	April 16, 2013	2281	22,886	
Objective 8 Contract Pay Out	Superintendent School Board	Contract Pay Out	Yes	June 30, 2013	1000	Superintendent Signature 116,480	

Date

2 OF 5

**Arkansas Department of Education
Fiscal Distress Financial Improvement Plan
Plan Year 2013-2014**

Objective 9	Implement procedures to improve internal control	Superintendent School Board	Assign .50 FTE clerical staff to assist district bookkeeper and to handle accounts payable. Superintendent reviews all invoices and approves for payment	Yes	April 16, 2013	0	
Objective 10	Implement procedures to improve financial management, oversight, and ensure all transactions are completely and correctly classified	Superintendent School Board	District bookkeepers and accounts payable clerk will attend APSCN and CASBO trainings. Experienced school bookkeepers will be contacted for technical assistance on coding and recording transactions correctly in APSCN. Additional .50 FTE for business office to ensure correct and timely business transactions.	Yes	April 16, 2013	0	

[Signature]
Superintendent Signature
4-16-13
Date

**Arkansas Department of Education
Fiscal District Financial Improvement Plan
Plan Year 2013-2014**

Objective 11	Implement procedures to ensure reconciliation from current annual budgets to current program expenditures	Superintendent School Board	<p>Superintendent, Program Coordinator, and district bookkeepers will determine the accurate current budget total for programs. Program Coordinator will review invoices marking ready for payment if an allowable expenditure. Superintendent will review invoices and documentation and submit to accounts payable for payment. Bookkeeper will issue monthly expenditure reports to program coordinators indicating program budget balances</p>	Yes	April 16, 2013	0	0				
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ACTION AGENDA - A-3

[Signature]
Superintendent Signature

4-16-13
Date

**Arkansas Department of Education
Fiscal Distress Financial Improvement Plan
Plan Year 2013-2014**

Objective 12	Implement procedures to ensure the required cost differential is paid to Child Nutrition for paid meals served	Superintendent School Board	FS Director will record meals served daily by FFR/Paid categories. Report then filed with District bookkeeper. District bookkeeper will utilize the current AOE template to determine the monthly transfer amount from operating to Child Nutrition fund. FS Dir will be trained on monitoring procedures to ensure accuracy of reports.	Yes	April 16, 2013	0	0	
Objective 13	Implement procedures to ensure bank account is properly reconciled	Superintendent School Board	BSK will be trained on how to eliminate errors noted in the reconciliation process. Bank Rec will be filed in a complete, correct, and timely manner	Yes	April 16, 2013	0	0	

ACTION AGENDA - A-3

Sheryl Owen
Superintendent Signature

4-16-13

Date

Hughes School District
Fiscal Distress Plan
As of April 16, 2013

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FINANCIAL ACCOUNTABILITY
& REPORTING

Statement of Assurances

The Hughes School District's Fiscal Distress Plan/Revised dated 4/16/2013 was approved during a legal meeting of the district on 4/16/2013.

I hereby certify by my signature below that the Hughes School District's Fiscal Distress Plan/Revised shall be binding on the district, the superintendent, and the school board; provided, however, that it shall be the duty of the district to follow all federal and state laws.

Sheryl Owens
Superintendent

4-16-13
Date

VOTE
Yes/No

Jeffrey S. Jackson
President

Yes

Earnestine Jackson
Secretary

yes

Hugh H. Handaway
Board Member

yes

Kimberly E. Brantley
Board Member

yes

Donnie Mooney
Board Member

yes

Board Member

Board Member

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APR 17 2013

FINANCIAL ACCOUNTABILITY
ASSURANCE

Hughes School District

PO Box 9, Hughes, AR 72348

870/339-2570 (phone)

870/339-3317 (fax)

Scott McRae

Sheryl Owens

DATE:

4-17-13

FAX #:

PAGES INCLUDING COVER:

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HUGHES PUBLIC SCHOOLS

Office Of The Superintendent
Hughes, Arkansas 72348

March 9, 2015

Ms. Hazel Burnett
ADE Coordinator Fiscal Distress Accountability and Reporting
Four Capitol Mall
Little Rock, Arkansas 72201-1019

Re: Hughes School District and Fiscal Distress Status

Dear Ms. Burnett:

We have discussed Hughes being released from the Fiscal Distress Status on more than one occasion in the past. I write you this morning with a great sense of urgency and I am requesting once again that you recommend to the Commissioner of Education that the Hughes School District be removed from the Fiscal Distress Status.

I do not make this request lightly or without sincere consideration of all facts and factors. The letter that the school district received, which was dated February 19, 2013, said, in relevant part, "According to Arkansas Code Annotated § 6-20-1904, the Hughes School District meets one (1) or more of the criteria necessary to be identified as a district in fiscal distress, including: Material state or federal audit exceptions or violations. This identification is also based on acts or violations determined to jeopardize the fiscal integrity of the district including without limitations failure to develop and implement adequate correction actions for originally identified audit findings and deficiencies."

I became superintendent of this school district in the midst of the 2012-2013 school year. I became superintendent on October 9, 2012, just a few months before your February letter was issued. Also in January 2013 a verdict was handed down in the Ray Nassar and Gena Smith vs. The Hughes School District, a case on employment discrimination. If my memory is correct, you thought that it was best that the district be placed in fiscal distress in order to assist the district as it worked its way through difficult financial times and addressed the concerns that were in the audit for the previous year.

Over the last seven or fewer days, several material events have taken place which each individually impact the Hughes School District in significant ways. First, the Eighth Circuit Court of Appeals handed down its ruling reversing in part the jury verdict awarding Ray Nassar and Gena Smith substantial sums of money. The way I understand the opinion and judgment is about \$100,000.00 has been taken away from Mr. Nassar's verdict and the court was directed to reassess the attorneys' fees award in light of that. The second thing is House Bill 1263 has now passed the House and Senate and been sent to Governor Hutchinson for his signature. The third thing is that the Forrest City School District met on Friday night and voted to rescind their agreement to merge or consolidate with the Hughes School District.

As a resident of Hughes, its school superintendent and an employee for a number of years I am confident that if the labels are successfully removed, we as a school district can survive as a

standalone school district and remain free of any of the distress labels that would concern the Department of Education. We have made tremendous and successful efforts to change the culture of the operations at the Hughes School District. The fact that we made these changes is evident in our increasing fund balance in non-restricted funds.

I am attaching to this letter a copy of the decision from the Eighth Circuit Court of Appeals in the Nassar lawsuit. I am also attaching the copy of House Bill 1263. If by the time I submit this letter to you I have any documentation from Forrest City School District I will share it as well. In addition, I am attaching the document that you already have which is entitled the Arkansas Department of Education, Fiscal Distress Financial Improvement Plan, Plan Year 2013-2014. This is for the Hughes School District No. 27 signed by me on April 16, 2013. That report contains Part A and Part B. Part A is a narrative overview of the district and Part B is the plan objectives. I would like to remind you that the Hughes School District is located in a rural, poor, isolated area of Saint Francis County in Eastern Arkansas and that district encompasses territory in Saint Francis and Crittenden County and covers 226 square miles. Our school district students are 100 percent free lunch.

The Distress Financial Improvement Plan contained 13 objectives. Because I have already attached the plan showing the objectives to this letter, I will not itemize the objectives individually. I will remind you that we have successfully completed the objectives as we told the State Board that we would do. In order for us to meet the 13 objectives we had to reduce our staff in the certified and classified categories; we reduced our certified and classified staff; we reduced our contracted days; we removed stipends, combined bus routes; we closed vacant positions; and, we paid off the existing contract the former superintendent. We hired a consultant, Mr. Norman Hill; to work with our bookkeeper and our front office to assist us with audit issues and to make the various assurances that we were properly adhering to a budget and paying our vendors from appropriate funds. We also sent our bookkeeper and accounts payable clerk to the APSCN and CASBO trainings such that they can be better prepared to do the work that is necessary to operate a school district and keep it out of audit trouble with findings for things such as coding errors.

From a historical perspective, in addition to Hughes being in a rural, poor, isolated area of Saint Francis County, it is not an easy task for Hughes to find and retain staff in some of these positions including the bookkeeper. The turnover in the bookkeeper's office prior to my tenure as the superintendent, was one bookkeeper every one and a half years or so. Which meant that in three audits we probably had two different bookkeepers keeping the books.

We have made such material strides and we are greater than 90 percent complete. Our position is that we have made corrections in 100 percent of the objectives that were set out in the fiscal distress plan. It is our position that we are clearly no longer at risk from a fiscal integrity standpoint. "Fiscal integrity is defined by Rule 3.12 as complying with the financial management, accounting, auditing, and reporting procedures and facilities and management procedures as required by state and Federal laws and regulations in a forthright and timely manner." We are doing that. We have gone a step further because we have increased our non-restricted fund balance by a substantial amount of money, and according to our projections in

which we have been assisted by Mr. Norman Hill our end of the year fund balance should be about \$1.7 million. Based on those assurances we do not have a declining balance and our district has not been jeopardized or exposed to any loss or injury or peril since the fiscal distress label has been placed on the district and we began making the gallant efforts to correct the problems pointed out by the audit and information we received from you and the Department of Education.

What I am requesting at this point is a meeting with you and anyone else who might be able to assist with this request. My thinking is that there are several ways to approach. A workable solution is to set aside all of the previous findings and look at the district today and its present condition and make a determination whether fiscal distress would be appropriate at this time if the district did not already have the label.

I am attaching Page 158-3 and 158-4 of the Arkansas Department of Education Rules Identifying and Governing the Arkansas Fiscal Assessment and Accountability Program October 2012. On Page 158-3 and 158-4 we have Rule 4 which addresses the indicators of fiscal distress and of those 12 indicators of fiscal distress only one of those indicators might apply to the district at this time and that would be 4.01.2.4 Material State or Federal Audit Exceptions or Violations. That seems to place the district in the same position that it was on February 19, 2013, when you issued the letter placing the district in fiscal distress. However if you hone down beneath that indicator of fiscal distress you find that the school district had several audit findings and exceptions that related to coding, budget and other issues but those have been corrected. And to the extent that any issue remains with the audit, it is not of a nature that would cause the district to be placed into fiscal distress had it not already been in fiscal distress. Certainly we would understand and perhaps even appreciate if the state decided to continue to provide intensive support to the district to make sure that we continue to walk the line for achieving sound fiscal practices and that our fund balance continues to increase.

The Hughes School District, being in this rural area, has had to live with the fact that we do not control the media. We do not have a public relations division with our school district. Therefore, because of the labels we have had placed on us, we have had out migration of students to surrounding districts. One of our issues has been that we have had a limited amount of extracurricular activities with particular emphasis on sports like football. If we had a football program some of the students that we have lost to other areas would come back to the Hughes School District because the students still live in Hughes but they want to participate in football. We recently had Gus Malzahn to come to a dedication service where we dedicated our football stadium and named it after him. He pledged some support to the district football program in the event that it gets off the ground again. Gus Malzahn is the head coach of the Auburn University Tigers in Auburn, Alabama and just a couple of years ago led his team to the national championship football. He, at an early point in his career, coached at the Hughes School District.

Finally, having taken a significant amount of your time to make this plea, we remind you that at the end of the day our mission is to teach the little children of the Hughes School District. We want an opportunity to educate them here in Hughes. Our academic indicators have been within

the boundaries of what is acceptable by the state. We are not in academic distress. Children are being educated in this school district in spite of the difficulties that they face in their own personal lives and the past difficulties that the district has experienced because of a variety of different factors. The district considered consolidation with several other surrounding school districts and attempted to work out a consolidation plan. We were very reluctant in the consolidation and didn't necessarily feel like it was voluntary but that we were being required to do it. However, in this process we had been treated like a red headed step-child by the districts that surround us who basically told us they will take our children and our money but they are going to force them to attend school on their campuses. That means that our students will be bussed even further than they already are in order to get to Forrest City, to Marianna, to Earle or West Memphis or Marion in order to get an education.

From an economic development standpoint and an education standpoint those prospects are really harmful to the Hughes community in general and to our students in particular. Our students will be placed at an unfair disadvantage by having to travel further each day to get to the point of being educated by whatever school district educates them. If the fiscal distress label is removed then our students don't have to suffer that fate. Poor, rural, isolated children do not need additional travel burdens placed upon them in order to get an education. We are not aware of any study that provides empirical data in support of the fact that consolidating rural school districts ultimately helps the children who have been the subject of the consolidation. If we are wrong in that assumption, please provide us with the data that supports the proposition that consolidation assists the students.

We are available to meet with you today or tomorrow or Wednesday. We would like to meet with you on today, tomorrow or Wednesday in order to work out what we might present on Thursday to the State Board in light of the three developments that we raised at the beginning of the letter and those are the decision by the Eighth Circuit Court of Appeals in Ray Nassar, et al. v. The Hughes School District. The passage of House Bill 1263 which will become an act before July 1, 2015 and the decision by the Forrest City School Board to rescind its agreement to consolidate with the Hughes School District on Friday, March 6, 2015 after 5:00 p.m.

Your consideration of this request will be greatly appreciated and I am available by telephone at (870) 339-3430 or (870) 317-2303 or (870) 317-7112.

Sincerely,



Sheryl Owens

Superintendent of the Hughes School District

cc: Mr. Tony Wood, Commissioner of Education
Mr. Jeremy Lasiter General Counsel
Senator Keith Ingram
Representative Reginald Murdock
Mr. Rudolph Robinson, President of the Board

Letter to Hazel Burnett from Sheryl Owens
Page 5 of 5
March 09, 2015

Ms. Lethia Cupples
Ms. Earnestine Jackson
Mr. Donnie Mooney
Mr. Lincoln Barnett
Mr. Travis Gilleyen
Mr. Stoney Burks

SpeakWrite
www.speakwrite.com
Job Number: 15068/001-005
Custom Filename: hughesd-burnett-letter-1-030915
Date: 03/09/2015
Billed Word Count: 2,366

Hughes School District No. 27
St. Francis County, Arkansas
Regulatory Basis Financial Statements
and Other Reports
June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2014

Independent Auditor's Report
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Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133
Management Letter

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet - Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Regulatory Basis	B
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Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Hughes School District No. 27 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 Hughes School District No. 27 (the "District"), as of and for the year ended June 30, 2014, 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 the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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.

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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, 2014, 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, 2014, 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the District is the defendant in various pending lawsuits alleging discriminatory practices and certain violations of law, with some unfavorable outcomes deemed probable. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and 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 Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

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 November 20, 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
November 20, 2014
EDSD36214

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Hughes School District No. 27 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 Hughes School District No. 27 (the "District"), as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated November 20, 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, 2014, 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 in the accompanying Schedule of Findings and Questioned Costs, 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 in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 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 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*.

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We noted certain matters that we reported to management of the District in a separate letter dated November 20, 2014.

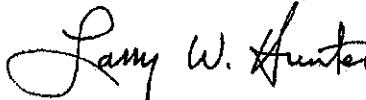
District's Response to Findings

The District's response to the findings identified in our audit, excluding the management letter findings, is described in the accompanying Schedule of Findings and Questioned Costs. 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
November 20, 2014

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
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Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Hughes School District No. 27 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Hughes School District No. 27 (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, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Basis for Qualified Opinion on CFDA 84.377 School Improvement Grants

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding CFDA 84.377 School Improvement Grants as described in finding numbers 2014-002 for Reporting and 2014-003 for Allowable Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 84.377 School Improvement Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.377 School Improvement Grants for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

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The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

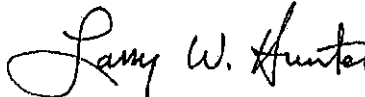
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 2014-002 and 2014-003 to be material weaknesses.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 20, 2014

Sen. Bryan B. King
Senate Chair
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Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Hughes School District No. 27 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.



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.

DIVISION OF LEGISLATIVE AUDIT

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 20, 2014

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2014

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 1,205,811	\$ 254,875	\$ 179	\$ 10,270
Investments	622,623			
Accounts receivable	11,215	156,889		
Due from other funds			800	
TOTAL ASSETS	<u>\$ 1,839,449</u>	<u>\$ 411,764</u>	<u>\$ 779</u>	<u>\$ 10,270</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 37,705	\$ 9,186	\$ 600	
Due student groups				\$ 10,270
Due to other funds	600			
Total Liabilities	<u>38,305</u>	<u>9,186</u>	<u>600</u>	<u>10,270</u>
Fund Balances:				
Restricted	85,414	402,598	179	
Assigned	9,325			
Unassigned	1,706,405			
Total Fund Balances	<u>1,801,144</u>	<u>402,598</u>	<u>179</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,839,449</u>	<u>\$ 411,764</u>	<u>\$ 779</u>	<u>\$ 10,270</u>

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,085,978		
State assistance	1,488,697	\$ 1,619	
Federal assistance		1,572,728	
Activity revenues	25,784		
Meal sales		35,994	
Investment income	7,853		
Other revenues	83,487	13,006	
TOTAL REVENUES	3,681,599	1,623,347	
EXPENDITURES			
Regular programs	1,245,899	29,378	
Special education	118,820	145,679	
Career education programs	42,634		
Compensatory education programs	152,903	604,043	
Other instructional programs	92,583		
Student support services	80,434	72,796	
Instructional staff support services	86,634	409,670	
General administration support services	286,239	34,083	
School administration support services	108,926		
Central services support services	119,618	17,003	
Operation and maintenance of plant services	485,417		
Student transportation services	62,779	3,009	
Other support services	10,149		
Food services operations	33,171	240,455	
Non-programmed costs		38,325	
Activity expenditures	35,301		
Debt Service:			
Principal retirement	9,268		\$ 60,000
Interest and fiscal charges	488		21,210
TOTAL EXPENDITURES	2,982,042	1,592,421	81,210
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	699,557	30,926	(81,210)
OTHER FINANCING SOURCES (USES)			
Transfers in			81,210
Transfers out	(81,210)		
TOTAL OTHER FINANCING SOURCES (USES)	(81,210)		81,210
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	618,347	30,926	
FUND BALANCES - JULY 1	1,182,797	371,672	179
FUND BALANCES - JUNE 30	\$ 1,801,144	\$ 402,598	\$ 179

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS 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, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,987,000	\$ 2,065,978	\$ 78,978		\$ 1,619	\$ (1,851)
State assistance	1,390,256	1,468,697	78,441	\$ 3,500	1,572,728	(395,978)
Federal assistance				1,968,707		(25,011)
Activity revenues		25,784	25,784	61,005	35,984	13,006
Meal sales						
Investment income	6,500	7,653	1,153			
Other revenues	40,000	93,487	53,487			
TOTAL REVENUES	3,423,756	3,661,599	237,843	2,033,212	1,623,347	(409,865)
EXPENDITURES						
Regular programs	1,267,930	1,245,699	22,231			
Special education	119,117	118,820	297	87,024	29,378	37,646
Career education programs	16,050	42,634	(26,584)	227,890	145,878	82,211
Compensatory education programs	167,317	152,903	14,414	743,223	604,043	139,180
Other instructional programs	203,656	92,583	111,073	91,462	72,796	18,666
Student support services	51,944	90,434	(38,490)	607,153	409,670	197,483
Instructional staff support services	96,173	85,634	10,539	45,806	34,083	11,743
General administration support services	291,385	286,239	5,146	17,502	17,003	499
School administration support services	116,383	109,925	6,458	6,000	3,009	2,991
Central services support services	101,784	119,618	(17,834)	221,841	240,455	(18,614)
Operation and maintenance of plant services	574,114	465,417	108,697	1,500		1,500
Student transportation services	92,396	62,779	29,617	8,008	36,325	(28,319)
Other support services	15,000	10,149	4,851			
Food services operations	38,075	33,171	4,904			
Community services operations						
Non-programmed costs						
Activity expenditures						
Debt Service:						
Principal retirement		35,301	(35,301)			
Interest and fiscal charges	18,800	9,288	7,532			
	4,000	468	3,532			
TOTAL EXPENDITURES	3,172,134	2,962,042	210,092	2,037,207	1,592,421	444,786

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS 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, 2014

Exhibit C

	General		Variance	Special Revenue		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 251,822	\$ 899,557	\$ 447,935	\$ (3,995)	\$ 30,926	\$ 34,921
OTHER FINANCING SOURCES (USES)						
Transfers in	4,108,964		(4,108,964)			
Transfers out	(4,181,455)	(81,210)	4,100,245			
TOTAL OTHER FINANCING SOURCES (USES)	(72,491)	(81,210)	(8,719)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	179,131	618,347	439,216	(3,995)	30,926	34,921
FUND BALANCES - JULY 1	1,333,104	1,182,797	(150,307)	383,964	371,672	(12,292)
FUND BALANCES - JUNE 30	\$ 1,512,235	\$ 1,801,144	\$ 288,909	\$ 379,969	\$ 402,598	\$ 22,629

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

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

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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	3-25

F. **Property Taxes**

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year.

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2013 calendar year taxes collected by June 30, 2014 and 28 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, 2014 equaled or exceeded the 28 percent calculation.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

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.

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.

J. Stabilization Arrangements

The District's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

K. **Minimum Fund Balance Policies**

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

L. **Fund Balance Classification Policies and Procedures**

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The District's Board of Education has not adopted a formal policy addressing this authorization.

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

M. **Encumbrances**

The District does not utilize encumbrance accounting.

2: **CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

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

	<u>Carrying Amount</u>	<u>Bank Balance</u>
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	<u>1,843,558</u>	<u>1,988,181</u>
Total Deposits	<u>\$ 2,093,558</u>	<u>\$ 2,238,181</u>

The above total deposits include certificates of deposit of \$622,823 reported as investments and classified as nonparticipating contracts.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Federal assistance		\$ 150,589
Other	\$ 11,215	6,300
Totals	\$ 11,215	\$ 156,889

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2014:

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, 2014	Maturities To June 30, 2014
11/1/03	2/1/20	2.15 - 4.3%	\$ 675,000	\$ 285,000	\$ 390,000
11/1/05	2/1/20	3 - 3.65%	360,000	165,000	195,000
Totals			\$ 1,035,000	\$ 450,000	\$ 585,000

Changes in Long-term Debt

	Balance July 1, 2013	Issued	Retired	Balance June 30, 2014
Bonds payable	\$ 510,000		\$ 60,000	\$ 450,000
Postdated warrants	9,268		9,268	
Totals	\$ 519,268	\$ 0	\$ 69,268	\$ 450,000

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2015	\$ 66,000	\$ 17,907	\$ 82,907
2016	70,000	15,355	85,355
2017	75,000	12,598	87,598
2018	80,000	9,835	89,835
2019	80,000	6,490	86,490
2020	80,000	3,245	83,245
Totals	\$ 450,000	\$ 65,230	\$ 515,230

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014 were comprised of the following:

Description	Governmental Funds		
	Major		Other
	General	Special Revenue	Aggregate
Vendor payables	\$ 37,705	\$ 9,166	
Other			\$ 600
Totals	\$ 37,705	\$ 9,166	\$ 600

6: INTERFUND TRANSFERS

The District transferred \$81,210 from the general fund to the other aggregate funds for debt related payments.

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 non-teaching school employees. 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, 2014, 2013, and 2012 were \$311,617, \$358,651, and \$408,892, respectively, equal to the required contributions for each year.

8: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$1,035,000 issued from November 1, 2003 through November 1, 2005. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$515,230, payable through February 1, 2020. Principal and interest paid for the current year and total property taxes pledged for debt service were \$80,198 and \$125,846, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 63.62 percent.

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 accident and 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.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

9: 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, 1984 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.

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 \$40,074 for the year ended June 30, 2014.

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 15,869		
Educational programs -			
national school lunch state			
categorical funding	44,792		
Capital projects			\$ 179
Child nutrition programs		\$ 267,591	
Medical services		101,264	
Special education programs	10,837	24,680	
Title I programs		1,124	
Other purposes	13,916	7,949	
Total Restricted	<u>85,414</u>	<u>402,598</u>	<u>179</u>
Assigned to:			
Student activities	<u>9,326</u>		
Unassigned	<u>1,706,406</u>		
Totals	<u>\$1,801,144</u>	<u>\$ 402,598</u>	<u>\$ 179</u>

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

12: FISCAL DISTRESS STATUS

On April 8, 2013, the State Board of Education classified the District in fiscal distress. The District developed a fiscal improvement plan and is currently working with the Arkansas Department of Education to implement it.

13: PENDING LITIGATION

[REDACTED]

On May 17, 2013, a writ of execution was served to the District's bank commanding collection of \$140,143 in favor of a law firm for attorney fees relating to this case. This amount was withdrawn from the District's account and placed in a separate holding account by the bank pending outcome of the appeal.

[REDACTED]

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2014
(Unaudited)

Schedule 1

	Balance June 30, 2014
<i>Nondepreciable capital assets:</i>	
Land	<u>\$ 106,407</u>
<i>Depreciable capital assets:</i>	
Buildings	2,362,662
Improvements/infrastructure	103,661
Equipment	<u>1,267,337</u>
Total depreciable capital assets	<u>3,733,660</u>
<i>Less accumulated depreciation for:</i>	
Buildings	2,121,453
Improvements/infrastructure	94,830
Equipment	<u>1,127,601</u>
Total accumulated depreciation	<u>3,343,884</u>
Total depreciable capital assets, net	<u>389,796</u>
Capital assets, net	<u>\$ 496,203</u>

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

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	62-02-000	\$ 82,985
National School Lunch Program - Cash Assistance	10.555	62-02-000	133,262
Total State Department of Education			<u>216,247</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	6202000	16,829
TOTAL CHILD NUTRITION CLUSTER			<u>233,076</u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	62-02	479,966
Special Education - Grants to States	84.027	6202	169,419
Improving Teacher Quality State Grants	84.367	6202	58,443
School Improvement Grants	84.377	6202000	604,542
Total U. S. Department of Education			<u>1,312,370</u>
TOTAL OTHER PROGRAMS			<u>1,312,370</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,545,448</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1:** Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Hughes School District No. 27 (District) under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2:** Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3:** Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4:** During the year ended June 30, 2014, the District received Medicaid funding of \$29,290 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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 - unmodified

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 federal programs:

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

Type of auditor's report issued on compliance for major federal programs: unmodified for all major federal programs except for School Improvement Grants, 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 federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.377	School Improvement Grants

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001 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: receipting, depositing, posting, and reconciliation procedures were performed by the same employee, without compensating controls. Additionally, payroll and non-payroll checks were prepared by the same employee responsible for changes in 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 objective was obtained.

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

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

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

Views of responsible officials and planned corrective actions: The District will continue to strive to implement as many procedures as possible to adequately segregate duties utilizing available staff. The District's status of Fiscal Distress restricts hiring of additional staff.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESSES

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SCHOOL IMPROVEMENT GRANTS - CFDA NUMBER 84.377
PASS-THROUGH NUMBER 8202000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-002 Reporting

Criteria or specific requirement: The District is required to budget School Improvement grant expenditures and submit the budget to the Arkansas Department of Education (ADE). Expenditures may not exceed the budgeted amount by more than 10 percent of the total budget without prior approval from the ADE and the submission of budget amendments or adjustments. Additionally, annual financial reports are compiled at the end of the fiscal year for the program.

Condition: School Improvement grant expenditures for function 1591 (Title I Schoolwide Instruction) exceeded the budgeted amount by \$81,835 more than the 10 percent budget variance allowed. A similar finding was reported in the previous audit.

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

Effect: The District did not record the School Improvement expenditures within the approved budget classifications.

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

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

Views of responsible officials and planned corrective actions: The District and SIG Site Manager will implement procedures to ensure costs are incurred within the applicable budget categories and contact the ADE for further guidance regarding this matter.

2014-003 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 funds.

Condition: An unallowable cost paid from the School Improvement grant of \$5,777 for the year ended June 30, 2014 was detected. This expenditure was for software purchased for the elementary school, which was not served by the School Improvement grant.

Questioned Costs: The amount of the known questioned costs was \$5,777.

Context: An examination of nine checks from a total population of 83 non-payroll checks, grant application, and budget.

Effect: Unallowable costs of \$5,777 for the year ended June 30, 2014 occurred.

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

Recommendation: The District should contact the Arkansas Department of Education for guidance regarding this matter and implement proper controls over program expenditures.

Views of responsible officials and planned corrective actions: The District will implement proper controls over program expenditures. The SIG Site Manager will continue to monitor and oversee all spending.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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 62-02-000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-004 Reporting

Criteria or specific requirement: Monthly Claims for Reimbursement are required to be submitted to the Arkansas Department of Education, Child Nutrition Unit (ADE, CNU). These claims include specific key financial information.

Condition: The District did not properly use the financial information per the general ledger to prepare the monthly Claims for Reimbursement. As a result, the District erroneously reported key financial information such as revenues, expenditures, and available funds on the Claims for Reimbursement submitted to ADE, CNU for the fiscal year as identified below:

	Per General Ledger	Per Claims Submitted to ADE, CNU	Difference
Beginning Balance	\$ 224,350	\$ 224,350	
Total Revenues	257,115	277,868	\$ (20,753)
Total Expenditures	(236,370)	(258,258)	21,888
Ending Balance	\$ 245,095	\$ 243,980	\$ 1,135

A similar finding was reported in the previous audit.

Context: An examination of the Year-to-Data Financial Statement from ADE, CNU revealed variances between the financial information reported and the information recorded in the general ledger.

Effect: The District's procedures to ensure the accuracy and completeness of data and information included in the Claims for Reimbursement were not effective, resulting in erroneous key financial information reported to ADE, CNU.

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

Recommendation: Establish appropriate reporting procedures and monitor the information reported in the monthly Claims for Reimbursement to ensure the reports are accurately completed.

Views of responsible officials and planned corrective actions: The District will continue training the Food Service Director to maintain proper records and to establish appropriate reporting procedures to ensure the information reported in the monthly Claims for Reimbursement is accurate. The Child Nutrition Unit will continue to monitor progress.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2013 - Finding 2013-003: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: Title I expenditures for function 2210 (Improvement of Instructional Services), exceeded the budgeted amount by \$7,873 more than the 10 percent budget variance allowed. Additionally, Title I expenditures for object range 63000-65000 (Purchased Services) exceeded the budgeted amount by \$11,946 more than the 10 percent budget variance allowed. A similar finding was reported in the previous three audits.

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

Current Status: Corrective action was taken.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SCHOOL IMPROVEMENT GRANTS CLUSTER - CFDA NUMBERS 84.377 AND 84.388

2013 - Finding 2013-004: School Improvement Grants Cluster - CFDA Numbers 84.377 and 84.388

Condition: School Improvement cluster expenditures for function 1591 (Title I Schoolwide Instruction) exceeded the budgeted amount by \$52,862 more than the 10 percent budget variance allowed. Additionally, expenditures for object codes 66000 (Supplies and Materials) and 67000 (Property) exceeded budgeted amounts by \$125,831 and \$25,682, respectively, more than the 10 percent budget variance allowed.

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

Current Status: A similar finding was detected during the current audit period. See Finding 2014-002 at Schedule 3.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2013 - Finding 2013-005: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: An unallowable cost paid from the Title I program of \$3,924 for the year ended June 30, 2013 was detected. This expenditure was for the purchase of a copier that was also recorded as a Title I expenditure in the prior fiscal year.

Recommendation: The District should contact the Arkansas Department of Education for guidance regarding this matter and implement proper controls over program expenditures.

Current Status: Corrective action was taken.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS) - CFDA NUMBERS 10.553 AND 10.555

2013 - Finding 2013-006: Child Nutrition Cluster (Cash Assistance Programs) - CFDA Numbers 10.553 and 10.555

Condition: The District did not use the financial information per the general ledger to prepare the monthly Claims for Reimbursement. As a result, the District erroneously reported key financial information such as revenues, expenditures, and available funds on the Claims for Reimbursement submitted to ADE, CNU for the fiscal year as identified below:

	Per General Ledger	Per Claims Submitted to ADE, CNU	Difference
Beginning Balance	\$ 140,663	\$ 88,760	\$ 51,903
Total Revenues	302,496	265,408	37,088
Transfers In	4,076		4,076
Total Expenditures	<u>(222,885)</u>	<u>(317,042)</u>	<u>94,157</u>
Ending Balance	<u>\$ 224,350</u>	<u>\$ 37,126</u>	<u>\$ 187,224</u>

Recommendation: Establish appropriate reporting procedures and monitor the information reported in the monthly Claims for Reimbursement to ensure the reports are accurately completed.

Current Status: A similar finding was detected during the current audit period. See Finding 2014-004 at Schedule 3.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014
(Unaudited)

General Fund	Year Ended June 30,				
	2014	2013	2012	2011	2010
Total Assets	\$ 1,839,449	\$ 1,227,840	\$ 1,261,716	\$ 1,638,301	\$ 1,778,342
Total Liabilities	38,305	44,843	39,786	17,020	38,787
Total Fund Balances	1,801,144	1,182,797	1,221,930	1,619,281	1,739,555
Total Revenues	3,661,599	3,871,731	3,797,223	4,019,176	4,240,140
Total Expenditures	2,962,042	3,687,537	4,286,358	4,597,152	4,983,350
Total Other Financing Sources (Uses)	(81,210)	(223,327)	91,785	457,702	(89,784)
Special Revenue Fund					
Total Assets	411,784	398,176	250,884	189,405	320,351
Total Liabilities	9,166	23,503	6,236	2,866	171,683
Total Fund Balances	402,598	371,672	245,648	186,539	148,658
Total Revenues	1,623,347	1,505,074	1,156,243	1,420,742	2,442,350
Total Expenditures	1,592,421	1,375,666	1,088,650	1,383,457	2,704,271
Total Other Financing Sources (Uses)		(3,364)	2,416	596	(140)
Other Aggregate Funds					
Total Assets	779	179	179	12,429	179
Total Liabilities	600				
Total Fund Balances	179	179	179	12,428	179
Total Revenues					
Total Expenditures	81,210	83,184	85,398	44,962	89,784
Total Other Financing Sources (Uses)	81,210	83,184	72,549	100,107	89,784
					- 28 -



ARKANSAS DEPARTMENT OF EDUCATION

Dr. Tom W. Kimbrell
Commissioner

February 19, 2013

State Board
of Education

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Fayetteville

Vicki Saviers
Little Rock

Ms. Sheryl Owens, Acting Superintendent
Hughes School District
P.O. Box 9
Hughes, AR 72348

Dear Ms. Owens:

Pursuant to Ark. Code Ann. § 6-20-1905, this letter is to provide notice that the Hughes School District has been identified by the Arkansas Department of Education (Department) as a school district in Fiscal Distress. According to Ark. Code Ann. § 6-20-1904, the Hughes School District meets one (1) or more of the criteria necessary to be identified as a school district in Fiscal Distress, including:

- Material state or federal audit exceptions or violations.

This identification is also based on acts or violations determined to jeopardize the fiscal integrity of the district including without limitations failure to fully develop and implement adequate corrective actions for previously identified audit findings and deficiencies.

The State Board of Education (SBE) will consider whether to classify the Hughes School District as being in Fiscal Distress at its meeting on, April 8, 2013. The meeting will begin at 9:00 a.m. in the Auditorium of the Arch Ford Education Building, Four Capitol Mall in Little Rock, Arkansas.

Please find included in this mailing a copy of the Department's Rules on Identifying and Governing the Arkansas Fiscal Assessment and Accountability Program. This document outlines the identification and classification of Fiscal Distress. It also provides the process by which a district may appeal the classification of Fiscal Distress to the SBE. If submitted within 30 days of this notice, an appeal would be heard at the same April 8, 2013, SBE Meeting. Additional information may be found in Arkansas Code Ann. § 6-20-1901 et seq.

Four Capitol Mall
Little Rock, AR
72201-1019
(501) 882-4475
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Fiscal Distress Identification
Page 2

Ark. Code Ann. §6-20-1907 states that no school district identified by the Department as being in Fiscal Distress may incur any debt without prior written approval from the Department. "Any debt" includes any employment contract, vendor contract, lease, loan, purchase, or any other obligation that will increase the district's financial obligations, accounts payable, or its liabilities. The district is required to obtain prior written approval from the Department, effective with its receipt of this letter. Please retain this notice in your District audit file.

Should the district have questions or comments, please contact the Fiscal Distress Services, at (501) 682-5124.

Sincerely,



Hazel Burnett,
ADE Coordinator Fiscal Distress Accountability and Reporting

HB:ddm

cc: Dr. Tom Kimbrell, Commissioner of Education
Mr. Tony Wood, Deputy Commissioner of Education
Mr. Jeremy Lasiter, General Counsel
Mr. Jared A. Cleveland, Assistant Commissioner
Senator Keith Ingram
Representative Reginald Murdock
Mr. Rudolph Robinson, President of the Board
Ms. Lethia Cupples
Ms. Earnestine Jackson
Mr. Donnie Mooney
Mr. Hudie Hardaway
Mr. Lincoln Barnett
Ms. Johnnie M. Ware



ARKANSAS DEPARTMENT OF EDUCATION

Dr. Tom W. Kimbrell April 8, 2013
Commissioner

State Board
of Education

Jim Cooper
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Little Rock

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Newport

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Little Rock

Alice Mahony
El Dorado

Toyce Newton
Crossett

Miraya Roth
Fayetteville

Vicki Saviers
Little Rock

Ms. Sheryl Owens, Acting Superintendent
Hughes School District
P.O. Box 9
Hughes, AR 72348

Dear Ms. Owens:

The State Board of Education classified the Hughes School District in Fiscal Distress at the April 8, 2013, meeting. Subsequent to classification, the Department requires the following actions of your district.

Fiscal Distress Improvement Plan

- Submit a written Fiscal Distress Improvement Plan (Plan) within ten (10) days
- Deadline to submit the Plan is 4:30 p.m., April 18, 2013

The Plan shall contain, at a minimum, the following elements:

- Identification of each indicator
(Listed in the February 19, 2013 Identification letter)
- Specific corrective action steps for each indicator
- Timeline for each corrective action step
- Additional action steps the district proposes to take
- Timeline for each additional action step the district proposed
- A statement of assurance that implementing the Plan will not violate the Standards of Accreditation

Publication of the District's Fiscal Distress Classification

- Publish a Notice of Hughes District's Fiscal Distress Classification at least one (1) time for two (2) consecutive weeks in a newspaper of general circulation in the school district within 30 calendar days
- Deadline for the announcement to be published is May 8, 2013
- Deadline to submit to the Department a Proof of Publication or an Affidavit of Publication is June 7, 2013

The Publication notice shall contain the following elements:

- District's classification as a Fiscal Distress School District
- Identify the Fiscal Distress Indicators

Four Capitol Mall
Little Rock, AR
72201-1019
(501) 882-4475
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Debt Issuance

No school district identified in fiscal distress may incur any debt without written approval from the Department prior to executing any and all such agreements.

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Any debt includes:

- Contract
- Lease
- Loan
- Purchase
- Other obligations that increase the district's financial obligations, accounts payable or liabilities.

Fiscal Distress Reporting Requirements

The Department requires all Fiscal Distress Districts to submit the following documents on a monthly basis:

- Detailed Statement of Changes in Fund Balances
- Summary Revenue Status Report
- Summary Expenditure Status Report
- Final page of the Bank Reconciliation Report
- Single page of the bank statement, which reflects the bank balance, used for reconciliation
- Approved minutes of the monthly School Board meeting indicating approval of the above reports

The Reporting Requirements include:

- Documents submitted on paper, via U.S. mail (not fax)
- Deadline to submit is the 15th of the following month
- Additional information concerning this requirement is provided in the attachment "Monthly Required Reports."

All correspondence, required reports, Fiscal Distress Improvement Plans, and approvals referenced in this letter should be sent to:

Financial Accountability and Reporting Unit
Attn: Hazel Burnett
Four Capitol Mall, Room 105C
Little Rock, AR 72201.

For additional information, please refer to Arkansas Code Ann. §6-20-1900 et. seq. and the Rules Identifying and Governing the Arkansas Fiscal Assessment and Accountability Program. These documents are included with this letter. If you have any questions, please contact the Fiscal Distress Services office at 501-682-5124.

Sincerely,



Hazel Burnett
ADE Coordinator, Fiscal Distress Accountability and Reporting

cc: Mr. Jared A. Cleveland, Assistant Commissioner

ADE EXHIBIT FOUR (4)

Mileage from the Hughes School District to Surrounding Districts¹:

To Forrest City School District: 23.5 miles

To Lee County School District: 21.9 miles

To Wynne School District: 39.2 miles

To Earle School District: 26.7 miles

To Marion School District: 30.6 miles

To West Memphis School District: 28.4 miles

¹ Calculations based upon the distance between school district administrative offices using Google Maps.



ADE EXHIBIT FIVE (5)



RECEIVED
COMMISSIONER'S OFFICE

APR 8 2015

DEPARTMENT OF EDUCATION

THE ATTORNEY GENERAL
STATE OF ARKANSAS
LESLIE RUTLEDGE

Rosalyn Middleton
Assistant Attorney General

Direct Dial: (501) 682-8122
Email: rosalyn.middleton@arkansasag.gov

April 6, 2015

Johnny Key
Commissioner of Education
Arkansas Department of Education
4 State Capitol Mall
Little Rock, Arkansas 72201-1019

Re: Proposed Consolidation of the Hughes School District

Dear Commissioner Key:

This letter is in response to the Arkansas Department of Education's letter to Attorney General Rutledge dated March 10, 2015, requesting our advice, pursuant to Ark. Code Ann. §§ 6-13-1408(b) and 6-13-1603, concerning the potential desegregation effects of a proposed involuntary consolidation of the Hughes School District with one or more of the following contiguous school districts: (1) Forrest City; (2) Lee County; (3) Wynne; (4) Earle; (5) Marion; and (6) West Memphis.

Section 6-13-1408(b) provides that, prior to the entry of any order, annexing or consolidating school districts, "the state board shall seek an advisory opinion from the Attorney General concerning the impact of the proposed annexation or consolidation on the effort of the state to assist a school district or districts in desegregation of the public schools of this state." Section 6-13-1603(c) provides that "[a]ll administrative consolidations or annexations under this section shall be accomplished so as not to create a school district that hampers, delays, or in any manner negatively affects the desegregation of another school district in this state."

Under United States Supreme Court precedent, the term "desegregation" is a legal term of art that describes the process by which a school district eliminates, to the extent practicable, the lingering effects or "vestiges" of prior *de jure* racial discrimination. Thus, in the absence of a finding that a school district has engaged in the past in activities prohibited by the Fourteenth Amendment to the United States Constitution, and that there are presently lingering effects or

323 Center Street, Suite 200 • Little Rock, Arkansas 72201
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WEBSITE www.ArkansasAG.gov



vestiges of that discrimination that remain unaddressed, a school district is not "desegregating" as that term is used in case law.

In this case, the State Board is considering the involuntary consolidation of the Hughes School District into or with one or more of the six contiguous school districts. The consolidation will either result in the creation of a new larger school district or the expansion of two or more existing school districts.

The Department of Education has indicated that the Hughes School District is not subject to a desegregation order. Of the contiguous school districts, the Department of Education has indicated that the Forrest City School District has been subject to desegregation litigation in *McKissic v. Forrest City School District*, No. 7, Case No. H-69-C-42, United States District Court, Eastern District of Arkansas. Our research revealed that the West Memphis School District and the Earle School District have also been subject to desegregation litigation. The West Memphis School District has been subject to desegregation litigation in *Yarbrough v. Hulbert-West Memphis School District* No. 4, Case No. J-65-C-8, United States District Court, Eastern District of Arkansas. The Earle School District has been subject to desegregation litigation in *Chase v. Twist*, Case No. J-70-C-42, United States District Court, Eastern District of Arkansas. I will address each case in turn.

1) *McKissic v. Forrest City School District*, No. 7: Although we were unable to locate information about this case in the online docket management system for the United States District Court for the Eastern District of Arkansas, the Department of Education provided copies of orders, respectively dated August 13, 1971, and December 4, 1990, confirming the existence of this case. According to those orders, this case was filed in 1969. The school district submitted a proposed desegregation plan on January 24, 1970. By order dated July 4, 1970, the district court approved the plan. While the case was on appeal to the Eighth Circuit Court of Appeals, the United States Supreme Court issued opinions in the following school desegregation cases: *Swann v. Charlotte-Mecklenburg Board of Education*, 402 U.S. 1 (1971); *Davis v. Board of Commissioners of Mobile County*, 402 U.S. 33 (1971); *North Carolina State Board of Education v. Swann*, 402 U.S. 43 (1971); and *McDaniel v. Barresi*, 402 U.S. 39 (1971). In light of the decisions, the Eighth Circuit Court of Appeals vacated the district court's approval of the school district's plan and remanded the case to the district court.

On remand, the district court directed the school district to submit a revised plan for the operation of its elementary schools that complied with the Supreme Court decisions. The school district submitted a revised plan on July 12, 1971. The district court, however, found that the revised plan failed to comply with the Supreme Court's guidelines. On August 5, 1971, the school district submitted a plan detailing the distribution of students, teacher assignments, proposed bus routes, and attendance zones. In an August 13, 1971, memorandum order, the district court approved the plan. In the order, the district court stated that it would "retain jurisdiction for further consideration of any problems that might arise in connection with the operation of the Forrest City Schools." The last order in this case is a December 4, 1990, district court order approving the school district's proposed magnet school program. The State was not a

party to this case. We are unaware of any obligations imposed on the State in relation to this case.

2) *Yarbrough v. Hulbert-West Memphis School District No. 4*: The *Yarbrough* case was filed on January 28, 1965, by a group of African-American students seeking the immediate desegregation of the West Memphis schools, teaching staff, and professional staff. This case does not appear in the online docket management system for the United States District Court for the Eastern District of Arkansas. During our research into the litigation history of the West Memphis School District, we located four reported decisions from this case: *Yarbrough v. Hulbert-West Memphis School District No. 4*, 457 F.2d 333 (8th Cir. 1972); 380 F.2d 962 (8th Cir. 1967); 329 F.Supp. 1059 (E.D. Ark. 1971); and 243 F.Supp. 65 (E.D. Ark. 1965). The school district submitted a desegregation plan to the district court on April 20, 1965. The district court approved the plan on June 18, 1965, and dismissed the case. On appeal, the Eighth Circuit Court of Appeals affirmed the district court's approval of the school district's plan but reversed the district court's dismissal of the case. The Eighth Circuit Court of Appeals instructed the district court to retain jurisdiction over the desegregation of the West Memphis school district.

From 1967 to 1970, this case was dormant. In 1971, when a status report revealed that the school district had made little progress towards desegregating the West Memphis schools, the district court ordered the school district to submit a modified desegregation plan. On July 23, 1971, the district court approved the school district's plan for its junior high and high schools but found that the school district's plan for its elementary schools failed to satisfy the constitutional guidelines. The school district was ordered to submit a modified plan for its elementary schools where the minority in any particular school would not constitute less than thirty percent of the school's population. The last order that we are aware of in this case is a March 1972 order from the Eighth Circuit Court of Appeals affirming the district court's approval of the school district's modified plan. The State was not a party to this case, and there appear to be no ongoing obligations of the State in this case.

3) *Chase v. Twist*: This case was filed in 1970 by a group of African-American students seeking to enjoin the Earl School District's operation of a racially discriminatory dual school system. Although there is no information about this case in the online docket management system for the United States District Court for the Eastern District of Arkansas, during our research we located one reported decision from this case, *Chase v. Twist*, 323 F. Supp. 749 (E.D. Ark. 1970). In the decision, the district court found that the students were entitled to a preliminary injunction enjoining the school district's discriminatory administration of achievement tests to assign students to various classes. The State was not a party to this case, and we are unaware of any obligations imposed on the State in this case.

As will be the case in any proposed annexation or consolidation, the Board must be cognizant that it may not order or approve any proposed annexation or consolidation with the purpose or intent to create racially segregated schools. As the Supreme Court noted in *Missouri v. Jenkins*, 515 U.S. 70, 115 (1995):

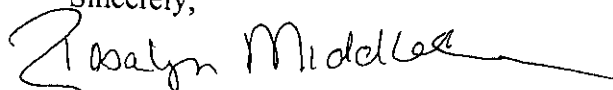
[I]n order to find unconstitutional segregation, we require that plaintiffs “prove all of the essential elements of *de jure* segregation — that is, stated simply, a current condition of segregation resulting from *intentional state action directed specifically* to the [allegedly segregated] schools.” *Keyes v. School Dist. No. 1, Denver*, 413 U.S. 189, 205-206 (1973) (emphasis added). “[T]he differentiating factor between *de jure* segregation and so-called *de facto* segregation . . . is purpose or *intent* to segregate.” *Id.*, at 208 (emphasis in original).

There are numerous cases that discuss legal challenges to school district annexations and consolidations in the context of desegregation litigation, but in each case the question of whether a particular annexation or consolidation (or series of annexations or consolidations) were done with the requisite unconstitutional intent is a highly fact-specific inquiry.

To assist the State Board, Department of Education staff has provided the Board with enrollment figures showing the racial composition of the school district to be annexed or consolidated and the surrounding school districts. We suggest that this practice continue and that the State Board consider the relative racial balance of the affected school districts in making its decision.

Neither state nor federal law requires the Board to create school districts in a manner that would achieve any particular “racial balance” in the student population of a school district.¹ Even so, we strongly advise the Board to scrutinize this proposed consolidation with great care and to satisfy itself that there are legitimate, non-racially-motivated reasons for the involuntary consolidation of the Hughes School District.

Sincerely,



Rosalyn Middleton
Assistant Attorney General

RM

cc: Mr. Jeremy Lasiter (*via electronic mail*)

¹ It should be noted that a decision made solely on a racial basis, even for laudable purposes such as diversity in education or the prevention of (re)segregation, would be subject to “strict scrutiny” analysis. *Parents Involved in Community Schools v. Seattle School Dist. No. 1*, 127 S.Ct. 2738 (2007).

ADE EXHIBIT SIX (6)

735-1915

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF ARKANSAS
JONESBORO DIVISION

DELOIS YARBROUGH, et al.

PLAINTIFFS

v.

No. J-65-CE48

FILED
U.S. DISTRICT COURT
EASTERN DISTRICT ARKANSAS

THE HULBERT-WEST MEMPHIS SCHOOL
DISTRICT NO. 4 OF WEST MEMPHIS,
ARKANSAS, A Corporation, et al.

OCT 18 1976

DEFENDANTS

W. H. MCCLELLAN, CLERK
BY: *[Signature]*
DEP. CLERK

MEMORANDUM AND ORDER

Before the Court in the above-captioned case is defendants' motion to dismiss and plaintiffs' renewed request for reasonable attorney's fees.

This is a school district desegregation case initiated by the plaintiffs on January 28, 1965. In a period of more than ten years this case has been considered by the Eighth Circuit Court of Appeals on two occasions. See Yarbrough v. Hulbert-West Memphis School District, 380 F.2d 962 (1967), and at 457 F.2d 333 (1972). By order of the Court of Appeals, dated March 27, 1972, this Court retained jurisdiction to consider adjustments in pupil assignments at semester intervals.

Defendants base their motion to dismiss on the grounds that they have fully met their constitutional obligation as enunciated by the Court and the Court of Appeals. In a letter to the Court, dated September 30, 1974, counsel for the plaintiffs indicates that plaintiffs will not resist the motion to dismiss with two minor exceptions. Plaintiffs urge the Court to provide in its order of dismissal that either party may reopen this case without prepayment of costs if good cause be shown. In addition, plaintiffs urge that, inasmuch as defendants are under a continuing obligation to file annual reports of pupil assignments with the United States Department of Health, Education and Welfare, the order of dismissal should provide that the defendants serve a copy of the annual report on counsel for plaintiffs.



Defendants' motion to dismiss this action will be granted with the following provisions: (1) either party may reopen this action without prepayment of costs for good cause shown on or before January 1, 1977; and (2) if neither party has applied before January 2, 1977, to reopen these proceedings, then the dismissal will be considered in all respects final.

With regard to the issue of attorney's fees, the Court is of the opinion that an award of fees for counsel for plaintiffs would be proper and just. The Court, however, will not award a fee for services rendered in this case prior to November, 1970, the date upon which the case was re-initiated by the motion to intervene. Counsel for the plaintiffs, George Howard, Jr., and his associate, Norman Chacklin, ably handled this litigation by contributing greatly to the resolution achieved. Mr. Howard has requested compensation for his services at the rate of \$100.00 per hour. The Court is of the opinion that, although counsel have ably represented their clients and have exhibited expertise in this complicated area of the law, it must nevertheless stay within reason in the exercise of its discretion and will, therefore, based upon all the facts and circumstances, grant an award of attorney's fees in the amount of \$1,250.00 for Mr. George Howard and \$650.00 for Mr. Norman Chacklin.

It is therefore Ordered and Adjudged that defendants' motion to dismiss be, and it is hereby, granted consistent with the provisions stated hereinabove. It is further Ordered and Adjudged that plaintiffs' request for attorney's fees be, and it is hereby, granted in the amounts indicated above.

Dated this 14th day of October, 1976.

(s) GARNETT THOMAS EISELE
United States District Judge

ADE EXHIBIT SEVEN (7)



**UNITED STATES
COMMISSION ON
CIVIL RIGHTS**

**Central Regional Office
Gateway Tower II
400 State Avenue, Suite 908
Kansas City, KS 66101-2406
(913) 551-1400
(913) 551-1413 FAX**

February 23, 2007


Bill M. Kessinger, Superintendent
West Memphis Public Schools
P.O. Box 826
West Memphis, AR 72303

Dear Superintendent Kessinger:

This is to acknowledge receipt of information confirming that the West Memphis Public School desegregation suit was dismissed and granted unitary status on January 3, 1977.

Thank you for your assistance and prompt response to our request.

Sincerely,


FARELLA E. ROBINSON, Civil Rights Analyst
Central Regional Office
U.S. Commission on Civil Rights



DISTRICT'S EXHIBIT ONE (1)

Highlights of Findings of the Interim Study Committee for ACT 60

ACT 60 resulted from HB1109 by the 84th General Assembly in the Second Extraordinary Session of 2003. ACT 60 requires that districts whose average daily membership falls below 350 students for two consecutive years to be consolidated. "Receiving" schools were given financial incentives from the state and assumed all property and monetary balances, if any, in the consolidated schools accounts.

- HB1109 stated that the State Board found that consolidation or annexation would:
 - "result in the overall improvement in the educational benefit to students in all of the school districts involved; or
 - Provide a significant advantage in transportation costs or service to all of the school districts involved."

National Education Policy Center 2011 Report

- This report, published by NEPC in 2011, is based on review and analysis of over 75 different studies on school consolidation from 1915 through 2010
- Arguments for consolidation rest primarily on two presumed benefits: Fiscal Efficiency and Higher Educational Quality

Findings

- "In many places, schools and districts are already too large for fiscal efficiency or educational quality; deconsolidation is more likely than consolidation to achieve substantial efficiencies and yield improved outcomes"
- "Financial claims about widespread benefits of consolidation are unsubstantiated by contemporary research about cost savings; the assumptions behind such claims are most often dangerous oversimplifications"
- "Claims for educational benefits from systematic statewide school and district consolidation are vastly overestimated and have already been maximized"
- "Which deconsolidation's would likely produce improvement can be judged only on a case by case basis, with attention to the devilish details that sweeping state policies cannot provide"
- "Impoverished places, in particular, often benefit from smaller schools and districts; and can suffer irreversible damage if consolidation occurs"
- "Overall, state level consolidation proposals appear to serve a public relations purpose in times of fiscal crises, rather than substantive fiscal or educational purposes"

Consolidation benefits were already maximized in the early 20th century as America moved from one room school houses and teachers that taught several grades and subjects to single grade classes, specialized subject matter teachers, more intense professional supervision and free transportation to and from school.

An Arkansas legislative report published in 1952 found that consolidation benefits were maximized in Arkansas in 1951. "It is now possible for all educable children in the state to attend school for 12 years. A high school is within reach of all children."

Recommendations from NEPC Report

- “Closely question claims about presumed benefits of consolidation in your state”
- “Avoid statewide mandates for consolidation and steer clear of minimum sizes for schools and districts; these always prove arbitrary and often prove unworkable”
- “Consider other measures to improve fiscal efficiency or educational services”
- “Investigate deconsolidation as a means for improving fiscal efficiency and improving learning outcomes”

Actual Impact of School Consolidation on Costs

School Closures Following ACT 60 To Date

- While ACT 60 specified no schools were to be closed the first year, the majority of district consolidations have led to school closings: since passage of ACT 60.
 - 75 districts have been eliminated
 - 44 elementary schools have closed; 53 high schools have closed
 - Two thirds of students in consolidated districts qualified for FRL compared with about half of students in non-consolidated districts

Transportation Costs & Travel Time

- Consolidations that occurred in 2005, 34 (74%) had increased transportation costs in the year following consolidation and 12 (26%) had decreased transportation costs. All consolidations since 2005 have had increased transportation costs.

Results of Transportation Study presented to Joint Education Committee at August 2014 meeting:

- Bus travel time has increased for many rural students: as high as 2 hours and 47 minutes one way
- Long travel time limits rural student participation in extracurricular school and family activities.

Other Costs

- Rules established with ACT 60 “Consolidation/annexation incentive funding shall be distributed to either the resulting district(s) established after consolidation or the receiving district(s) after annexation. Between 2005 and 2012, 64 schools received a combined total of **\$77.2 million**.
- The Interim Study Committee found no record of any documented cost savings.

Academic Performance of 21 “At Risk” Schools (University of Arkansas Office for Education Policy, September 2010)

- 5 of the “At-Risk” Schools scored higher than the state average on all 3 Benchmark Exams.
- 3 “At-Risk” Schools scored higher than the state average on 2 of the 3 Benchmark Exams.
- 4 of the “At-Risk” Schools scored higher than the state average on all 4 of the End of Course Exams:
- 2 “At-Risk” Schools scored higher than the state average on 3 of the 4 End of Course Exams

DISTRICT'S EXHIBIT TWO (2)

BEFORE THE ARKANSAS STATE BOARD OF EDUCATION

IN THE MATTER OF:

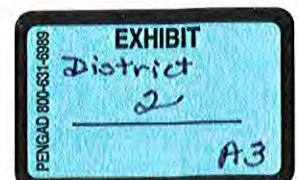
THE HUGHES SCHOOL DISTRICT NO. 27

PRESENTED ON APRIL 7, 2015

PETITION BY THE HUGHES SCHOOL DISTRICT FOR A WAIVER OF
CONSOLIDATION OR REORGANIZATION BASED UPON ACT 377 OF 2015 AS
CODIFIED AT ARKANSAS CODE ANNOTATED SECTION 6-13-1601 ET. SEQ.

SHERYL OWENS, SUPERINTENDENT
HUGHES SCHOOL DISTRICT
P O BOX 9
HUGHES, AR 72348
(870)339-3430 Telephone
(870)339-3317 Facsimile
sowens@hsd4.org Email

Prepared by:
James F. Valley, Attorney
J F VALLEY ESQ P A
P O Box 451
423 Rightor Street
Helena-West Helena, AR 72342
(888)225-0811 Telephone/Facsimile/Text



BEFORE THE ARKANSAS STATE BOARD OF EDUCATION

IN THE MATTER OF:

THE HUGHES SCHOOL DISTRICT NO. 27

PRESENTED ON APRIL 7, 2015

PETITION BY THE HUGHES SCHOOL DISTRICT FOR A WAIVER OF
CONSOLIDATION OR REORGANIZATION BASED UPON ACT 377 OF 2015 AS
CODIFIED AT ARKANSAS CODE ANNOTATED SECTION 6-13-1601 ET. SEQ.

SHERYL OWENS, SUPERINTENDENT
HUGHES SCHOOL DISTRICT
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(870)339-3430 Telephone
(870)339-3317 Facsimile
sowens@hsd4.org Email

Prepared by:
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Helena-West Helena, AR 72342
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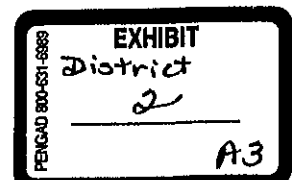


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BEFORE THE ARKANSAS STATE BOARD OF EDUCATION

IN THE MATTER OF:

THE HUGHES SCHOOL DISTRICT NO. 27

PRESENTED ON APRIL 7, 2015

**PETITION BY THE HUGHES SCHOOL DISTRICT FOR A WAIVER OF
CONSOLIDATION OR REORGANIZATION BASED UPON ACT 377 OF 2015 AS
CODIFIED AT ARKANSAS CODE ANNOTATED SECTION 6-13-1601 ET. SEQ.**

COMES NOW, the Hughes School District No. 27 by authority of the Hughes School Board which met in special session on April 1, 2015 with a quorum being convened at all times pertinent to this petition and voted to request that the District be allowed to continue to operate independently after being granted a mandatory waiver by the Arkansas State Board of Education pursuant to Arkansas Code Annotated Section 6-13-1613.

HISTORY:

The Hughes School District is a rural, isolated, poor school district which exists in parts of Crittenden and Saint Francis Counties of Eastern Arkansas. The district is made up of 247 square miles and includes 107 miles of paved roads and 140 miles of gravel roads. The Hughes School District is the single largest employer in the community. The student population is 100% eligible for free lunch. While the records at the Arkansas Department of Education reflect that the Hughes School District had 354 students during the relevant time period in school year 2013-2014, yet the district has remained on the consolidation list. The Hughes School District had 389 enrolled

students in 2011/2012, 348 enrolled students in 2012/2013, 354 enrolled students in 2013/2014. See Exhibit Attached.

LEGAL BACKGROUND

That Arkansas Code Annotated Section 6-13-1601 et. seq. requires that a school district which has an average daily membership of less than 350 students for two consecutive calendar years be consolidated with another district by voluntary action or by a forced actions at the direction of the State Board of Education. The Hughes School District disputes any presentation that it has actually had ADM (average daily membership of less than 350 students for two consecutive years) out of compliance with this code section.

However and more importantly, the public policy in Arkansas has now changed, by virtue of the enactment of legislation granting permanent waivers on a yearly basis to certain school districts. The Hughes School District is entitled to a waiver as a matter of right and as a matter of law based upon the current facts in Hughes, Arkansas. While the District disputes the enrollment numbers and suggests that there is a basis for corrective action purely on the number of students that the District has, the District is not in fiscal distress and fiscal distress would be the only possible inhibitor to the District being granted a mandatory waiver.

Fiscal distress is a term of art as it works in Arkansas. In Act 1467 of 2003 which is also known as the Omnibus Quality Education Act of 2003, the Arkansas General Assembly instituted for the first time fiscal distress status.

Arkansas Code Annotated Section 6-20-1903 is the definition section of the Omnibus Quality Education Act which is found in Acts of 2003, Act 1467, Section 18, effective July 1, 2003. Section 4 reads as follows:

“Fiscal distress status” means a public school district determined by the department and classified by the State Board of Education as being placed in fiscal distress status pursuant to this subchapter.”

The next section of the code which has been amended several times is Arkansas Code Annotated Section 6-20-1904. This section was enacted July 1, 2003, amended March 30, 2007 and amended again in July 31, 2009. This section begins as follows:

(a) A school district meeting any of the following criteria may be identified by the Department of Education to be a school district in fiscal distress upon the final approval by the State Board of Education

A separate and equally important section of our law is Arkansas Code Annotated Section 6-20-1905(b) which is entitled Notification and Appeal, states:

“Any school district identified in fiscal distress status may appeal to the State Board of Education by filing a written appeal with the Office of the Commissioner of Education by certified mail, return receipt requested, within thirty (30) days of receipt of notice of identified fiscal distress status from the department.

Based upon the text of this subsection of Arkansas Code, the district maintains that being placed in fiscal distress is not appealable because fiscal distress is not defined and the code specifically states that any school district identified in **fiscal distress status** may appeal.

Act 377 of 2015 permits this application for waiver by the Hughes School District.

It states in relevant portion: ACA 6-13-1613(b)(2): The state board shall grant a petition for a waiver if it is demonstrated by the school district that:

- (A) The school district is not currently classified in academic distress, fiscal distress, or facilities distress;
- (B) The school district is not in probationary status for a violation of the Standards for Accreditation of Arkansas Public Schools and School Districts;
- (C) The academic facilities owned and operated by the school district are adequate as evidenced by the school district's facilities master plan; and
- (D) It is in the best interest of the students in the school district to keep the school district open due to the length of potential time spent on the bus by a student traveling to and from school should the school district be administratively reorganized, as assured by the school board of directors of the school district requesting the waiver.

This section of Arkansas law created a new vested right which entitles the Hughes School District to immediately apply within thirty (30) days of the passage of the act. The Arkansas Court of Appeals recently opined in *Clevenger vs .City of Jonesboro*, 2011 Ark.App. 579 (Ark. App. 2011) as follows:

Our supreme court has consistently set forth the law regarding retroactive application of statutes, *McMickle v. Griffin*, 369 Ark. 318, 254 S.W.3d 729 (2007):

Retroactivity is a matter of legislative intent. Unless it expressly states otherwise, we presume the legislature intends for its laws to apply only prospectively. However, this rule does not ordinarily apply to procedural or remedial legislation. The strict rule of construction does not apply to remedial statutes which do not disturb vested rights, or create new obligations, but only support a new or more appropriate remedy to enforce an existing right or obligation. Procedural legislation is more often given retroactive application. The cardinal principle for construing remedial legislation is for the courts to give appropriate regard to the spirit which promoted its enactment, the mischief sought to be abolished, and the remedy proposed.

McMickle, 369 Ark. at 338-39, 254 S.W.3d at 746. Further, it is presumed that the General Assembly intended prospective application unless the language of the Act clearly admits no other construction. *City of Dover v. Barton*, 337 Ark. 186, 987 S.W.2d 705 (1999). Any doubt on the matter is resolved against retroactive application. *Id.* at 189, 987 S.W.2d at 707. Additionally, the general rules also apply to amendatory Acts. *Gannett River States Publ'g Co. v. Ark. Ind. Dev. Comm'n*, 303 Ark. 684, 799 S.W.2d 543 (1990). Our supreme court has further clarified that,

Although the distinction between remedial procedures and impairment of vested rights is often difficult to draw, it has become firmly established that there is no vested right in any particular mode of procedure or remedy. Statutes which do not create, enlarge, diminish, or destroy contractual or vested rights, but relate only to remedies or modes of procedures, are not within the general rule against retroactive operation. In other words, statutes effecting changes in civil procedure or remedy may have valid retroactive application, and remedial legislation may, without violating constitutional guarantees, be construed . . . to apply to suits on causes of action which arose prior to the effective date of the statute A statute which merely provides a new remedy, enlarges an existing remedy, or substitutes a remedy is not unconstitutionally retrospective.

Archer v. Sisters of Mercy Health Sys., 375 Ark. 523, 528, 294 S.W.3d 414, 417 (2009).

THE EMERGENCY CLAUSE

The emergency clause added to this bill makes it very clear that the Hughes School District was intended to be captured by this new law creating this new right. The emergency clause reads as follows:

"It is found and determined by the General Assembly of the State of Arkansas that small school districts are at risk of being consolidated or reorganized; that small school districts that are successful in educating their students and not in academic or fiscal distress should not be consolidated or reorganized; and that ***this act is immediately necessary to ensure that small school districts that are placed on the consolidation list are not consolidated immediately.*** Therefore, an emergency is declared to exist, and this act being necessary for the

preservation of the public peace, health and safety shall become effective on:

- (1) The date of its approval by the Governor;
- (2) If the bill is neither approved nor vetoed by the Governor, the expiration of the period of time which the Governor may veto the bill; or
- (3) If the bill is vetoed by the Governor and the veto is overridden, the date the last house overrides the veto. (Emphasis added)

The emergency clause is critical to the analysis of the legislative intent of the Act. This is true because there was only one district on the consolidation list and in jeopardy of immediate consolidation, namely, the Hughes School District.

The emergency clause is also important because pursuant to Amendment Seven to the Arkansas Constitution, Acts of the General Assembly that do not contain an emergency clause or a specified effective date become effective on the ninety-first day after the legislature adjourns. Law v. State, 292 S.W.3d 277, 375 Ark. 505, 514 (Ark. 2009) (referencing footnote number 8). There was no need for an emergency clause except to capture the school district that was subject to immediate consolidation. Without an emergency clause, no other district would have been impacted immediately. Act 377 of 2015 would have become effective over in the summer and the other district(s), if any, affected by Act 60 (consolidation), would have been allowed to apply for the waiver in January 2016 or thereabout. We cannot assume that the emergency clause has no purpose. That would be an absurd conclusion to the plain language of the emergency clause taken as a whole and read with the sections of the bill while considering the salient facts known by the General Assembly as it worked on preserving small school districts.

Our Supreme Court gives great deference to the General Assembly's determination that an emergency clause is necessary, and upholds its validity if reasonable persons might disagree. Gulledge v. Barclay, 84 S.W.3d 850, 350 Ark. 98 (Ark. 2002)

REQUIRED INFORMATION FOR WAIVER PETITION

The information required by Arkansas Code Annotated Section 6-13-1613(a)(1)(3):

- A. The relevant average daily membership of the Hughes School District for school year 2013/2014 is 354.
- B. The Hughes School District is not in probationary status for any violation of Standards for Accreditation of Arkansas Public Schools and School Districts. Superintendent Sheryl Owens confirmed this status within the last 30 days and was informed that the final report will not issue until June 30, 2015 however, the district has been cleared of all standards violations. *The district can identify the appropriate staff person to be consulted in this regard when necessary.* A preliminary list will be released upon request.
- C. A copy of the district's current year budget and any fiscal audit conducted within two year (sic) are attached to this petition as exhibits one (1) and two (2) (also attached are the district's responses to the audit findings);
- D. The Hughes School District is not in academic distress, fiscal distress, or facilities distress. Fiscal distress means the sum of the two words separately as used in an ordinary way. Fiscal means of or pertaining to financial matters. Distress means a state of extreme necessity or misfortune. Taken together, Fiscal Distress means the state of extreme misfortune pertaining to financial matters. The Hughes School District is not, by any measure, in a state of extreme misfortune pertaining to its finances and is in equal or better financial condition than many school

districts in the State of Arkansas. Hughes has an undisputed projected year-end balance of more than \$1.4 million dollars, according to Mr. Norman Hill, Financial Consultant, on April 7, 2015. Hughes School District's annual budget is approximately \$2.2 million dollars.

STATEMENT OF ASSURANCES

The Hughes School Board of Directors hereby assures the State Board of Education, The Arkansas Department of Education and the patrons of the Hughes School District that it is in the best interest of the students in the school district to keep the school district open because of the length of time spent on the bus traveling to and from school, should the school district be consolidated or administratively reorganized. The Hughes School District Board also assures that our school is entitled to the waiver being requested in this application based on the facts and new law as we understand it. Moreover, the distance between the Hughes Community and surrounding school districts is substantial and could cause a bus ride as long as four hours or 240 minutes for students in the Hughes School District. This long ride requires that the student get up earlier than his/her new school mates and time traveling which could be used for study, rest or play. This unequal positioning of these students is unfair and avoidable.

We would also like for you to consider that this extended travel time will basically exclude the Hughes area children from extra curricular activities because of their impoverished status and lack of transportation provided by parents or any school district. Many of these students are within walking distance to our current location or can more easily get a ride. However, travel to Forrest City, Earle, Marion, West Memphis or

Marianna is cost prohibitive ranging from \$10-\$25 one way. Hughes is a 100 percent free lunch school district.

Because of the School Improvement Grant (SIG) the district recently received, the parents are more active in the school. Their involvement is near 50 percent. We have only achieved this level of participation after properly using grant funds and working really hard. We were at around five (5) percent parental participation at the beginning of this process. Shuttering our local schools will in all likelihood stifle parental involvement because these parents will face extreme transportation difficulties in getting to the new school district.

Additionally, the State Board of Education should understand that while being a poor, rural and impoverished area Hughes School District has 47 special needs students. Some of them need a lot of individual attention from certified staff and paraprofessionals. These disabilities range from speech impairments to severe autism. The students who are autistic do not adapt very well to changes of any sort. It is imperative that their days remain as close to routine as possible. This allows for flowing instruction and for barriers to be broken that otherwise might cause the students in these delicate situations to have a breakdown.

PREVIOUS REQUESTS TO BE RELEASED FROM FISCAL DISTRESS STATUS

Sheryl Owens, Superintendent of Hughes School District, has requested that the Hughes School District be released from either fiscal distress or fiscal distress status as it is conceived or thought of by the Arkansas Department of Education. It is our understanding that in order to be released from this label, Hazel Burnett must clear the

school district to be sent before the State Board of Education by the Commissioner of Education to be released from fiscal distress or fiscal distress status.

Certainly, the problem with this is that there is no unequivocal definition of what fiscal distress or fiscal distress status entails, how one can get into fiscal distress, more importantly here, how one can get out of fiscal distress or fiscal distress status. The consistent point made by Hazel Burnett as it relates to fiscal distress or fiscal distress status and as it relates to being released from fiscal distress or fiscal distress status, is that Hughes School District will need a "clean audit" in order to get out of fiscal distress.

While the phrase "clean audit" sounds nice and is packaged well, it is not an unequivocal statement either. This is true because, since April 8, 2013 several schools have been released from fiscal distress or fiscal distress status while not having a "clean audit." The school districts released from fiscal distress or fiscal distress status since April 8, 2013, include Western Yell County School District, Brinkley School District, Drew Central School District, Alpena School District and Hermitage School District. Of those districts only Drew Central School District had what ostensibly is a "clean audit" where there were no findings by the auditors. Each of the other school districts had an audit finding that included a material weakness or some weaknesses.

It is therefore the position of the Hughes School District that even if the State Board of Education does not accept the fact that Hughes School District is entitled to a waiver under Act 377 of 2015, the Hughes School District should be released from fiscal distress or fiscal distress status because Hughes School District would not be placed

into fiscal distress or fiscal distress status if the decision were made today based on the facts that are present in the Hughes School District.

Moreover, there are some repeated findings in the Hughes School District Audits. There were repeated errors in Title I and Child Nutrition. Those errors have been corrected and personnel changes have been made.

RULES OF STATUTORY CONSTRUCTION IN ARKANSAS

Our Supreme Court has a long settled practice for interpreting legislation. We do not have an extensive historical log or journal of the debates or even comments offered in support or against any particular piece of legislation. With those facts in mind, our Supreme Court has said that we should give each word of legislation effect using its plain and ordinary meaning such that no absurd result is reached from that interpretation.

The Arkansas Supreme Court has held that it will not interpret a statute to yield an absurd result that is contrary to legislative intent. *Hartford Fire Ins. Co. v. Sauer*, 358 Ark. 89, 186 S.W.3d 229 (2004).

"The first rule in considering the meaning and effect of a statute is to construe it just as it reads, giving the words their ordinary and usually accepted meaning in common language. *Raley v. Wagner*, 346 Ark. 234, 57 S.W.3d 683 (2001); *Dunklin v. Ramsay*, 328 Ark. 263, 944 S.W.2d 76 (1997). When the language of a statute is plain and unambiguous, there is no need to resort to rules of statutory construction. *Stephens v. Arkansas Sch. for the Blind*, 341 Ark. 939, 20 S.W.3d 397 (2000); *Burcham v. City of Van Buren*, 330 Ark. 451, 954 S.W.2d 266 (1997). Where the meaning is not clear, we look to the language of the statute, the subject matter, the object to be accomplished, the purpose to be served, the remedy provided, the legislative history, and other appropriate means that shed light on the subject. *Stephens v. Arkansas Sch. for the Blind*, *supra* (citing *State v. McLeod*, 318 Ark. 781, 888 S.W.2d 639 (1994)). Finally, the ultimate rule of statutory construction is to give effect to the intent of the General Assembly. *Ford v. Keith*, 338 Ark. 487, 996 S.W.2d 20 (1999); *Kildow v. Baldwin Piano & Organ*, 333 Ark. 335, 969 S.W.2d 190 (1998)."

See, *Kyzar v. City of West Memphis*, 201 S.W.3d 923, 927, 360 Ark. 454 (Ark. 2005)

Here, the legislature has not defined "Fiscal Distress." The General Assembly declined to pass two separate bills, HB1840 and HB1842, which would have defined fiscal distress in the way the Arkansas Supreme has passively approved in the one case relevant to the issue of Fiscal Distress. In the case of *Fitzgiven v Dorey*, 2013 Ark. 346 (Ark. 2013), the Arkansas Supreme Court quoted the circuit court stating that fiscal distress is "basically a takeover by the state." The only other case that the Hughes School District has been able to find, other than Lakeview, which mentions fiscal distress or fiscal distress status is *Smith v. Decatur Sch. Dist.* 2011 Ark.App. 126 (2011) in which the former superintendent filed suit against the district after it was "taken over by the state" and he was displaced. The district claimed the defense of impossibility to honor Smith's contract after the state take over. The district prevailed. The issue presented by the Hughes School District in this petition has yet to be passed upon by the Arkansas Court of Appeals or the Arkansas Supreme Court, however, sufficient grounds exist to believe that the court, if traditional rules are followed, will find that the Hughes School District is not in "state takeover status" and therefore is eligible for relief under Act 377 of 2015.

CONCLUSION AND STATEMENT OF ASSURANCES

WHEREFORE, we, the undersigned members of the Hughes School Board of Directors, assure the Arkansas State Board of Education that it is in the best interest of our students to keep the school district open due to the length of potential time spent on the bus by a student traveling to and from school in the event of consolidation or

reorganization. We want to emphasize that the Hughes School District is poor, rural and isolated but has redeeming qualities and can and will survive if allowed by the State Board of Education.

We further assure the State Board of Education that the mistakes made in the past have been eradicated for the most part and we will remain vigilant in making sure that all things are done properly and in order in our district in the event that we are granted the waiver. We further understand and assure that we will be ever mindful of the fact that the State Board may revoke this waiver at any time if it is found that the conditions as stated in law change.

/S/ RUDOLPH ROBINSON

/S/ LEITHA J. CUPPLES

/S/ LINCOLN BARNETT

/S/ EARNESTINE JACKSON

We did authorize Sheryl Owens, to affix our signatures and sign the petition on our behalf at our board meeting held on Wednesday, April 1, 2015.



SHERYL OWENS, SUPERINTENDENT
HUGHES SCHOOL DISTRICT
P O BOX 9
HUGHES, AR 72348

Prepared by:
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HUGHES SCHOOL DISTRICT EXHIBIT

School Letter Grade

C

219 Points Earned

6202024 - HUGHES HIGH SCHOOL
 6202000 - HUGHES SCHOOL DISTRICT

Superintendent: SHERYL OWENS

Principal: JEFF SPALETTA

Grade Range: 7 - 12	Enrollment	178	354	471867
Econ. Disadvantaged	100.00%	100.00%	60.3%	
Proficient/Advanced Literacy	58.11%	53.70%	76.55%	
Proficient/Advanced Math	45.36%	38.92%	72.7%	

Letter Grade Component Scores

Performance Level and Multiplier	Literacy - Students	Math - Students	Total Points	Literacy + Math - Students
Below Basic (0.0)	9	24	0	33
Basic (0.25)	22	29	12.75	51
Proficient (1.0)	32	33	85	65
Advanced (1.25)	11	11	27.5	22
Totals			105.25	171

Weighted Performance Points Earned = $(105.25/171) \times 100 = 61.55$

Number of Targets Met: 2

Number of Targets: 6

School Improvement Points Earned: 71

All Students
 Targeted Achievement Gap
 Group (TAGG)
 # Possible

Literacy
 Y
 Y

Math
 N
 N

Graduation Rate
 N
 NA

Targets:	0	1	2	3	4	5	6
5	55	62	68	75	82	88	95
5	55	63	71	79	87	95	
4	55	65	75	85	95		
3	55	68	81	95			
2	55	75	95				

Component 2: Graduation Rate

Graduation Rate for All Students

Points Earned from Graduation Rate for All Students

86.05%

86.05

Component 3: Achievement Gap

Achievement Gap (Literacy and Math)

Graduation Rate Gap

Non-TAGG Proficiency Rate:

TAGG Proficiency Rate:

50.88

Non-TAGG Graduation Rate:

NA

TAGG Graduation Rate:

85.71

Gap Size:
 Adjustment:

Gap Size:
 Adjustment:

Rate:
 N < 25

Gap Adjustment
 Achievement Gap
 Range

Largest Gap
 -6
 23.86% or greater

Large Gap
 -3
 19.53-23.85%

Average Gap
 0
 15.93-19.52%

Small Gap
 +3
 12.00-15.92%

Smallest Gap
 +6
 Less than 12.00%

Graduation Gap
 Range

16.21% or greater

10.75-16.20%

6.90-10.74%

3.66-6.89%

Less than 3.66%

Overall School Score

Schools with Graduation Rate
 Score for This School

Overall School Score = $(\text{Weighted Perf.} + \text{Gap Adj.}) + (\text{Improvement}) + (\text{Grad Rate} + \text{Gap Adj.})$
 $(61.55 + 0) + (71) + (86.05 + 0) = 219$

A: 270 to 300

B: 240 to 269

C: 210 to 239

D: 180 to 209

F: less than 180

Overall School Scores are rounded to the nearest whole number.

District: HUGHES SCHOOL DISTRICT
LEA: 620200
Address: 310 COLLEGE ST
Address: HUGHES, AR 72349
Phone: 870-339-2570

Superintendent: SHERYL OWENS
Enrollment: 354
Attendance: 94.79
Poverty Rate: 100.00

Report created on: 10/29/2014

By: Prof/Adv

2014 Math + Literacy 45.8

2013 Math + Literacy 54.4

2012 Math + Literacy 57.3

OVERALL DISTRICT STATUS:	NEEDS IMPROVEMENT
--------------------------	-------------------

PERCENT TESTED						
PERCENT TESTED STATUS: ACHIEVING						
	LITERACY			MATHEMATICS		
ESBA Flexibility Indicators	# Attempted	# Expected	Percentage	# Attempted	# Expected	Percentage
All Students	169	170	99.41	188	189	99.47
Targeted Achievement Gap Group	169	170	99.41	188	189	99.47
ESBA Subgroups	# Attempted	# Expected	Percentage	# Attempted	# Expected	Percentage
African American	141	142	99.30	158	158	100.00
Hispanic	n < 10	n < 10	n < 10	n < 10	n < 10	n < 10
White	26	26	100.00	28	29	96.55
Economically Disadvantaged	169	170	99.41	188	189	99.47
English Language Learners	n < 10	n < 10	n < 10	n < 10	n < 10	n < 10
Students with Disabilities	16	17	94.12	23	23	100.00

STUDENT PERFORMANCE - LITERACY									
LITERACY STATUS: ACHIEVING									
	PERFORMANCE - LITERACY					GROWTH - LITERACY			
ESBA Flexibility Indicators	# Achieved	# Tested	Percentage	2014 AMO	90TH PCTL	# Achieved	# Tested	Percentage	2014 AMO
All Students	87	162	53.70	62.50	91.00	59	119	49.58	62.50
Targeted Achievement Gap Group	87	162	53.70	62.50	91.00	59	119	49.58	62.50
Three Year Average Performance	# Achieved	# Tested	Percentage	2014 AMO	90TH PCTL	# Achieved	# Tested	Percentage	2014 AMO
All Students	321	543	59.12	62.50	91.00	232	365	63.56	62.50
Targeted Achievement Gap Group	321	543	59.12	62.50	91.00	232	365	63.56	62.50
ESBA Subgroups	# Achieved	# Tested	Percentage	2014 AMO		# Achieved	# Tested	Percentage	2014 AMO
African American	70	137	50.36	60.42		48	90	53.33	59.09
Hispanic	n < 10	n < 10	n < 10			n < 10	n < 10	n < 10	
White	15	23	65.22	72.92		10	19	52.63	78.57
Economically Disadvantaged	87	162	53.70	62.50		59	119	49.58	62.50
English Language Learners	n < 10	n < 10	n < 10			n < 10	n < 10	n < 10	
Students with Disabilities	16	16	100.00	30.36		2	11	18.18	25.00

STUDENT PERFORMANCE - MATHEMATICS									
MATHEMATICS STATUS: NEEDS IMPROVEMENT									
	PERFORMANCE - MATHEMATICS					GROWTH - MATHEMATICS			
ESBA Flexibility Indicators	# Achieved	# Tested	Percentage	2014 AMO	90TH PCTL	# Achieved	# Tested	Percentage	2014 AMO
All Students	72	185	38.92	67.19	92.00	25	119	20.92	56.88
Targeted Achievement Gap Group	72	185	38.92	67.19	92.00	25	119	20.92	56.88
Three Year Average Performance	# Achieved	# Tested	Percentage	2014 AMO	90TH PCTL	# Achieved	# Tested	Percentage	2014 AMO
All Students	270	576	46.89	67.19	92.00	103	365	28.22	56.88
Targeted Achievement Gap Group	270	576	46.89	67.19	92.00	103	365	28.22	56.88
ESBA Subgroups	# Achieved	# Tested	Percentage	2014 AMO		# Achieved	# Tested	Percentage	2014 AMO
African American	58	156	37.18	63.43		21	90	23.33	54.54
Hispanic	n < 10	n < 10	n < 10	100.00		n < 10	n < 10	n < 10	
White	13	27	48.15	86.19		4	19	21.05	67.86
Economically Disadvantaged	72	185	38.92	67.19		25	110	22.73	56.88
English Language Learners	n < 10	n < 10	n < 10			n < 10	n < 10	n < 10	
Students with Disabilities	5	23	21.74	30.36		1	11	9.09	25.00

2013 SCHOOL GRADUATION RATE					
GRADUATION RATE STATUS: NEEDS IMPROVEMENT					
ESBA Flexibility Indicators	# Actual Graduates	# Expected Graduates	Percentage	2013 AMO	90TH PCTL
All Students	37	43	86.05	91.48	94.00
Targeted Achievement Gap Group	36	42	85.71	91.28	94.00
Three Year Average Performance	# Actual Graduates	# Expected Graduates	Percentage	2013 AMO	90TH PCTL
All Students	100	126	79.37	91.48	94.00
Targeted Achievement Gap Group	98	123	79.68	91.28	94.00
ESBA Subgroups	# Actual Graduates	# Expected Graduates	Percentage	2013 AMO	
African American	33	39	84.62		91.67
Hispanic	n < 10	n < 10	n < 10		
White	n < 10	n < 10	n < 10		90.63
Economically Disadvantaged	36	42	85.71		91.28
English Language Learners	n < 10	n < 10	n < 10		
Students with Disabilities	n < 10	n < 10	n < 10		78.57

SPECIAL EDUCATION DISTRICT PROFILE 2013/14

DISTRICT: HUGHES SCHOOL DISTRICT

LEA: 6202

CHILD COUNT

District October 1, 2013 Enrollment 354

Percent Special Education 12.99%

Special Education Child Count 46
(as of 12/01/2013)

By Race

American Indian/Alaska Native	0
Asian	0
Black	41
Hawaiian Native/Pacific Islander	0
Hispanic	2
White	3
Two or More Races	0

By Disability

Mental Retardation	9
Speech/Language Impairment	11
Specific Learning Disability	13
Autism	1
Emotional Disturbance	0
Other Health Impairment	10
Other	2

By Gender

Male	31
Female	15

HUGHES SCHOOL DISTRICT EXHIBIT

1 State of Arkansas *As Engrossed: H2/12/15 H2/23/15*
2 90th General Assembly **A Bill**
3 Regular Session, 2015

HOUSE BILL 1263

4
5 By: Representatives Cozart, C. Armstrong, Baltz, Branscum, Deffenbaugh, Eubanks, Farrer, K. Ferguson,
6 C. Fite, Gossage, Harris, Lampkin, Lowery, Lundstrum, McElroy, McNair, Miller, Ratliff, Richmond,
7 Scott, Womack, *C. Douglas, Murdock, Ballinger, Beck, Bentley, Della Rosa, M. Gray, G. Hodges,*
8 *Payton, Richey, Sullivan, Tosh*
9 By: Senators A. Clark, B. Johnson, *Caldwell, Maloch, G. Stubblefield, Irvin, Teague*

10
11 **For An Act To Be Entitled**

12 AN ACT TO PROVIDE A WAIVER FOR A SCHOOL DISTRICT FROM
13 AN ADMINISTRATIVE CONSOLIDATION OR REORGANIZATION
14 UNDER CERTAIN *CONDITIONS; TO DECLARE AN EMERGENCY;*
15 AND FOR OTHER PURPOSES.

16
17
18 **Subtitle**

19 *TO PROVIDE A WAIVER FOR A SCHOOL DISTRICT*
20 *FROM AN ADMINISTRATIVE CONSOLIDATION OR*
21 *REORGANIZATION UNDER CERTAIN CONDITIONS;*
22 *AND TO DECLARE AN EMERGENCY.*

23
24
25 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

26
27 SECTION 1. Arkansas Code § 6-13-1603(a)(3), concerning administrative
28 reorganization of a school district, is amended to read as follows:

29 (3) Any A school district on the consolidation list that does not
30 submit a petition under subdivision (a)(2)(A) of this section or that does
31 not receive approval by the state board for a voluntary consolidation or
32 annexation petition shall be administratively consolidated by the state board
33 with or into one (1) or more school districts by May 1, to be effective July
34 1 immediately following the publication of the list required under § 6-13-
35 1602 unless the school district has been granted a waiver under § 6-13-1613.



1 SECTION 2. Arkansas Code Title 6, Chapter 13, Subchapter 16, is
2 amended to add an additional section to read as follows:

3 6-13-1613. Minimum school district size waiver.

4 (a)(1) A school district that is placed on the consolidation list
5 published by the Department of Education under § 6-13-1602(2) may annually
6 request a waiver from the average daily membership requirement of three
7 hundred fifty (350) students from the State Board of Education.

8 (2) A school district shall submit a petition for a waiver to
9 the state board no later than thirty (30) days after the consolidation list
10 is published.

11 (3) The petition for a waiver shall include:

12 (A) The average daily membership of the school district in
13 the current school year;

14 (B) A statement that the school district is not in
15 probationary status for any violation of the Standards for Accreditation of
16 Arkansas Public Schools and School Districts;

17 (C) A copy of the school district's current year budget
18 and any fiscal audit conducted within the previous two year; and

19 (D) A statement of assurance that the school district is
20 not currently classified in academic distress, fiscal distress, or facilities
21 distress.

22 (b)(1) The state board shall render a decision to either grant or
23 reject a petition for waiver that is received by a school district within
24 forty-five (45) days of receipt.

25 (2) The state board shall grant a petition for a waiver if it is
26 demonstrated by the school district that:

27 (A) The school district is not currently classified in
28 academic distress, fiscal distress, or facilities distress;

29 (B) The school district is not in probationary status for
30 a violation of the Standards for Accreditation of Arkansas Public Schools and
31 School Districts;

32 (C) The academic facilities owned and operated by the
33 school district are adequate as evidenced by the school district's facilities
34 master plan; and

35 (D) It is in the best interest of the students in the
36 school district to keep the school district open due to the length of

1 potential time spent on the bus by a student traveling to and from school
2 should the school district be administratively reorganized, as assured by the
3 school board of directors of the school district requesting the waiver.

4 (3) The state board may revoke a waiver that has been granted to
5 a school district at anytime if it is found that the conditions under
6 subdivision (b)(2)(A) of this section change.

7 (c) A school district that is granted a waiver shall remain listed on
8 the consolidation list that is published annually by the department.

9
10 SECTION 3. EMERGENCY CLAUSE. It is found and determined by the
11 General Assembly of the State of Arkansas that small school districts are at
12 risk of being consolidated or reorganized; that small school districts that
13 are successful in educating their students and not in academic or fiscal
14 distress should not be consolidated or reorganized; and that this act is
15 immediately necessary to ensure that small school districts that are placed
16 on the consolidation list are not consolidated immediately. Therefore, an
17 emergency is declared to exist, and this act being immediately necessary for
18 the preservation of the public peace, health, and safety shall become
19 effective on:

20 (1) The date of its approval by the Governor;

21 (2) If the bill is neither approved nor vetoed by the Governor,
22 the expiration of the period of time during which the Governor may veto the
23 bill; or

24 (3) If the bill is vetoed by the Governor and the veto is
25 overridden, the date the last house overrides the veto.

26
27 /s/Cozart

28
29
30 **APPROVED: 03/11/2015**

HUGHES SCHOOL DISTRICT EXHIBIT

1 State of Arkansas
2 90th General Assembly
3 Regular Session, 2015

As Engrossed: H3/23/15

A Bill

HOUSE BILL 1840

4
5 By: Representative Murdock
6

For An Act To Be Entitled

8 AN ACT TO AMEND THE DEFINITIONS UNDER THE ARKANSAS
9 FISCAL ASSESSMENT AND ACCOUNTABILITY PROGRAM; AND FOR
10 OTHER PURPOSES.
11
12

Subtitle

13
14 TO AMEND THE DEFINITIONS UNDER THE
15 ARKANSAS FISCAL ASSESSMENT AND
16 ACCOUNTABILITY PROGRAM.
17
18

19 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:
20

21 SECTION 1. Arkansas Code § 6-20-1903, concerning definitions under the
22 Arkansas Fiscal Assessment and Accountability Program, is amended to add an
23 additional subdivision to read as follows:

24 (9) "Fiscal distress" means that a school district has been
25 placed under the daily management and control of the department after the
26 state board or the Commissioner of Education has removed the school district
27 board of directors as permitted by state law.
28

29 /s/Murdock
30
31
32
33
34
35
36



Assembly

90th
General Assembly

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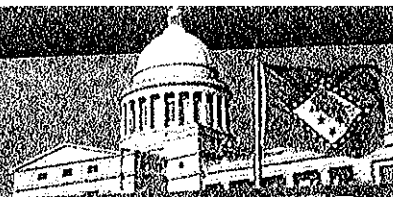
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HB1840 - TO AMEND THE DEFINITIONS UNDER THE ARKANSAS FISCAL ASSESSMENT AND ACCOUNTABILITY PROGRAM.

Bill Number HB1840

Status House -- Read the third time and failed.

Originating Chamber House

Lead Sponsor Murdock

Introduction Date 3/9/2015 2:31:00 PM

Upcoming Events

Date/Location	Meeting Name
No upcoming events were found.	

Bill Status History

Chamber	Date	Action	Vote
House	3/27/2015 11:25:36 AM	Read the third time and failed.	House Votes
House	3/26/2015 1:17:17 PM	Returned by the Committee Do Pass	
House	3/23/2015 11:16:11 AM	REPORTED CORRECTLY ENGROSSED	
House	3/23/2015 8:35:29 AM	Amendment No. 1 read and adopted and the bill ordered engrossed.	
House	3/23/2015 8:35:21 AM	Placed on second reading for the purpose of amendment.	
House	3/9/2015 5:52:26 PM	Read the first time, rules suspended, read the second time and referred to the Committee on EDUCATION COMMITTEE- HOUSE	
House	3/9/2015 2:31:00 PM	Filed	

Amendments

Chamber	No.	Sponsor	Introduction Date
House	H1	Murdock	3/20/2015 10:52:00 AM

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BLR Impacts

FI Number	Requestor	Date Issued
FI1	Murdock	3/10/2015 4:08:05 PM
FI2	Murdock	3/23/2015 11:20:48 AM

DFA Impacts

Date Issued
No data to display

Other Impacts

Date Issued
No data to display

Fiscal Impact Statement

90th General Assembly of the State of Arkansas
Regular Session, 2015

DATE: 03/10/2015
BILL: HB1840, As originally introduced
SPONSOR: Murdock

SUBTITLE:

TO AMEND THE DEFINITIONS UNDER THE ARKANSAS FISCAL ASSESSMENT AND
ACCOUNTABILITY PROGRAM.

TOPIC

√ Fiscal Distress Definition

AFFECTED FUNDS

√ General Revenue

REVENUE IMPACT

√ \$4.3 million

ASSUMPTIONS - BASED ON:

√ Fiscal distress unit at the ADE would need expansion.

ADDITIONAL COMMENTS

√ This definition would classify 50 districts as being in fiscal distress, ten times the current
number of districts so classified.

Prepared by Richard Wilson; Office of Research Services, AR Bureau of Legislative Research

Approved by: _____

Fiscal Impact Statement

90th General Assembly of the State of Arkansas
Regular Session, 2015

DATE: 03/23/2015

BILL: HB1840, As Engrossed: H3/23/15

SPONSOR: Murdock

SUBTITLE:

TO AMEND THE DEFINITIONS UNDER THE ARKANSAS FISCAL ASSESSMENT AND
ACCOUNTABILITY PROGRAM.

TOPIC

√ Fiscal Distress Definition

AFFECTED FUNDS

REVENUE IMPACT

√ \$0

ASSUMPTIONS - BASED ON:

ADDITIONAL COMMENTS

√ No impact to state treasury.

Prepared by Richard Wilson; Office of Research Services, AR Bureau of Legislative Research

Approved by: _____

Hall of the House of Representatives

90th General Assembly - Regular Session, 2015

Amendment Form

Subtitle of House Bill No. 1840

TO AMEND THE DEFINITIONS UNDER THE ARKANSAS FISCAL ASSESSMENT AND
ACCOUNTABILITY PROGRAM.

Amendment No. 1 to House Bill No. 1840

Amend House Bill No. 1840 as originally introduced:

Page 1, delete lines 24 through 26, and substitute the following:

"(9) "Fiscal distress" means that a school district has been placed under the daily management and control of the department after the state board or the Commissioner of Education has removed the school district board of directors as permitted by state law."



The Amendment was read _____

By: Representative Murdock

SAG/SAG - 03-20-2015 09:39:08

SAG463

Chief Clerk

HUGHES SCHOOL DISTRICT EXHIBIT

State of Arkansas
90th General Assembly
Regular Session, 2015

As Engrossed: H3/17/15 H3/25/15

A Bill

HOUSE BILL 1842

By: Representative Murdock

For An Act To Be Entitled

AN ACT TO CLARIFY TERMS UNDER THE ARKANSAS FISCAL
ASSESSMENT AND ACCOUNTABILITY PROGRAM; AND FOR OTHER
PURPOSES.

Subtitle

TO CLARIFY TERMS UNDER THE ARKANSAS
FISCAL ASSESSMENT AND ACCOUNTABILITY
PROGRAM.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

*SECTION 1. Arkansas Code § 6-13-112(c), concerning the
responsibilities of the State Board of Education and Commissioner of
Education regarding school districts under state authority, is amended to
read as follows:*

*(c) A person appointed by the state board or the commissioner to
operate a school district under the authority of the state board or the
commissioner shall not have previously been an administrator responsible for
a school district that was placed in fiscal distress or fiscal distress
status, academic distress, facilities distress, or in violation of the
Standards for Accreditation of Arkansas Public Schools and School Districts.*

*SECTION 2. Arkansas Code § 6-13-1601, concerning definitions, is
amended to add an additional subdivision to read as follows:*

*(7) "Fiscal distress" means that a school district has been
placed under the daily management and control of the Department of Education
after the State Board of Education or the Commissioner of Education has*



1 removed the school district board of directors as permitted by state law.

2
3 SECTION 3. Arkansas Code § 6-20-401(4)(C)(iii), concerning the
4 definition of "revenue receipts of a school district", is amended to read as
5 follows:

6 (iii) Declining balances attributed solely to a
7 school district's compliance with the requirements of subdivision (4)(C)(ii)
8 of this section shall not be considered an indicator of fiscal distress or
9 fiscal distress status; and

10
11 SECTION 4. Arkansas Code § 6-20-402(f), concerning the limitation on
12 current indebtedness, is amended to read as follows:

13 (f) If the state board withholds state aid from a school district under
14 subsection (e) of this section, the school district shall be identified by
15 the department to be a school district in fiscal distress or fiscal distress
16 status under § 6-20-1906.

17
18 SECTION 5. Arkansas Code § 6-20-415(c)(4), concerning consultants, is
19 amended to read as follows:

20 (4) A school district that fails to comply with the requirements
21 of the department under this subsection shall be identified by the department
22 as being in fiscal distress or fiscal distress status and subject to the
23 applicable enforcement provisions as provided by law.

24
25 SECTION 6. Arkansas Code § 6-20-1204(c)(3), concerning forms of bonds,
26 is amended to read as follows:

27 (3) If the ~~commissioner~~ commissioner withholds state funding from
28 a school district pursuant to this subsection, the Department of Education
29 shall identify the school district to be a school district in fiscal distress
30 or fiscal distress status under the Arkansas Fiscal Assessment and
31 Accountability Program, § 6-20-1901 et seq.

32
33 SECTION 7. Arkansas Code § 6-20-1204(d)(3)(C), concerning forms of
34 bonds, is amended to read as follows:

35 (C) If the department makes payment under subdivision
36 (d)(3)(A) of this section, it may identify the school district on behalf of

1 which the payment is made to be a school district in fiscal distress or
2 fiscal distress status under the Arkansas Fiscal Assessment and
3 Accountability Program, § 6-20-1901 et seq.

4
5 SECTION 8. Arkansas Code § 6-20-1801(d), concerning the filing of
6 audit reports, is amended to read as follows:

7 (d)(1) If the department has identified a school as being in fiscal
8 distress or fiscal distress status by June 30 of any year, the annual audit
9 of that school district shall be completed and filed with the department and
10 the Legislative Joint Auditing Committee within six (6) months following the
11 end of each fiscal year.

12 (2) If the committee determines that circumstances warrant, the
13 committee may extend the time to file the audit report of a ~~fiscally~~
14 distressed school district in fiscal distress or fiscal distress status for
15 up to an additional ninety (90) days.

16
17 SECTION 9. Arkansas Code § 6-20-1802 is amended to read as follows:
18 6-20-1802. Fiscal distress for failure to file.

19 (a) Any ~~A~~ school district ~~failing that fails~~ to file an audit report
20 required by § 6-20-1801 within the nine-month time period or within the time
21 period under an extension granted by the Department of Education shall
22 automatically be considered by the department to be in fiscal distress or
23 fiscal distress status.

24 (b) By January 31 of each year, the department, by certified mail,
25 shall notify any school district failing to file the required audit report
26 that the school district is considered in fiscal distress or fiscal distress
27 status.

28
29 SECTION 10. Arkansas Code § 6-20-1902 is amended to read as follows:
30 6-20-1902. Purpose.

31 The purpose of this subchapter ~~shall be~~ is to establish and implement a
32 program by which the Department of Education shall identify, assess, and
33 address school districts in fiscal distress or fiscal distress status.

34
35 SECTION 11. Arkansas Code § 6-20-1903, concerning the definition of
36 "fiscal distress", is amended to add an additional subdivision to read as

1 follows:

2 (9) "Fiscal distress" means that a school district has been
3 placed under the daily management and control of the department after the
4 state board or the Commissioner of Education has removed the school district
5 board of directors as permitted by state law.
6

7 SECTION 12. Arkansas Code § 6-20-1904 is amended to read as follows:

8 6-20-1904. Indicators of fiscal distress or fiscal distress status.

9 (a) A school district meeting any of the following criteria may be
10 identified by the Department of Education to be a school district in fiscal
11 distress status upon final approval by the State Board of Education:

12 (1)(A) A declining balance determined to jeopardize the fiscal
13 integrity of a school district.

14 (B) However, capital outlay expenditures for academic
15 facilities from a school district balance shall not be used to put the school
16 district in fiscal distress;

17 (2) An act or violation determined to jeopardize the fiscal
18 integrity of a school district, including without limitation:

19 (A) Material failure to properly maintain school
20 facilities;

21 (B) Material violation of local, state, or federal fire,
22 health, or safety code provisions or law;

23 (C) Material violation of local, state, or federal
24 construction code provisions or law;

25 (D) Material state or federal audit exceptions or
26 violations;

27 (E) Material failure to provide timely and accurate legally
28 required financial reports to the department, the Division of Legislative
29 Audit, the General Assembly, or the Internal Revenue Service;

30 (F) Insufficient funds to cover payroll, salary, employment
31 benefits, or legal tax obligations;

32 (G) Material failure to meet legally binding minimum
33 teacher salary schedule obligations;

34 (H) Material failure to comply with state law governing
35 purchasing or bid requirements;

36 (I) Material default on any school district debt

1 obligation;

2 (J) Material discrepancies between budgeted and actual
3 school district expenditures;

4 (K) Material failure to comply with audit requirements; or

5 (L) Material failure to comply with any provision of the
6 Arkansas Code that specifically places a school district in fiscal distress
7 based on noncompliance; or

8 (3) Any other fiscal condition of a school district deemed to
9 have a detrimental negative impact on the continuation of educational
10 services by that school district.

11 (b)(1) By August 31 of each year, the department shall report to the
12 superintendent of a school district if the department is aware that the
13 school district has experienced two (2) or more indicators of fiscal distress
14 status in one (1) school year that the department deems to be at a
15 nonmaterial level but that without intervention could place the district in
16 fiscal distress status.

17 (2) The superintendent of a school district shall report to the
18 department if the superintendent is aware the school district has experienced
19 two (2) or more indicators of fiscal distress status in one (1) school year
20 that the superintendent deems to be at a nonmaterial level but that without
21 intervention could place the district in fiscal distress status.

22 (3)(A) The department and the superintendent shall review all
23 data related to the nonmaterial indicators of fiscal distress status.

24 (B)(i) Within thirty (30) days of the department's
25 determination that the school district may be experiencing fiscal distress
26 status at a nonmaterial level, the department shall provide a notice to the
27 school district's superintendent and board of directors that:

28 (a) Describes the nonmaterial indicators of
29 fiscal distress status that could jeopardize the fiscal integrity of the
30 school district if not addressed; and

31 (b) Identifies the support available from the
32 department to address each nonmaterial indicator of fiscal distress status.

33 (ii) The board of directors shall place on the agenda
34 for the next regularly scheduled meeting of the board of directors a
35 discussion of the notice of nonmaterial indicators of fiscal distress status.

36

1 SECTION 13. Arkansas Code § 6-20-1905(a), concerning notification and
2 appeal, is amended to read as follows:

3 ~~(a)(1)(A)(i)~~ (a)(1)(A) The Department of Education shall provide written
4 notice, via certified mail, return receipt requested, to the president of the
5 school district board of directors and the superintendent of each school
6 district identified as being in fiscal distress or fiscal distress status.

7 ~~(ii)(B)~~ The department shall provide the notice
8 required under ~~this~~ subdivision (a)(1)(A) of this section on or before March
9 30 of each year.

10 ~~(B)(i)(2)(A)~~ At any time after March 30, the department may
11 identify a school district as being in fiscal distress or fiscal distress
12 status if the department discovers that a fiscal condition of a school
13 district negatively impacts the continuation of educational services by the
14 school district.

15 ~~(ii)(B)~~ The department immediately shall provide the
16 same notice required under subdivision ~~(a)(1)(A)(i)~~ (a)(1)(A) of this section
17 to the school district identified under this subdivision ~~(a)(1)(B)(a)(2)~~.

18
19 SECTION 14. Arkansas Code § 6-20-1906(a) and (b), concerning
20 classification of fiscal distress status, is amended to read as follows:

21 (a) Those school districts identified by the Department of Education as
22 being in fiscal distress or fiscal distress status shall be classified as
23 school districts in fiscal distress or fiscal distress status upon final
24 determination by the State Board of Education.

25 (b) A school district classified as in fiscal distress or fiscal
26 distress status shall be required to publish at least one (1) time for two
27 (2) consecutive weeks in a newspaper of general circulation in the school
28 district the school district's classification as a school district in fiscal
29 distress or fiscal distress status and the reasons why the school district
30 was classified as being in fiscal distress or fiscal distress status.

31
32 SECTION 15. Arkansas Code § 6-20-1907 is amended to read as follows:

33 6-20-1907. Debt issuance.

34 No A school district identified in fiscal distress or fiscal distress
35 status may not incur any debt without the prior written approval of the
36 Department of Education.

1
2 SECTION 16. Arkansas Code § 6-20-1908(a)-(c), concerning a fiscal
3 distress or fiscal distress status plan, are amended to read as follows:

4 (a) Those school districts identified by the Department of Education as
5 being in fiscal distress shall file with the department within ten (10) days
6 after the final classification by the State Board of Education a written
7 fiscal distress or fiscal distress status improvement plan to address any
8 area in which the school district is experiencing fiscal distress or fiscal
9 distress status as identified by the department.

10 (b) Each school district shall seek and obtain approval of its plan
11 from the department and shall describe how the school district will remedy
12 those areas in which the school district is experiencing fiscal distress or
13 fiscal distress status and shall establish the time period by which the
14 school district will remedy all criteria which that placed the school
15 district in fiscal distress status.

16 (c) A school district in fiscal distress or fiscal distress status may
17 only petition the state board for removal from fiscal distress status only
18 after the department has certified in writing that the school district has
19 corrected all criteria for being classified as in fiscal distress or fiscal
20 distress status and has complied with all department recommendations and
21 requirements for removal from fiscal distress or fiscal distress status.
22

23 SECTION 17. Arkansas Code § 6-20-1909(a), concerning department
24 actions, is amended to read as follows:

25 (a) In addressing school districts in fiscal distress or fiscal
26 distress status, the Commissioner of Education may:

27 (1) Remove permanently, reassign, or suspend on a temporary basis
28 the superintendent of the school district and:

29 (A) Appoint an individual in place of the superintendent to
30 administratively operate the school district under the supervision and
31 approval of the commissioner; and

32 (B) Compensate nondepartment agents operating the school
33 district from school district funding;

34 (2) Suspend or remove some or all of the current board of
35 directors and call for the election of a new board of directors for the
36 school district, in which case the school district shall reimburse the county

1 board of election commissioners for election costs as otherwise recognized by
2 law;

3 (3) Require the school district to operate without a board of
4 directors under the supervision of the local superintendent or an individual
5 or panel appointed by the commissioner;

6 (4) Waive the application of Arkansas law or the corresponding
7 State Board of Education rules, with the exception of:

8 (A) The Teacher Fair Dismissal Act of 1983, § 6-17-1501 et
9 seq.; and

10 (B) The Public School Employee Fair Hearing Act, § 6-17-
11 1701 et seq.;

12 (5) Petition the state board for the annexation, consolidation,
13 or reconstitution of the school district;

14 (6) In the absence of a school district board of directors,
15 assume all authority of the board of directors as designated by the state
16 board as may be necessary for the day-to-day governance of the school
17 district;

18 (7)(A) Return the administration of the school district to the
19 former board of directors or to a newly elected board of directors if:

20 (i) The Department of Education certifies in writing
21 to the state board and to the school district that the school district has
22 corrected all issues that caused the classification of fiscal distress or
23 fiscal distress status; and

24 (ii) The state board determines that the school
25 district has corrected all issues that caused the classification of fiscal
26 distress or fiscal distress status.

27 (B) If the commissioner calls for an election of a new
28 school district board of directors, the school district shall reimburse the
29 county board of election commissioners for election costs as otherwise
30 required by law;

31 (8) Otherwise reconstitute the school district; or

32 (9) Take any other action allowed by law that is deemed necessary
33 to assist a school district in removing the classification of fiscal distress
34 or fiscal distress status.

35
36 SECTION 18. Arkansas Code § 6-20-1910(d)-(f), concerning state board

1 actions, are amended to read as follows:

2 (d) If the Commissioner of Education assumes authority over a public
3 school district in fiscal distress or fiscal distress status, under
4 subsection (a) of this section, the state board may pursue the following
5 process for returning a public school district to the local control of its
6 residents:

7 (1) During the second school year following a school district's
8 classification as being in fiscal distress or fiscal distress status, the
9 state board shall determine the extent of the school district's progress
10 toward correcting all issues that caused the classification of fiscal
11 distress or fiscal distress status;

12 (2)(A) If the state board determines that sufficient progress has
13 been made by a school district toward correcting all issues that caused the
14 classification of fiscal distress or fiscal distress status, but the school
15 district has not yet resolved all issues that caused the classification of
16 fiscal distress, the commissioner, with the approval of the state board, may
17 appoint a community advisory board of either five (5) or seven (7) members to
18 serve under the supervision and direction of the commissioner.

19 (B) The members of the community advisory board shall be
20 residents of the school district and shall serve on a voluntary basis without
21 compensation.

22 (C) The Department of Education shall cause to be provided
23 to the community advisory board technical assistance and training in, at a
24 minimum, the areas required in § 6-13-629.

25 (D) The duties of the community advisory board include
26 without limitation:

27 (i) Meeting monthly during a regularly scheduled
28 public meeting with the state-appointed administrator regarding the progress
29 of the public school or school district toward correcting all issues that
30 caused the classification of fiscal distress or fiscal distress status;

31 (ii) Seeking community input from the patrons of the
32 school district regarding the progress of the public school or school
33 district toward correcting all issues that caused the classification of
34 fiscal distress or fiscal distress status;

35 (iii) Conducting hearings and making recommendations
36 to the commissioner regarding personnel and student discipline matters under

1 the appropriate district policies;

2 (iv) Working to build community capacity for the
3 continued support of the school district; and

4 (v) Submitting quarterly reports to the commissioner
5 and the state board regarding the progress of the public school or school
6 district toward correcting all issues that caused the classification of
7 fiscal distress or fiscal distress status.

8 (E) The members of the community advisory board shall serve
9 at the pleasure of the commissioner until:

10 (i) The school district is returned to local control
11 and a permanent board of directors is elected and qualified; or

12 (ii) The state board annexes, consolidates, or
13 reconstitutes the school district under this section or under another
14 provision of law;

15 (3)(A) By April 1 of each year following the appointment of a
16 community advisory board under subdivision (d)(2) of this section, the state
17 board shall determine the extent of the school district's progress toward
18 correcting all issues that caused the classification of fiscal distress or
19 fiscal distress status and shall:

20 (i) Allow the community advisory board to remain in
21 place for one (1) additional year;

22 (ii) Return the school district to local control by
23 calling for the election of a newly elected board of directors if:

24 (a) The department certifies in writing to the
25 state board and to the school district that the school district has corrected
26 all criteria for being placed into fiscal distress or fiscal distress status;
27 and

28 (b) The state board determines that the school
29 district has corrected all criteria for being placed into fiscal distress or
30 fiscal distress status; or

31 (iii) Annex, consolidate, or reconstitute the school
32 district pursuant to this title.

33 (B) If the state board or commissioner calls for an
34 election of a new school district board of directors, the school district
35 shall reimburse the county board of election commissioners for election costs
36 as otherwise required by law;

1 (4)(A) If the state board calls for an election of a new school
2 district board of directors pursuant to subdivision (d)(3)(A)(ii) of this
3 section, the commissioner, with the approval of the state board, may appoint
4 an interim board of directors to govern the school district until a permanent
5 school district board of directors is elected and qualified.

6 (B) The interim board of directors shall consist of either
7 five (5) or seven (7) members.

8 (C) The members of the interim board of directors shall be
9 residents of the school district and otherwise eligible to serve as school
10 district board members under applicable law.

11 (D) The members of the interim board of directors shall
12 serve on a voluntary basis without compensation.

13 (e)(1) If, by the end of the fifth school year following the school
14 district's classification of fiscal distress or fiscal distress status, the
15 school district in fiscal distress or fiscal distress status has not
16 corrected all issues that caused the classification of fiscal distress or
17 fiscal distress status, the state board, after a public hearing, shall
18 consolidate, annex, or reconstitute the school district under this section.

19 (2) The state board may grant additional time for a public school
20 or school district to remove itself from fiscal distress or fiscal distress
21 status by issuing a written finding supported by a majority of the state
22 board explaining in detail that the public school or school district could
23 not remove itself from fiscal distress or fiscal distress status during the
24 relevant time period due to impossibility caused by external forces beyond
25 the control of the public school or school district.

26 ~~(f) Nothing in this section shall be construed to~~ This section does not
27 prevent the department or the state board from taking any of the actions
28 listed in § 6-20-1909 or this section at any time to address a school
29 district in fiscal distress or fiscal distress status.
30

31 SECTION 19. Arkansas Code § 6-20-1911(a), concerning rules and
32 regulations, is amended to read as follows:

33 (a) The Department of Education shall promulgate rules ~~and regulations~~
34 as necessary to identify, evaluate, assist, and address school districts in
35 fiscal distress or fiscal distress status.
36

SECTION 20. Arkansas Code § 6-20-2205(a), concerning penalties, is amended to read as follows:

(a) ~~Any~~ A school district or open-enrollment public charter school that does not follow the provisions of this subchapter shall be placed in fiscal distress or fiscal distress status as provided by law.

SECTION 21. Arkansas Code § 6-20-2207(c) and (d), concerning rule-making authority, are amended to read as follows:

(c) Any A school district, open-enrollment public charter school, or education service cooperative that fails to comply with state law or rules governing and providing a uniform chart of accounts for budgeting of revenues, expenditures, and financial reporting shall be deemed to be in fiscal distress or fiscal distress status and subject to the applicable enforcement provisions as provided by law.

(d) Any A school district, open-enrollment public charter school, or education service cooperative that fails to comply with the expenditure requirements of any public school, public school district, or education service cooperative funding law shall be deemed to be in fiscal distress or fiscal distress status and subject to the applicable enforcement provisions as provided by law.

SECTION 22. Arkansas Code § 6-23-304(b)(3), concerning requirements for open-enrollment public charter schools, is amended to read as follows:

(3) When the district has been classified by the Department of Education as in some phase of school improvement status under § 6-15-426 or some phase of fiscal distress or fiscal distress status under the Arkansas Fiscal Assessment and Accountability Program, § 6-20-1901 et seq., if the fiscal distress or fiscal distress status is a result of administrative fiscal mismanagement, as determined by the state board.

SECTION 23. Arkansas Code § 6-23-304(d)(2)(B), concerning requirements for open-enrollment public charter schools, is amended to read as follows:

(B) Been classified as in academic distress or, fiscal distress, or fiscal distress status; and

/s/Murdock

Fiscal Impact Statement

90th General Assembly of the State of Arkansas
Regular Session, 2015

DATE: 03/26/2015

BILL: HB1842, As Engrossed: H3/17/15 H3/25/15

SPONSOR: Murdock

SUBTITLE:

TO CLARIFY TERMS UNDER THE ARKANSAS FISCAL ASSESSMENT AND
ACCOUNTABILITY PROGRAM.

TOPIC

√ Fiscal Assessment and Accountability

AFFECTED FUNDS

REVENUE IMPACT

√ \$0 *

ASSUMPTIONS - BASED ON:

ADDITIONAL COMMENTS

√ * Assumes the new definitions of "fiscal distress" and "fiscal distress status" do not cause
more or fewer schools to be included.

Prepared by Richard Wilson; Office of Research Services, AR Bureau of Legislative Research

Approved by: _____



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Arkansas State Legislature



Bill Detail (Ex: HB1002)

Act/Ex-2

Search

Assembly > 90th General Assembly > Regular Session, 2015

HB1842 - TO CLARIFY TERMS UNDER THE ARKANSAS FISCAL ASSESSMENT AND ACCOUNTABILITY PROGRAM.

Bill Number HB1842

Status House -- Read the third time and failed.

Originating Chamber House

Lead Sponsor Murdock

Introduction Date 3/9/2015 2:36:00 PM

Upcoming Events

Date/Location	Meeting Name
No upcoming events were found.	

Bill Status History

Chamber	Date	Action	Vote
House	3/27/2015 11:34:37 AM	Read the third time and failed.	House Votes
House	3/26/2015 1:17:27 PM	Returned by the Committee Do Pass	
House	3/25/2015 9:55:14 AM	REPORTED CORRECTLY ENGROSSED	
House	3/25/2015 8:33:00 AM	Amendment No. 2 read and adopted and the bill ordered engrossed.	
House	3/25/2015 8:32:53 AM	Placed on second reading for the purpose of amendment.	
House	3/17/2015 4:27:36 PM	REPORTED CORRECTLY ENGROSSED	
House	3/17/2015 8:36:00 AM	Amendment No. 1 read and adopted and the bill ordered engrossed.	
House	3/17/2015 8:35:55 AM	Placed on second reading for the purpose of amendment.	
House	3/9/2015 5:37:56 PM	Read the first time, rules suspended, read the second time and referred to the Committee on EDUCATION COMMITTEE- HOUSE	
House	3/9/2015 2:36:00 PM	Filed	

Amendments

Chamber	No.	Sponsor	Introduction Date
House	H1	Murdock	3/16/2015 4:45:00 PM
House	H2	Murdock	3/24/2015 1:41:00 PM

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FI Number	Requestor	Date Issued
FI1	Murdock	3/10/2015 4:02:24 PM
FI2	Murdock	3/18/2015 9:53:04 AM
FI3	Murdock	3/26/2015 11:25:20 AM

DFA Impacts

Date Issued
No data to display

Other Impacts

Date Issued
No data to display

HUGHES SCHOOL DISTRICT EXHIBIT

Hughes School District No. 27

St. Francis County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
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Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Hughes School District No. 27 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 Hughes School District No. 27 (the "District"), as of and for the year ended June 30, 2014, 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 the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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.

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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, 2014, 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, 2014, 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the District is the defendant in various pending lawsuits alleging discriminatory practices and certain violations of law, with some unfavorable outcomes deemed probable. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and 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 Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

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 November 20, 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
November 20, 2014
EDSD36214

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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

Hughes School District No. 27 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 Hughes School District No. 27 (the "District"), as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated November 20, 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, 2014, 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 in the accompanying Schedule of Findings and Questioned Costs, 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 in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 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 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*.

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We noted certain matters that we reported to management of the District in a separate letter dated November 20, 2014.

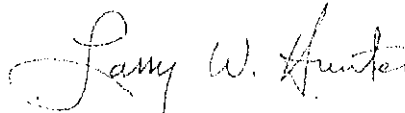
District's Response to Findings

The District's response to the findings identified in our audit, excluding the management letter findings, is described in the accompanying Schedule of Findings and Questioned Costs. 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
November 20, 2014

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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Hughes School District No. 27 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Hughes School District No. 27 (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, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Basis for Qualified Opinion on CFDA 84.377 School Improvement Grants

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding CFDA 84.377 School Improvement Grants as described in finding numbers 2014-002 for Reporting and 2014-003 for Allowable Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 84.377 School Improvement Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.377 School Improvement Grants for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

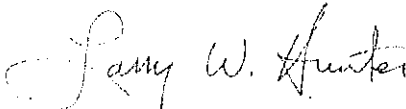
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 2014-002 and 2014-003 to be material weaknesses.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 20, 2014

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LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Hughes School District No. 27 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. During our review of leave records, we noted leave slips were not always submitted to the employee responsible for maintenance of the records and leave slips that were submitted, were not always posted to the employees' leave records. As a result of these weaknesses, we noted two clerical errors resulting in an overpayment of \$1,257 to one employee and an underpayment of \$832 to another employee.
2. The Disaster Recovery Plan in place was inadequate (both technical and end-user) for restoring from short-term or long-term interruptions of computer processing. This situation could cause the entity to be without computer processing for an extended period of time in the event of a disaster or major interruption and could also place a financial and personnel burden on the resources of the entity.

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.

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
November 20, 2014

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2014

Exhibit A

	Governmental Funds			
	Major			Fiduciary
	General	Special Revenue	Other Aggregate	Fund Types
ASSETS				
Cash	\$ 1,205,611	\$ 254,875	\$ 179	\$ 10,270
Investments	622,623			
Accounts receivable	11,215	156,889		
Due from other funds			600	
TOTAL ASSETS	<u>\$ 1,839,449</u>	<u>\$ 411,764</u>	<u>\$ 779</u>	<u>\$ 10,270</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 37,705	\$ 9,166	\$ 600	
Due student groups				\$ 10,270
Due to other funds	600			
Total Liabilities	<u>38,305</u>	<u>9,166</u>	<u>600</u>	<u>10,270</u>
Fund Balances:				
Restricted	85,414	402,598	179	
Assigned	9,325			
Unassigned	1,706,405			
Total Fund Balances	<u>1,801,144</u>	<u>402,598</u>	<u>179</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,839,449</u>	<u>\$ 411,764</u>	<u>\$ 779</u>	<u>\$ 10,270</u>

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,065,978		
State assistance	1,468,697	\$ 1,619	
Federal assistance		1,572,728	
Activity revenues	25,784		
Meal sales		35,994	
Investment income	7,653		
Other revenues	93,487	13,006	
TOTAL REVENUES	3,661,599	1,623,347	
EXPENDITURES			
Regular programs	1,245,699	29,378	
Special education	118,820	145,679	
Career education programs	42,634		
Compensatory education programs	152,903	604,043	
Other instructional programs	92,583		
Student support services	90,434	72,796	
Instructional staff support services	86,634	409,670	
General administration support services	286,239	34,063	
School administration support services	109,925		
Central services support services	119,618	17,003	
Operation and maintenance of plant services	465,417		
Student transportation services	62,779	3,009	
Other support services	10,149		
Food services operations	33,171	240,455	
Non-programmed costs		36,325	
Activity expenditures	35,301		
Debt Service:			
Principal retirement	9,268		\$ 60,000
Interest and fiscal charges	468		21,210
TOTAL EXPENDITURES	2,962,042	1,592,421	81,210
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	699,557	30,926	(81,210)
OTHER FINANCING SOURCES (USES)			
Transfers in			81,210
Transfers out	(81,210)		
TOTAL OTHER FINANCING SOURCES (USES)	(81,210)		81,210
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	618,347	30,926	
FUND BALANCES - JULY 1	1,182,797	371,672	179
FUND BALANCES - JUNE 30	\$ 1,801,144	\$ 402,598	\$ 179

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS 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, 2014

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,987,000	\$ 2,065,978	\$ 78,978			
State assistance	1,390,256	1,468,697	78,441	\$ 3,500	\$ 1,619	\$ (1,881)
Federal assistance				1,968,707	1,572,728	(395,979)
Activity revenues		25,784	25,784			
Meat sales						
Investment income	6,500	7,653	1,153	61,005	35,994	(25,011)
Other revenues	40,000	93,487	53,487			
TOTAL REVENUES	3,423,756	3,661,599	237,843	2,033,212	1,623,347	(409,865)
EXPENDITURES						
Regular programs	1,267,930	1,245,699	22,231			
Special education	119,117	118,820	297	67,024	29,378	37,646
Career education programs	16,050	42,634	(26,584)	227,890	145,679	82,211
Compensatory education programs	167,317	152,903	14,414			
Other instructional programs	203,656	92,583	111,073	743,223	604,043	139,180
Student support services	51,944	90,434	(38,490)	91,462	72,796	18,666
Instructional staff support services	96,173	86,634	9,539	607,153	409,670	197,483
General administration support services	291,385	286,239	5,146	45,806	34,063	11,743
School administration support services	116,393	109,925	6,468			
Central services support services	101,784	119,618	(17,834)	17,502	17,003	499
Operation and maintenance of plant services	574,114	465,417	108,697			
Student transportation services	92,396	62,779	29,617	6,000	3,009	2,991
Other support services	15,000	10,149	4,851			
Food services operations	38,075	33,171	4,904			
Community services operations				221,841	240,455	(18,614)
Non-programmed costs				1,500		1,500
Activity expenditures				8,006	36,325	(28,319)
Debt Service:		35,301	(35,301)			
Principal retirement		9,268	7,532			
Interest and fiscal charges		468	3,532			
TOTAL EXPENDITURES	3,172,134	2,962,042	210,092	2,037,207	1,592,421	444,786

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS 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, 2014

Exhibit C

	General		Variance	Special Revenue		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 251,622	\$ 699,557	\$ 447,935	\$ (3,995)	\$ 30,926	\$ 34,921
OTHER FINANCING SOURCES (USES)						
Transfers in	4,108,964		(4,108,964)			
Transfers out	(4,181,455)	(81,210)	4,100,245			
TOTAL OTHER FINANCING SOURCES (USES)	(72,491)	(81,210)	(8,719)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	179,131	618,347	439,216	(3,995)	30,926	34,921
FUND BALANCES - JULY 1	1,333,104	1,182,797	(150,307)	383,964	371,672	(12,292)
FUND BALANCES - JUNE 30	\$ 1,512,235	\$ 1,801,144	\$ 288,909	\$ 379,969	\$ 402,598	\$ 22,629

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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	3-25

F. Property Taxes

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year.

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2013 calendar year taxes collected by June 30, 2014 and 28 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, 2014 equaled or exceeded the 28 percent calculation.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

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.

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.

J. Stabilization Arrangements

The District's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Minimum Fund Balance Policies

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

L. Fund Balance Classification Policies and Procedures

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The District's Board of Education has not adopted a formal policy addressing this authorization.

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

M. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	<u>Carrying Amount</u>	<u>Bank Balance</u>
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	<u>1,843,558</u>	<u>1,989,191</u>
Total Deposits	<u>\$ 2,093,558</u>	<u>\$ 2,239,191</u>

The above total deposits include certificates of deposit of \$622,623 reported as investments and classified as nonparticipating contracts.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Federal assistance		\$ 150,589
Other	\$ 11,215	6,300
Totals	\$ 11,215	\$ 156,889

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2014:

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, 2014	Maturities To June 30, 2014
11/1/03	2/1/20	2.15 - 4.3%	\$ 675,000	\$ 285,000	\$ 390,000
11/1/05	2/1/20	3 - 3.65%	360,000	165,000	195,000
Totals			\$ 1,035,000	\$ 450,000	\$ 585,000

Changes in Long-term Debt

	Balance July 1, 2013	Issued	Retired	Balance June 30, 2014
Bonds payable	\$ 510,000		\$ 60,000	\$ 450,000
Postdated warrants	9,268		9,268	
Totals	\$ 519,268	\$ 0	\$ 69,268	\$ 450,000

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2015	\$ 65,000	\$ 17,907	\$ 82,907
2016	70,000	15,355	85,355
2017	75,000	12,598	87,598
2018	80,000	9,635	89,635
2019	80,000	6,490	86,490
2020	80,000	3,245	83,245
Totals	\$ 450,000	\$ 65,230	\$ 515,230

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014 were comprised of the following:

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Vendor payables	\$ 37,705	\$ 9,166	
Other			\$ 600
Totals	<u>\$ 37,705</u>	<u>\$ 9,166</u>	<u>\$ 600</u>

6: INTERFUND TRANSFERS

The District transferred \$81,210 from the general fund to the other aggregate funds for debt related payments.

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 non-teaching school employees. 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, 2014, 2013, and 2012 were \$311,617, \$359,851, and \$408,892, respectively, equal to the required contributions for each year.

8: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$1,035,000 issued from November 1, 2003 through November 1, 2005. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$515,230, payable through February 1, 2020. Principal and interest paid for the current year and total property taxes pledged for debt service were \$80,198 and \$125,846, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 63.62 percent.

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 accident and 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.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

9: 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.

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 \$40,074 for the year ended June 30, 2014.

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 15,869		
Educational programs - national school lunch state categorical funding	44,792		
Capital projects			\$ 179
Child nutrition programs		\$ 267,591	
Medical services		101,254	
Special education programs	10,837	24,680	
Title I programs		1,124	
Other purposes	13,916	7,949	
Total Restricted	<u>85,414</u>	<u>402,598</u>	<u>179</u>
Assigned to:			
Student activities	<u>9,325</u>		
Unassigned	<u>1,706,405</u>		
Totals	<u>\$ 1,801,144</u>	<u>\$ 402,598</u>	<u>\$ 179</u>

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

12: FISCAL DISTRESS STATUS

On April 8, 2013, the State Board of Education classified the District in fiscal distress. The District developed a fiscal improvement plan and is currently working with the Arkansas Department of Education to implement it.

13: PENDING LITIGATION

An Arkansas jury found in favor of two former employees on their claims of race discrimination and constructive discharge against the District and individual members of the District's Board of Education. The jury awarded a total of \$446,542 compensatory damages in the case. The District appealed this decision to the United States District Court, Eastern District of Arkansas, to have the award set aside or reduced. The appeal is pending, with an outcome unfavorable to the District deemed probable by District representation. Due to the uncertainty of the amount of the award, no liability has been recognized in the accompanying financial statements.

On May 1, 2013, a writ of execution was served to the District's bank, commanding collection of \$140,143 in favor of a law firm for attorney fees relating to this case. This amount was withdrawn from the District's account and placed in a separate holding account by the bank, pending outcome of the appeal.

The District also has three other civil suits currently pending. One suit was filed by seven former employees alleging racial harassment and discrimination, due process and equal protection violations, violations of the Arkansas Teacher Fair Dismissal Act, and breach of contract. The plaintiffs are seeking unspecified compensatory and punitive damages and attorneys' fees. The second suit was filed by a single individual, seeking unspecified damages for alleged negligence and breach of contract as a result of the District's failure to file a claim under a healthcare policy. The third suit was filed by a single individual, seeking unspecified damages for alleged violation of the Arkansas Teacher Fair Dismissal Act. Outcomes and potential losses in these cases are uncertain.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2014
(Unaudited)

Schedule 1

	Balance June 30, 2014
<i>Nondepreciable capital assets:</i>	
Land	\$ 106,407
<i>Depreciable capital assets:</i>	
Buildings	2,362,682
Improvements/infrastructure	103,661
Equipment	1,267,337
Total depreciable capital assets	<u>3,733,680</u>
Less accumulated depreciation for:	
Buildings	2,121,453
Improvements/infrastructure	94,830
Equipment	1,127,601
Total accumulated depreciation	<u>3,343,884</u>
Total depreciable capital assets, net	<u>389,796</u>
Capital assets, net	<u>\$ 496,203</u>

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

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	62-02-000	\$ 82,995
National School Lunch Program - Cash Assistance	10.555	62-02-000	133,252
Total State Department of Education			<u>216,247</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	6202000	16,829
TOTAL CHILD NUTRITION CLUSTER			<u>233,076</u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	62-02	479,966
Special Education - Grants to States	84.027	6202	169,419
Improving Teacher Quality State Grants	84.367	6202	58,443
School Improvement Grants	84.377	6202000	604,542
Total U. S. Department of Education			<u>1,312,370</u>
TOTAL OTHER PROGRAMS			<u>1,312,370</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,545,446</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Hughes School District No. 27 (District) under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2014, the District received Medicaid funding of \$29,290 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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 - unmodified

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 federal programs:

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

Type of auditor's report issued on compliance for major federal programs: unmodified for all major federal programs except for School Improvement Grants, 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 federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.377	School Improvement Grants

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001. 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: receipting, depositing, posting, and reconciliation procedures were performed by the same employee, without compensating controls. Additionally, payroll and non-payroll checks were prepared by the same employee responsible for changes in 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 objective was obtained.

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

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

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

Views of responsible officials and planned corrective actions: The District will continue to strive to implement as many procedures as possible to adequately segregate duties utilizing available staff. The District's status of Fiscal Distress restricts hiring of additional staff.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESSES

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SCHOOL IMPROVEMENT GRANTS - CFDA NUMBER 84.377
PASS-THROUGH NUMBER 6202000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-002. Reporting

Criteria or specific requirement: The District is required to budget School Improvement grant expenditures and submit the budget to the Arkansas Department of Education (ADE). Expenditures may not exceed the budgeted amount by more than 10 percent of the total budget without prior approval from the ADE and the submission of budget amendments or adjustments. Additionally, annual financial reports are compiled at the end of the fiscal year for the program.

Condition: School Improvement grant expenditures for function 1591 (Title I Schoolwide Instruction) exceeded the budgeted amount by \$81,635 more than the 10 percent budget variance allowed. A similar finding was reported in the previous audit.

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

Effect: The District did not record the School Improvement expenditures within the approved budget classifications.

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

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

Views of responsible officials and planned corrective actions: The District and SIG Site Manager will implement procedures to ensure costs are incurred within the applicable budget categories and contact the ADE for further guidance regarding this matter.

2014-003. 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 funds.

Condition: An unallowable cost paid from the School Improvement grant of \$5,777 for the year ended June 30, 2014 was detected. This expenditure was for software purchased for the elementary school, which was not served by the School Improvement grant.

Questioned Costs: The amount of the known questioned costs was \$5,777.

Context: An examination of nine checks from a total population of 83 non-payroll checks, grant application, and budget.

Effect: Unallowable costs of \$5,777 for the year ended June 30, 2014 occurred.

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

Recommendation: The District should contact the Arkansas Department of Education for guidance regarding this matter and implement proper controls over program expenditures.

Views of responsible officials and planned corrective actions: The District will implement proper controls over program expenditures. The SIG Site Manager will continue to monitor and oversee all spending.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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 62-02-000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-004. Reporting

Criteria or specific requirement: Monthly Claims for Reimbursement are required to be submitted to the Arkansas Department of Education, Child Nutrition Unit (ADE, CNU). These claims include specific key financial information.

Condition: The District did not properly use the financial information per the general ledger to prepare the monthly Claims for Reimbursement. As a result, the District erroneously reported key financial information such as revenues, expenditures, and available funds on the Claims for Reimbursement submitted to ADE, CNU for the fiscal year as identified below:

	Per General Ledger	Per Claims Submitted to ADE, CNU	Difference
Beginning Balance	\$ 224,350	\$ 224,350	
Total Revenues	257,115	277,868	\$ (20,753)
Total Expenditures	(236,370)	(258,258)	21,888
Ending Balance	<u>\$ 245,095</u>	<u>\$ 243,960</u>	<u>\$ 1,135</u>

A similar finding was reported in the previous audit.

Context: An examination of the Year-to-Date Financial Statement from ADE, CNU revealed variances between the financial information reported and the information recorded in the general ledger.

Effect: The District's procedures to ensure the accuracy and completeness of data and information included in the Claims for Reimbursement were not effective, resulting in erroneous key financial information reported to ADE, CNU.

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

Recommendation: Establish appropriate reporting procedures and monitor the information reported in the monthly Claims for Reimbursement to ensure the reports are accurately completed.

Views of responsible officials and planned corrective actions: The District will continue training the Food Service Director to maintain proper records and to establish appropriate reporting procedures to ensure the information reported in the monthly Claims for Reimbursement is accurate. The Child Nutrition Unit will continue to monitor progress.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2013 - Finding 2013-003: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: Title I expenditures for function 2210 (Improvement of Instructional Services), exceeded the budgeted amount by \$7,873 more than the 10 percent budget variance allowed.. Additionally, Title I expenditures for object range 63000-65000 (Purchased Services) exceeded the budgeted amount by \$11,946 more than the 10 percent budget variance allowed. A similar finding was reported in the previous three audits.

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

Current Status: Corrective action was taken.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SCHOOL IMPROVEMENT GRANTS CLUSTER - CFDA NUMBERS 84.377 AND 84.388

2013 - Finding 2013-004: School Improvement Grants Cluster - CFDA Numbers 84.377 and 84.388

Condition: School Improvement cluster expenditures for function 1591 (Title I Schoolwide Instruction) exceeded the budgeted amount by \$52,962 more than the 10 percent budget variance allowed. Additionally, expenditures for object codes 66000 (Supplies and Materials) and 67000 (Property) exceeded budgeted amounts by \$125,831 and \$25,682, respectively, more than the 10 percent budget variance allowed.

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

Current Status: A similar finding was detected during the current audit period. See Finding 2014-002 at Schedule 3.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2013 - Finding 2013-005: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: An unallowable cost paid from the Title I program of \$3,924 for the year ended June 30, 2013 was detected. This expenditure was for the purchase of a copier that was also recorded as a Title I expenditure in the prior fiscal year.

Recommendation: The District should contact the Arkansas Department of Education for guidance regarding this matter and implement proper controls over program expenditures.

Current Status: Corrective action was taken.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS) - CFDA NUMBERS 10.553 AND 10.555

2013 - Finding 2013-006: Child Nutrition Cluster (Cash Assistance Programs) - CFDA Numbers 10.553 and 10.555

Condition: The District did not use the financial information per the general ledger to prepare the monthly Claims for Reimbursement. As a result, the District erroneously reported key financial information such as revenues, expenditures, and available funds on the Claims for Reimbursement submitted to ADE, CNU for the fiscal year as identified below:

	Per General Ledger	Per Claims Submitted to ADE, CNU	Difference
Beginning Balance	\$ 140,663	\$ 88,760	\$ 51,903
Total Revenues	302,496	265,408	37,088
Transfers In	4,076		4,076
Total Expenditures	(222,885)	(317,042)	94,157
Ending Balance	<u>\$ 224,350</u>	<u>\$ 37,126</u>	<u>\$ 187,224</u>

Recommendation: Establish appropriate reporting procedures and monitor the information reported in the monthly Claims for Reimbursement to ensure the reports are accurately completed.

Current Status: A similar finding was detected during the current audit period. See Finding 2014-004 at Schedule 3.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014
(Unaudited)

	Year Ended June 30,				
	2014	2013	2012	2011	2010
<u>General Fund</u>					
Total Assets	\$ 1,639,449	\$ 1,227,640	\$ 1,261,716	\$ 1,636,301	\$ 1,778,342
Total Liabilities	38,305	44,843	39,786	17,020	38,787
Total Fund Balances	1,801,144	1,182,797	1,221,930	1,619,281	1,739,555
Total Revenues	3,661,599	3,871,731	3,797,223	4,019,176	4,240,140
Total Expenditures	2,962,042	3,687,537	4,286,359	4,597,152	4,363,350
Total Other Financing Sources (Uses)	(81,210)	(223,327)	91,785	457,702	(89,784)
<u>Special Revenue Fund</u>					
Total Assets	411,764	395,175	250,884	189,405	320,351
Total Liabilities	9,166	23,503	5,236	2,866	171,693
Total Fund Balances	402,598	371,672	245,648	186,539	148,658
Total Revenues	1,623,347	1,505,074	1,155,243	1,420,742	2,442,350
Total Expenditures	1,592,421	1,375,666	1,098,550	1,383,457	2,704,271
Total Other Financing Sources (Uses)		(3,384)	2,416	596	(140)
<u>Other Aggregate Funds</u>					
Total Assets	779	179	179	12,429	179
Total Liabilities	600				
Total Fund Balances	179	179	179	12,429	179
Total Revenues			499	44,362	
Total Expenditures	81,210	83,184	85,398	132,219	99,784
Total Other Financing Sources (Uses)	81,210	83,184	72,649	100,107	89,784
		-28 -			

HUGHES SCHOOL DISTRICT EXHIBIT

Hughes School District No. 27

St. Francis County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2013

LEGISLATIVE JOINT AUDITING COMMITTEE



HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
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JUNE 30, 2013

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REGULATORY BASIS FINANCIAL STATEMENTS

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Hughes School District No. 27 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 Hughes School District No. 27 (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

Supplementary and 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 Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

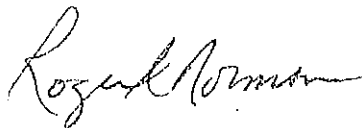
The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

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 November 25, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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
November 25, 2013
EDSD36213

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Hughes School District No. 27 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 Hughes School District No. 27 (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 November 25, 2013. 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 in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control 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 regulatory basis 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 2013-001 and 2013-002 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 from 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*.

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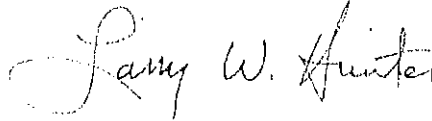
District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. 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
November 25, 2013

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Hughes School District No. 27 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Program Federal Program

We have audited the Hughes School District No. 27 (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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

Basis for Qualified Opinion on CFDA 84.010 Title I Grants to Local Educational Agencies and CFDA 84.377 and 84.388 School Improvement Grants Cluster

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding CFDA 84.010 Title I Grants to Local Educational Agencies as described in finding number 2013-003 for Reporting and CFDA 84.377 and 84.388 School Improvement Grants Cluster as described in finding number 2013-004 for Reporting. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

Qualified Opinion on CFDA 84.010 Title I Grants to Local Educational Agencies and CFDA 84.377 and 84.388 School Improvement Grants Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.010 Title I Grants to Local Educational Agencies and CFDA 84.377 and 84.388 School Improvement Grants Cluster for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, 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 item 2013-005. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a significant deficiency.

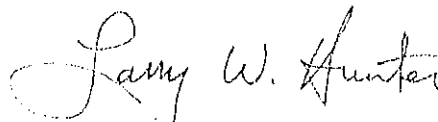
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 2013-003 and 2013-004 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-005 to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 25, 2013

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2013

Exhibit A

	Governmental Funds			
	Major			Fiduciary
	General	Special Revenue	Other Aggregate	Fund Types
ASSETS				
Cash	\$ 609,418	\$ 257,047	\$ 179	\$ 10,723
Investments	618,222			
Accounts receivable		138,128		
TOTAL ASSETS	\$ 1,227,640	\$ 395,175	\$ 179	\$ 10,723
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 44,843	\$ 23,503		\$ 418
Due student groups				10,305
Total Liabilities	44,843	23,503		10,723
Fund Balances:				
Restricted	134,013	371,672	\$ 179	
Assigned	18,841			
Unassigned	1,029,943			
Total Fund Balances	1,182,797	371,672	179	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,227,640	\$ 395,175	\$ 179	\$ 10,723

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS 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
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,004,519		
State assistance	1,775,010	\$ 3,887	
Federal assistance		1,442,476	
Activity revenues	42,892		
Meal sales		35,953	
Investment income	7,294		
Other revenues	42,016	22,758	
TOTAL REVENUES	3,871,731	1,505,074	
EXPENDITURES			
Regular programs	1,562,907	71,954	
Special education	147,061	79,579	
Career education programs	102,867		
Compensatory education programs	270,117	367,043	
Other instructional programs	60,943		
Student support services	41,469	798	
Instructional staff support services	106,586	530,867	
General administration support services	434,135	85,348	
School administration support services	101,554		
Central services support services	133,887	4,074	
Operation and maintenance of plant services	517,543		
Student transportation services	128,974		
Food services operations	32,305	236,003	
Activity expenditures	37,452		
Debt Service:			
Principal retirement	8,823		\$ 60,000
Interest and fiscal charges	914		23,184
TOTAL EXPENDITURES	3,687,537	1,375,666	83,184
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	184,194	129,408	(83,184)
OTHER FINANCING SOURCES (USES)			
Transfers in			83,184
Transfers out	(83,184)		
Pending litigation - bank holding account	(140,143)		
Refund to grantor		(3,384)	
TOTAL OTHER FINANCING SOURCES (USES)	(223,327)	(3,384)	83,184
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(39,133)	126,024	
FUND BALANCES - JULY 1	1,221,930	245,648	179
FUND BALANCES - JUNE 30	\$ 1,182,797	\$ 371,672	\$ 179

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS 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

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,803,880	\$ 2,004,519	\$ 200,639			
State assistance	1,563,467	1,775,010	211,543			
Federal assistance				\$ 932,610	\$ 3,887	\$ 3,887
Activity revenues					1,442,476	509,866
Meal sales		42,892	42,892			
Investment income	2,017	7,294	5,277			
Other revenues	26,599	42,016	15,417			
TOTAL REVENUES	3,395,963	3,871,731	475,768	932,610	1,505,074	572,464
EXPENDITURES						
Regular programs	1,727,301	1,562,907	164,394			
Special education	86,213	147,061	(60,848)	77,360	71,954	5,406
Career education programs	111,267	102,867	8,400	164,915	79,579	85,336
Compensatory education programs	249,236	270,117	(20,881)	3,000		3,000
Other instructional programs	81,806	60,943	20,863	222,465	367,043	(144,578)
Student support services	101,480	41,469	60,011			
Instructional staff support services	230,469	106,586	123,883	3,000	798	2,202
General administration support services	268,193	434,135	(165,942)	506,180	530,867	(24,687)
School administration support services	103,279	101,554	1,725	93,467	85,348	8,119
Central services support services	133,002	133,887	(885)			
Operation and maintenance of plant services	612,492	517,543	94,949		4,074	(4,074)
Student transportation services	128,828	128,974	(146)			
Other support services	2,000		2,000			
Food services operations	65,000	32,305	32,695	254,843	236,003	18,840
Community services operations	15,200	37,452	(22,252)	2,400		2,400
Activity expenditures						
Debt Service:						
Principal retirement	7,000	8,823	(1,823)			
Interest and fiscal charges	200	914	(714)			
TOTAL EXPENDITURES	3,922,966	3,687,537	235,429	1,327,630	1,375,666	(48,036)

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS 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	\$ (527,003)	\$ 184,194	\$ 711,197	\$ (395,020)	\$ 129,408	\$ 524,428
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers out	4,653,293		(4,653,293)			
Pending litigation - bank holding account	(4,654,203)	(83,184)	4,571,019			
Refund to grantor		(140,143)	(140,143)			
TOTAL OTHER FINANCING SOURCES (USES)	(910)	(223,327)	(222,417)		(3,384)	(3,384)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES					(3,384)	(3,384)
FUND BALANCES - JULY 1	(527,913)	(39,133)	488,780	(395,020)	126,024	521,044
	1,692,412	1,221,930	(470,482)	261,172	245,648	(15,524)
FUND BALANCES - JUNE 30	\$ 1,164,499	\$ 1,182,797	\$ 18,298	\$ (133,848)	\$ 371,672	\$ 505,520

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS 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 accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	50
Equipment	3-25

F. Property Taxes

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year.

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 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.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G Fund Balance Classifications (Continued)

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.

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.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

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:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
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	<u>1,245,589</u>	<u>1,519,774</u>
Total Deposits	<u><u>\$ 1,495,589</u></u>	<u><u>\$ 1,769,774</u></u>

The above total deposits include certificates of deposit of \$618,222 reported as investments and classified as nonparticipating contracts.

3: **ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$138,128 at June 30, 2013 was comprised of the following:

	<u>Governmental Fund</u>
	<u>Major</u>
<u>Description</u>	<u>Special Revenue</u>
Federal assistance	<u><u>\$ 138,128</u></u>

4: **COMMITMENTS**

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

Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2013</u>	<u>Maturities To June 30, 2013</u>
11/1/03	2/1/20	2.15 - 4.3%	\$ 675,000	\$ 325,000	\$ 350,000
11/1/05	2/1/20	3 - 3.65%	360,000	185,000	175,000
5/4/04	5/4/14	5.05%	<u>75,000</u>	<u>9,268</u>	<u>65,732</u>
Totals			<u><u>\$ 1,110,000</u></u>	<u><u>\$ 519,268</u></u>	<u><u>\$ 590,732</u></u>

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

4: COMMITMENTS (Continued)

Changes in Long-term Debt

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013
Bonds payable	\$ 570,000		\$ 60,000	\$ 510,000
Postdated warrants	18,091		8,823	9,268
Totals	\$ 588,091	\$ 0	\$ 68,823	\$ 519,268

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 69,268	\$ 20,666	\$ 89,934
2015	65,000	17,907	82,907
2016	70,000	15,355	85,355
2017	75,000	12,598	87,598
2018	80,000	9,635	89,635
2019-2020	160,000	9,735	169,735
Totals	\$ 519,268	\$ 85,896	\$ 605,164

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$68,764 at June 30, 2013 was comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types	Total
	Major	Special Revenue		
Vendor payables	\$ 44,843	\$ 23,503		\$ 68,346
Other			\$ 418	418
Vendor payables	<u>\$ 44,843</u>	<u>\$ 23,503</u>	<u>\$ 418</u>	<u>\$ 68,764</u>

6: INTERFUND TRANSFERS

The District transferred \$83,184 from the general fund to the other aggregate funds for debt related payments.

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.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

7: RETIREMENT PLAN (Continued)

Arkansas Teacher Retirement System

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 \$359,851, \$408,892, and \$469,238, respectively, equal to the required contributions for each year.

8: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$1,035,000 issued from November 1, 2003 through November 1, 2005. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$595,428, payable through February 1, 2020. Principal and interest paid for the current year and total property taxes pledged for debt service were \$82,348 and \$122,103, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 67.44 percent.

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 accident and 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.

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.

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 \$33,480 for the year ended June 30, 2013.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

	Governmental Funds			
	Major			
Description	General	Special Revenue	Other Aggregate	Total
Fund Balances:				
Restricted for:				
Alternative learning environment	\$ 1,250			\$ 1,250
Educational programs - national school lunch state categorical funding	72,839			72,839
English-language learners	488			488
Professional development	17,997			17,997
Capital projects			\$ 179	179
Child nutrition programs		\$ 224,351		224,351
Medical services		104,888		104,888
Special education programs	9,504	38,476		47,980
Title I programs		3,957		3,957
Other purposes	31,935			31,935
Total Restricted	134,013	371,672	179	505,864
Assigned to:				
Student activities	18,841			18,841
Unassigned	1,029,943			1,029,943
Totals	\$1,182,797	\$ 371,672	\$ 179	\$1,554,648

12: FISCAL DISTRESS STATUS

On April 8, 2013, the State Board of Education classified the District in fiscal distress. The District developed a fiscal improvement plan and is currently working with the Arkansas Department of Education to implement it.

13: PENDING LITIGATION

An Arkansas jury found in favor of two former employees on their claims of race discrimination and constructive discharge against the District and individual members of the District's Board of Education. The jury awarded a total of \$446,542 compensatory damages in the case. The District appealed this decision to the United States District Court, Eastern District of Arkansas, to have the award set aside or reduced. The appeal is pending, with an outcome unfavorable to the District deemed probable by District representation. Due to the uncertainty of the amount of the potential loss, no liability has been recognized in the accompanying financial statements.

On May 1, 2013, a writ of execution was served to the District's bank, commanding collection of \$140,143 in favor of a law firm for attorney fees relating to this case. This amount was withdrawn from the District's account and placed in a separate holding account by the bank, pending outcome of the appeal.

The District also has two other civil suits currently pending. One suit was filed by seven former employees alleging racial harassment and discrimination, due process and equal protection violations, violations of the Arkansas Teacher Fair Dismissal Act, and breach of contract. The plaintiffs are seeking unspecified compensatory and punitive damages and attorneys' fees. The other suit was filed by a single individual, seeking unspecified damages for alleged negligence and breach of contract as a result of the District's failure to file a claim under a healthcare policy. Outcomes and potential losses in these cases are uncertain.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS 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	\$ 103,572
<i>Depreciable capital assets:</i>	
Buildings	2,362,682
Improvements/infrastructure	103,661
Equipment	1,223,926
Total depreciable capital assets	3,690,269
Less accumulated depreciation for:	
Buildings	2,100,963
Improvements/infrastructure	93,622
Equipment	1,118,269
Total accumulated depreciation	3,312,854
Total depreciable capital assets, net	377,415
Capital assets, net	\$ 480,987

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

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	62-02-000	\$ 86,307
National School Lunch Program - Cash Assistance	10.555	62-02-000	135,879
Total State Department of Education			<u>222,186</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	6202000	<u>13,817</u>
TOTAL CHILD NUTRITION CLUSTER			<u>236,003</u>
SCHOOL IMPROVEMENT GRANTS CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
School Improvement Grants	84.377	6202000	262,471
ARRA - School Improvement Grants, Recovery Act	84.388	6202000	<u>250,000</u>
TOTAL SCHOOL IMPROVEMENT GRANTS CLUSTER			<u>512,471</u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	62-02	461,939
Special Education - Grants to States	84.027	6202	85,364
Improving Teacher Quality State Grants	84.367	6202	<u>72,704</u>
TOTAL OTHER PROGRAMS			<u>620,007</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,368,481</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Hughes School District No. 27 (District) under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2013, the District received Medicaid funding of \$8,437 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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 - unmodified

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: 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
84.377 and 84.388	School Improvement Grants Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2013-001. 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 records were not adequately segregated among employees. Specifically, certain key weaknesses included the following: receipting, depositing, posting, and reconciliation procedures were performed by the same employee, without compensating controls. Additionally, payroll checks were prepared by the same employee responsible for changes in 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 objectives 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.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

2013-002. Misstatements not Detected by Internal Control System

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

Condition: The District's internal control system did not prevent, or detect and correct material errors in the financial accounting records. Such records are utilized in the preparation of the District's financial statements. The accounting records contained errors of \$304,623 in the general fund. Significant errors included a \$136,181 overstatement of investments, and salary expenditures of \$123,642 recorded in an incorrect functional category. Additionally, the accounting records contained errors of \$10,650 in the debt service fund which is included in the other aggregate funds. These errors consisted of incorrect recording of expenditures of \$9,736, which should have been reflected in the general fund, and bonded debt expenditure classification errors of \$914. The financial statements were subsequently corrected by adjusting entries during audit fieldwork. A similar finding was reported in the previous three audits.

Context: Necessary adjustments to accounting records.

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

Cause: District personnel incorrectly recorded various transactions and financial accounting records were not properly monitored.

Recommendation: To achieve accurate financial accounting records, District management should implement procedures to ensure all transactions are properly classified and financial accounting records should be properly monitored.

Views of responsible officials and planned corrective actions: The District will implement procedures to ensure all transactions are properly classified and financial accounting records will be properly monitored. A Financial Consultant has been hired by the District to help maintain accurate records.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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 62-02
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-003. 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 budgeted amount by more than 10 percent of the total budget 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: Title I expenditures for function 2210 (Improvement of Instructional Services) exceeded the budgeted amount by \$7,873 more than the 10 percent budget variance allowed. Additionally, Title I expenditures for object range 63000-65000 (Purchased Services) exceeded the budgeted amount by \$11,946 more than the 10 percent budget variance allowed. A similar finding was reported in the previous three audits.

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

Effect: The District did not record the Title I expenditures within the approved budget classifications.

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

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

Views of responsible officials and planned corrective actions: The District Treasurer and new Federal Programs Coordinator will work together diligently to make sure each budgeted line item does not exceed the allotted expenditures and overages.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

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

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SCHOOL IMPROVEMENT GRANTS CLUSTER - CFDA NUMBERS 84.377 AND 84.388
PASS-THROUGH NUMBER 6202000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-004. Reporting

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

Condition: School Improvement cluster expenditures for function 1591 (Title I Schoolwide Instruction) exceeded the budgeted amount by \$52,962 more than the 10 percent budget variance allowed. Additionally, expenditures for object codes 66000 (Supplies and Materials) and 67000 (Property) exceeded budgeted amounts by \$125,831 and \$25,682, respectively, more than the 10 percent budget variance allowed.

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

Effect: The District did not record the School Improvement expenditures within the approved budget classifications.

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

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

Views of responsible officials and planned corrective actions: The District will implement procedures to ensure costs are incurred within the applicable budget categories. The District will contact ADE for guidance.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

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

SIGNIFICANT DEFICIENCY

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 62-02
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-005. 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: An unallowable cost paid from the Title I program of \$3,924 for the year ended June 30, 2013 was detected. This expenditure was for the purchase of a copier that was also recorded as a Title I expenditure in the prior fiscal year.

Questioned Costs: The amount of the known questioned costs was \$3,924.

Context: An examination of Title I journal entries.

Effect: Unallowable costs of \$3,924 for the year ended June 30, 2013 occurred.

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

Recommendation: The District should contact the Arkansas Department of Education for guidance regarding this matter and implement proper controls over program expenditures.

Views of responsible officials and planned corrective actions: The District will contact the ADE for guidance. The District has hired a new Title I coordinator and she will work diligently to maintain accurate records.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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 62-02-000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-006. Reporting

Criteria or specific requirement: Monthly Claims for Reimbursement are required to be submitted to the Arkansas Department of Education, Child Nutrition Unit (ADE, CNU). These claims include specific key financial information.

Condition: The District did not use the financial information per the general ledger to prepare the monthly Claims for Reimbursement. As a result, the District erroneously reported key financial information such as revenues, expenditures, and available funds on the Claims for Reimbursement submitted to ADE, CNU for the fiscal year as identified below:

	Per General Ledger	Per Claims Submitted to ADE, CNU	Difference
Beginning Balance	\$ 140,663	\$ 88,760	\$ 51,903
Total Revenues	302,496	265,408	37,088
Transfers In	4,076		4,076
Total Expenditures	(222,885)	(317,042)	94,157
Ending Balance	<u>\$ 224,350</u>	<u>\$ 37,126</u>	<u>\$ 187,224</u>

Context: An examination of the June 2013 Claim for Reimbursement revealed significant variances between the financial information reported and the information recorded in the general ledger.

Effect: The District's procedures to ensure accuracy and completeness of data and information included in the Claims for Reimbursement were not effective, resulting in erroneous key financial information reported to ADE, CNU.

Cause: A lack of internal controls and a lack of management oversight resulted in reporting errors.

Recommendation: Establish appropriate reporting procedures and monitor the information reported in the monthly Claims for Reimbursement to ensure the reports are accurately completed.

Views of responsible officials and planned corrective actions: The District will contact Child Nutrition to get directives on how to correct the beginning balance and will use accurate information when completing claim forms. Additional on-site training for the Child Nutrition Director will be requested from the ADE.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2012 - Finding 2012-3: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: Title I expenditures for function 1591 (Title I Schoolwide Instruction) exceeded the budgeted amount by \$29,325 more than the 10 percent budget variance allowed. A similar finding was reported in the previous two audits.

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

Current Status: Exceptions were observed in the current audit period. See Finding 2013-003 at Schedule 3.

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS) - CFDA NUMBERS 10.553 AND 10.555

2012 - Finding 2012-4: Child Nutrition Cluster (Cash Assistance Programs) - CFDA Numbers 10.553 and 10.555

Condition: The District did not pay to the child nutrition programs the required cost differential for applicable meals served. Based on the year-end information of reduced price and paid breakfasts and lunches served, the District calculated an amount due to the child nutrition programs of \$4,076. A similar finding was reported in the previous two audits.

Recommendation: Contact the Arkansas Department of Education, Child Nutrition Unit for proper resolution of this matter.

Current Status: Corrective action was taken.

HUGHES SCHOOL DISTRICT NO. 27
ST. FRANCIS COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2013
(Unaudited)

	Year Ended June 30,				
	2013	2012	2011	2010	2009
General Fund					
Total Assets	\$ 1,227,640	\$ 1,261,716	\$ 1,636,301	\$ 1,778,342	\$ 1,982,142
Total Liabilities	44,843	39,786	17,020	38,787	28,593
Total Fund Balances	1,182,797	1,221,930	1,619,281	1,739,555	1,952,549
Total Revenues	3,871,731	3,797,223	4,019,176	4,240,140	4,533,242
Total Expenditures	3,687,537	4,286,359	4,597,152	4,363,350	4,575,497
Total Other Financing Sources (Uses)	(223,327)	91,785	457,702	(89,784)	(91,646)
Special Revenue Fund					
Total Assets	395,175	250,884	189,405	320,351	421,216
Total Liabilities	23,503	5,236	2,866	171,693	10,497
Total Fund Balances	371,672	245,648	186,539	148,658	410,719
Total Revenues	1,505,074	1,155,243	1,420,742	2,442,350	1,124,619
Total Expenditures	1,375,666	1,098,550	1,383,457	2,704,271	1,086,971
Total Other Financing Sources (Uses)	(3,384)	2,416	596	(140)	(8,201)
Other Aggregate Funds					
Total Assets	179	179	12,429	179	179
Total Liabilities					
Total Fund Balances	179	179	12,429	179	179
Total Revenues		499	44,362		
Total Expenditures	83,184	85,398	132,219	89,784	91,646
Total Other Financing Sources (Uses)	83,184	72,649	100,107	89,784	91,646

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SPECIAL EDUCATION DISTRICT PROFILE 2013/14

DISTRICT: HUGHES SCHOOL DISTRICT

LEA: 6202

CHILD COUNT

District October 1, 2013 Enrollment 354

Percent Special Education 12.99%

Special Education Child Count 46
(as of 12/01/2013)

By Race

American Indian/Alaska Native	0
Asian	0
Black	41
Hawaiian Native/Pacific Islander	0
Hispanic	2
White	3
Two or More Races	0

By Disability

Mental Retardation	9
Speech/Language Impairment	11
Specific Learning Disability	13
Autism	1
Emotional Disturbance	0
Other Health Impairment	10
Other	2

By Gender

Male	31
Female	15

HUGHES SCHOOL DISTRICT EXHIBIT

Alpena School District No. 5

Boone County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

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

FEDERAL AWARDS

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2012-1. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a 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: non-payroll checks were prepared by the same employee responsible for the maintenance of accounting records and such employee had unrestricted access to the District's signature stamps. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls. The same employee was responsible for receiving and depositing monies collected, preparation of payroll and non-payroll checks, maintenance of accounting records, and preparation of bank reconciliations, 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.

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

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 05-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

2012-2. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires the preparation of monthly personnel activity reports or equivalent documentation when District's employees work multiple activities. Periodic time certifications are required when an employee works solely on a single federal program.

Condition: Although standard payroll documentation supporting the employees' work in the Title I program was available for audit inspection, a periodic time certification was not prepared for one employee who worked solely with the Title I program and monthly personnel activity reports were not prepared for one employee who was paid from a combination of Title I and non-federal funds.

Context: Examination of documentation substantiating time worked by employees

Effect: The District was unable to provide required documentation substantiating the time charged to the Title I program.

Cause: The District was unaware of the requirement pertaining to the monthly personnel activity reports and the employee requiring the periodic time certification resigned during the school year.

Recommendation: The District should prepare monthly personnel activity reports or periodic time certifications for all applicable employees.

Views of responsible officials and planned corrective actions: Alpena School District will accurately document periodic time certifications for personnel working in and paid from Federal programs. All personnel who work as a tutor, outside the school day, will document their work time.

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

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

NONCOMPLIANCE (FEDERAL PROGRAM NOT AUDITED AS A MAJOR PROGRAM)

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT -
CFDA NUMBER 84.394
PASS-THROUGH NUMBER 05-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

2012-3. Davis-Bacon Act

Criteria or specific requirement: The Davis-Bacon Act requires all contractors and subcontractors performing on construction contracts in excess of \$2,000, financed by Federal funds, to pay their laborers and mechanics not less than the prevailing wage rates as determined by the Department of Labor. Non-federal entities are to include in the applicable construction contracts a requirement that the contractor or subcontractor comply with the provisions of the Davis-Bacon Act and the Department of Labor regulations. Such requirements include the submission of weekly certified payrolls, for each week in which any contract work is performed, to the non-federal entities.

Condition: The District did not notify the contractors of the requirement to comply with the Davis-Bacon Act and did not obtain copies of certified payrolls for various projects of \$212,865 dated between August 2009 and July 2011.

Context: Examination of payments made to the contractors and supporting documentation of a site visit conducted by the Office of Intergovernmental Services of the Arkansas Department of Finance and Administration.

Effect: The District did not comply with the notification requirements regarding compliance with the Davis-Bacon Act and was unable to provide copies of weekly certified payrolls or workers paid on the projects. During the fiscal year ended June 30, 2012, the construction expenditures of \$212,865 were reclassified to the general fund. Allowable expenditures, other than construction, were then reclassified to the Stabilization federal program.

Cause: The District was unaware of the Davis-Bacon Act requirements for the construction related projects referenced above.

Recommendation: The District should ensure that all applicable construction contracts contain the required notification regarding compliance with the Davis-Bacon Act. Copies of weekly certified payrolls should be obtained for the applicable projects. The District should also contact the Arkansas Department of Education for further directives regarding this matter.

Views of responsible officials and planned corrective actions: In the future, contractors being paid with federal dollars will be held accountable to the requirements of the Davis-Bacon Act. Evidence of payroll and interviews will be required.

HUGHES SCHOOL DISTRICT EXHIBIT

Alpena School District No. 5

Boone County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2013

LEGISLATIVE JOINT AUDITING COMMITTEE



ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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 - unmodified

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: unmodified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2013-001. 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: non-payroll checks were prepared by the same employee responsible for the maintenance of accounting records and such employee had unrestricted access to the District's signature stamps. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls. The same employee was responsible for receiving and depositing monies collected, preparation of payroll and non-payroll checks and, maintenance of accounting records, without compensating controls.

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

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

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

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

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2012 - Finding 2012-2: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: Although standard payroll documentation supporting the employees' work in the Title I program was available for audit inspection, a periodic time certification was not prepared for one employee who worked solely with the Title I program and monthly personnel activity reports were not prepared for one employee who was paid from a combination of Title I and non-federal funds.

Recommendation: The District should prepare monthly personnel activity reports or periodic time certifications for all applicable employees.

Current Status: Corrective action was taken.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT

2012 - Finding 2012-3: ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act - CFDA Number 84.394

Condition: The District did not notify the contractors of the requirement to comply with the Davis-Bacon Act and did not obtain copies of certified payrolls for various projects of \$212,865 dated between August 2009 and July 2011.

Recommendation: The District should ensure that all applicable construction contracts contain the required notification regarding compliance with the Davis-Bacon Act. Copies of weekly certified payrolls should be obtained for the applicable projects. The District should also contact the Arkansas Department of Education for further directives regarding this matter.

Current Status: Corrective action was taken.

HUGHES SCHOOL DISTRICT EXHIBIT

Alpena School District No. 5

Boone County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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 - unmodified

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 federal programs:

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

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

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 federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

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

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001. 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, the same employee was responsible for receiving, posting, and depositing monies collected, 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: The District has already implemented compensating controls to address the same employee being responsible for receiving, posting, and depositing monies collected. The compensating control implemented will further segregate duties and create another authorization and report check within this process.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

ALPENA SCHOOL DISTRICT NO. 5
BOONE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

There were no findings in the prior audit.

HUGHES SCHOOL DISTRICT EXHIBIT

Bismarck School District No. 25

Hot Spring County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



BISMARCK SCHOOL DISTRICT NO. 25
HOT SPRING COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

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

FEDERAL AWARDS

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

BISMARCK SCHOOL DISTRICT NO. 25
HOT SPRING COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2012-1. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a 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: all bank reconciliations were prepared by the same employee responsible for the maintenance of accounting records, without compensating controls. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls. The District Treasurer was responsible for recording and depositing monies collected, maintenance of accounting records, and preparation of bank reconciliations, without compensating controls.

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

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

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

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

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

BISMARCK SCHOOL DISTRICT NO. 25
HOT SPRING COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 4

There were no findings in the prior audit.

HUGHES SCHOOL DISTRICT EXHIBIT

Bismarck School District No. 25

Hot Spring County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2013

LEGISLATIVE JOINT AUDITING COMMITTEE



BISMARCK SCHOOL DISTRICT NO. 25
HOT SPRING COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Bismarck School District No. 25 (District) under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: During the year ended June 30, 2013, the District received Medicaid funding of \$83,083 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

BISMARCK SCHOOL DISTRICT NO. 25
HOT SPRING COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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 - unmodified

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: unmodified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.027	Special Education - Grants to States

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

BISMARCK SCHOOL DISTRICT NO. 25
HOT SPRING COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2013-001. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: payroll checks were prepared by the District Treasurer who is responsible for changes to the payroll amounts, without compensating controls. The same employee was responsible for receipting, preparing deposits, and taking deposits to the bank for monies collected, without compensating controls.

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

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

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

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

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

HUGHES SCHOOL DISTRICT EXHIBIT

Bismarck School District No. 25

Hot Spring County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



BISMARCK SCHOOL DISTRICT NO. 25
HOT SPRING COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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 - unmodified

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 federal programs:

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

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

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 federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
97.039	Hazard Mitigation Grant

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

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

BISMARCK SCHOOL DISTRICT NO. 25
HOT SPRING COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDING

MATERIAL WEAKNESS

2014-001. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: payroll checks were prepared by the District Treasurer who is responsible for changes to the payroll amounts, without compensating controls. The same employees were responsible for receipting, preparing deposits, and making deposits for monies collected in the activity and food service accounts, without compensating controls.

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

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

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

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

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

BISMARCK SCHOOL DISTRICT NO. 25
HOT SPRING COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

There were no findings in the prior audit.

HUGHES SCHOOL DISTRICT EXHIBIT

Brinkley School District No. B

Monroe County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



BRINKLEY SCHOOL DISTRICT NO. 8
MONROE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ☐ yes ☒ no

FEDERAL AWARDS

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010 and 84.389	Title I, Part A Cluster
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

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

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

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2012-1. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a 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 include the following: the same employee was responsible for receiving and depositing monies collected, preparation of non-payroll checks, maintenance of accounting records, and preparation of bank reconciliations, without compensating controls. Additionally, such employee had 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.

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

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SCHOOL BREAKFAST PROGRAM - CASH ASSISTANCE - CFDA NUMBER 10.553
NATIONAL SCHOOL LUNCH PROGRAM - CASH ASSISTANCE - CFDA NUMBER 10.555
PASS-THROUGH NUMBER 48-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

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 48-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT - CFDA
NUMBER 84.394
PASS-THROUGH NUMBER 48-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

2012-2. Procurement and Suspension and Debarment

Criteria or specific requirement: In accordance with 34 CFR 80.35 of the Uniform Administrative Requirements for Grants and Cooperative Agreements to States and Local Governments and 34 CFR part 85, Government-wide Debarment and Suspension (Nonprocurement), 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 (ADE) 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, including retention of verification documentation, to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. The goods and services had been properly received or rendered, and District personnel indicated the *EPLS* website was used to verify that applicable vendors had not been suspended or debarred by the Federal Government; however, supporting documentation was not maintained of the *EPLS* website verification as required by ADE Commissioner's Memo FIN-10-047. 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 procurement and suspension and debarment and the examination of procurement contracts that were equal to or exceeded \$25,000.

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

Cause: Lack of internal controls, verification documentation, and adequate management oversight.

Recommendation: Establish an internal control system, including retention of verification documentation, to ensure applicable transactions are not conducted with suspended or debarred parties.

Views of responsible officials and planned corrective actions: The District continues to use the *EPLS* website for verifying suspended or debarred vendors. Supporting documentation is printed off and maintained with invoice, bid, and other documentation.

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

Schedule 3

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

SIGNIFICANT DEFICIENCIES (CONTINUED)

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 48-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

2012-3. Allowable Costs/Cost Principles

Criteria or specific requirement: Costs charged to a federal program must be allowable per the applicable cost principles. Indirect costs claimed must be calculated in accordance with a prescribed formula.

Condition: The District claimed indirect costs in excess of the allowable amount by \$2,296.

Questioned costs: The amount of questioned costs was \$2,296.

Context: An examination of disbursements disclosed the District claimed costs in excess of the allowable amount by \$2,296.

Effect: The District claimed excessive indirect costs of \$2,296.

Cause: Lack of internal controls and management oversight regarding indirect costs contributed to the claiming of excessive costs.

Recommendation: The District should contact the Arkansas Department of Education to resolve this issue.

Views of responsible officials and planned corrective actions: The Title I indirect cost factor will be updated to current percentage at time of year-end transfer.

2012-4. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires the preparation of monthly personnel activity reports or equivalent documentation when District employees work multiple activities. Periodic time certifications are required when an employee works solely on a single federal program.

Condition: Although standard payroll documentation supporting the employee's work in the Title I program was available for audit inspection, periodic time certifications were not prepared for one employee who worked solely on a single federal program.

Context: Examination of documentation substantiating time worked by employees.

Effect: The District was unable to provide required documentation substantiating the time charged to the Title I program.

Cause: Lack of internal controls and management oversight resulted in the lack of required supporting documentation pertaining to time charged to federal programs.

Recommendation: The District should prepare the periodic time certifications or monthly personnel activity reports for all applicable employees.

Views of responsible officials and planned corrective actions: The District will take the necessary steps to insure that all time distribution sheets are kept on file for all federal employees.

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

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I, PART A CLUSTER

2011 - Finding 2011-3: Title I, Part A Cluster - CDFA Numbers 84.010 and 84.389

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. See Finding No. 2012- 2 at Schedule 3.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2011 - Finding 2011-4: Title I Grants to Local Educational Agencies - CDFA Number 84.010

Condition: The District's Title I (non-ARRA) expenditures for object 61000 (Personal Services - Salaries) exceeded the budget by \$1,350 more than the 10 percent allowed. Total expenditures did not exceed the total overall budget.

Recommendation: The District should implement procedures to ensure that program expenditures do not exceed approved budget categories and contact the Arkansas Department of Education for further guidance regarding this matter.

Current Status: Corrective action was taken.

HUGHES SCHOOL DISTRICT EXHIBIT

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2013-001. 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 include the following: The same employee was responsible for receiving and depositing monies collected, preparation of non-payroll checks, maintenance of accounting records, and preparation of bank reconciliations, without compensating controls. Additionally, such employee had 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.

BRINKLEY SCHOOL DISTRICT NO. B
MONROE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

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 48-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-002. Reporting

Criteria or specific requirement: The Arkansas Department of Education, Child Nutrition Unit requires school districts to submit monthly Claims for Reimbursement for meals served to all students based on eligibility status.

Condition: An examination of the fiscal year 2013 Claims for Reimbursement revealed the total number claimed for breakfast and lunch meals did not agree with the daily count sheets for five of the applicable eleven months. Reimbursement claims were understated 501 free breakfasts, 484 reduced price breakfasts, 80 paid breakfasts, 355 free lunches, 53 reduced price lunches, and 121 paid lunches. These errors resulted in the District being under reimbursed \$2,888 for the year ended June 30, 2013.

Context: An examination of the fiscal year 2013 Claims for Reimbursement revealed the total meals claimed did not agree with the applicable supporting documentation.

Effect: The monthly Claims for Reimbursement did not agree with the District's daily count sheets and under claims occurred.

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

Recommendation: The District should establish effective internal controls to ensure monthly Claims for Reimbursement are accurate. The District should contact the Arkansas Department of Education, Child Nutrition Unit for resolution of this matter.

Views of responsible officials and planned corrective actions: The District has updated and changed paper reports of the Meal Tracker system used for food counts. These reports are reviewed on a daily basis upon completion of the day's receipts and are being used to compute the Child Nutrition monthly reimbursement forms.

BRINKLEY SCHOOL DISTRICT NO. 8
MONROE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SCHOOL BREAKFAST PROGRAM - CASH ASSISTANCE
NATIONAL SCHOOL LUNCH PROGRAM - CASH ASSISTANCE

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I, PART A CLUSTER

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT

2012 - Finding 2012-2: Child Nutrition Cluster (Cash Assistance Programs) - CFDA Numbers 10.553 and 10.555, Title I, Part A Cluster - CFDA Numbers 84.010 and 84.389, and ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act - CFDA Number 84.394

Condition: The District failed to establish internal controls, including retention of verification documentation, to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. The goods and services had been properly received or rendered, and District personnel indicated the *EPLS* website was used to verify that applicable vendors had not been suspended or debarred by the Federal Government; however, supporting documentation was not maintained of the *EPLS* website verification as required by ADE Commissioner's Memo FIN-10-047. 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.

Recommendation: Establish an internal control system, including retention of verification documentation, to ensure applicable transactions are not conducted with suspended or debarred parties.

Current Status: Corrective action was taken.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2012 - Finding 2012-3: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: The District claimed indirect costs in excess of the allowable amount by \$2,296.

Recommendation: The District should contact the Arkansas Department of Education to resolve this issue.

Current Status: Corrective action was taken.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2012 - Finding 2012-4: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: Although standard payroll documentation supporting the employee's work in the Title I program was available for audit inspection, periodic time certifications were not prepared for one employee who worked solely on a single federal program.

Recommendation: The District should prepare the periodic time certifications or monthly personnel activity reports for all applicable employees.

Current Status: Corrective action was taken.

HUGHES SCHOOL DISTRICT EXHIBIT

Brinkley School District No. B

Monroe County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



BRINKLEY SCHOOL DISTRICT NO. 8
MONROE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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 - unmodified

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 federal programs:

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

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

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 federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

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

BRINKLEY SCHOOL DISTRICT NO. 8
MONROE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001. 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, preparation of non-payroll checks, maintenance of accounting records, and preparation of bank reconciliations, without compensating controls. Additionally, such employee had 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.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

BRINKLEY SCHOOL DISTRICT NO. 8
MONROE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

U.S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS)

2013 - Finding 2013-2: Child Nutrition Cluster (Cash Assistance Programs) - CFDA Numbers 10.553 and 10.555

Condition: An examination of the fiscal year 2013 Claims for Reimbursement revealed the total number claimed for breakfast and lunch meals did not agree to the daily count sheets for five of the applicable eleven months. Reimbursement claims were understated 501 free breakfasts, 484 reduced price breakfasts, 80 paid breakfasts, 355 free lunches, 53 reduced price lunches, and 121 paid lunches. These errors resulted in the District being under reimbursed \$2,888 for the year ended June 30, 2013.

Recommendation: The District should establish effective internal controls to ensure monthly Claims for Reimbursement are accurate. The District should contact the Arkansas Department of Education, Child Nutrition Unit, for resolution of this matter.

Current Status: Corrective action was taken.

HUGHES SCHOOL DISTRICT EXHIBIT

Hermitage School District No. 12

Bradley County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ☐ yes ☒ no

FEDERAL AWARDS

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010 and 84.389	Title I, Part A Cluster

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

2012-1. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, the same employee was responsible for receiving and depositing monies collected, preparation of payroll and non-payroll checks, preparation of journal entries, and maintenance of accounting records, 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.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

MATERIAL WEAKNESSES (Continued)

2012-2. Misstatements not Detected by Internal Control System

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

Condition: The District's internal control 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 incorrectly classified transfers of \$32,091 as other revenues in the other aggregate funds. The financial statements were corrected by an adjusting journal entry 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: The District will seek help from qualified audit staff to ensure that QZAB payments and entries are coded properly.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

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 06-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2012

2012-3. Allowable Costs/Cost Principles

Criteria or specific requirement: Costs charged to a federal program must be allowable per the applicable cost principles. Indirect costs claimed must be calculated in accordance with a prescribed formula.

Condition: The District claimed indirect costs in excess of the allowable amount by \$2,271.

Questioned Costs: The amount of questioned costs were \$2,271.

Context: An examination of disbursements disclosed the District claimed in excess of the allowable amount by \$2,271.

Effect: The District claimed excessive indirect costs of \$2,271.

Cause: Lack of internal controls and management oversight regarding indirect costs contributed to the claiming of indirect costs.

Recommendation: The District should contact the Arkansas Department of Education to resolve this matter.

Views of responsible officials and planned corrective actions: The District will refer to the Commissioner's Memo, which listed indirect cost rates, when claiming indirect costs.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION CLUSTER (IDEA)

2011 - Finding 2011-2: Special Education Cluster (IDEA) - CFDA Numbers 84.027 and 84.391

Condition: Non-ARRA special education expenditures for eight budget categories (function/object) exceeded the budget by \$41,874 more than the 10 percent allowed. Special Education ARRA expenditures for function 2230, object 66000 exceeded the budget by \$6,194 more than the 10 percent allowed. A similar finding was reported in the previous audit.

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

Current status: Corrective action was taken.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2011 - Finding 2011-3: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: The District's Title I expenditures exceeded budgeted amounts more than the 10 percent allowed for function 2170 (Parent Involvement) and object 62000 (Employee Benefits) by \$1,448 and \$659, respectively. Additionally, the District did not budget object 68000 (Other Objects) for the Title I program, but expended \$179.

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

Current status: Corrective action was taken.

HUGHES SCHOOL DISTRICT EXHIBIT

Hermitage School District No. 12

Bradley County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2013

LEGISLATIVE JOINT AUDITING COMMITTEE



HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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 - unmodified

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: unmodified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2013-001. 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, the same employee was responsible for receiving and depositing monies collected, preparation of payroll and non-payroll checks, and maintenance of accounting records, 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.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER - CFDA NUMBERS 10.553 AND 10.555
PASS-THROUGH NUMBER 06-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-002. Eligibility

Criteria or specific requirement (including statutory, regulatory, or other citation): The U. S. Department of Agriculture (USDA) guidelines require an entity to perform verification procedures for a specific number of applicants for free and reduced price meals. As part of this process, the applicant's household must provide the District written evidence confirming eligibility.

Condition: The District did not obtain acceptable written evidence of all household income for one verified application, nor did the District make a follow-up attempt to obtain sufficient evidence of income as required by the USDA's "Eligibility Manual for School Meals - Federal and State Policy for Determining and Verifying Eligibility".

Context: The District was required to select four free and reduced price applications for verification. We examined one of the four applications, which revealed acceptable written evidence was not obtained by the District.

Effect: Changes made to the free and reduced price meal status for the tested application could not be substantiated.

Cause: District personnel did not properly monitor the verification procedures to ensure that proper supporting documentation was provided.

Recommendation: The District should obtain acceptable and sufficient documentation by the applicants during the verification process regarding eligibility for free and reduced price meals.

Views of responsible officials and planned corrective actions: We will obtain acceptable written evidence for each free and reduced application that is pulled for verification. In addition, we will pull the application in question this year for verification with cause. In addition, we will examine all applications and pull any questionable application for verification with cause.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

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

2013-003. Reporting

Criteria or specific requirement (including statutory, regulatory, or other citation): Monthly Claims for Reimbursement are required to be submitted to the Arkansas Department of Education, Child Nutrition Unit (ADE, CNU). Claim components include the total number of meals served (breakfasts and lunches) and snacks which are to be derived from the daily record forms.

Condition: An examination of the fiscal year 2013 Claims for Reimbursement revealed the total number claimed for breakfast and lunch meals, or snacks did not agree to the daily count sheets for five of the ten months with meal and snack reimbursement claims. Breakfast reimbursement claims were overstated 23 meals, lunch reimbursements claims were understated 93 meals, and snack reimbursement claims were overstated 187 snacks. These errors resulted in a net breakfast overclaim of \$73, a net lunch underclaim of \$32, and a snack overclaim of \$146, for a total net overclaim of \$187.

Context: An examination of the fiscal year 2013 Claims for Reimbursement revealed the total meals and snacks claimed did not agree with the applicable supporting documentation.

Effect: The District's procedures to ensure accuracy and completeness of data and information included in the Claims for Reimbursement were not effective, resulting in net overclaimed meals and snacks.

Cause: A deficiency in internal controls and lack of management oversight resulted in the reporting errors.

Recommendation: Establish appropriate reporting procedures and monitor the information included in the daily record forms to ensure the monthly Claims for Reimbursement are accurately completed.

Views of responsible officials and planned corrective actions: In response to claims for reimbursement not matching up to daily record sheets, we have created a spreadsheet that will reduce the chance of error in computing monthly totals for reimbursement claims. In addition, all monthly claims for reimbursement will be examined by the business manager for accuracy before submission.

HUGHES SCHOOL DISTRICT EXHIBIT

Hermitage School District No. 12

Bradley County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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 - unmodified

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 federal programs:

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

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

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 federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001. 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 regulatory basis 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 and non-payroll checks, and maintenance of accounting records, 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 agree with the finding. The District will establish and maintain internal controls to safeguard assets to the extent possible.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

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 06-01
AUDIT PERIOD - YEAR ENDED JUNE 30, 2014

2014-002. Eligibility

Criteria or specific requirement: The U.S. Department of Agriculture (USDA) guidelines require an entity to perform verification procedures for a specific number of applicants for free and reduced price meals. As part of this process, the District is required to follow standard sampling procedures. The entity is also required to complete the verification procedures by November 15 of each school year.

Condition: We obtained a review by the Arkansas Department of Education Child Nutrition Unit that disclosed the following: (a) the District did not follow standard sampling procedures when personnel verified free and reduced price meal applications. The District only verified four instead of five applications required by standard sampling procedures, and (b) the District did not complete the verification process by November 15, 2013.

Context: Examination of verification procedures and documentation from the Arkansas Department of Education Child Nutrition Unit.

Effect: The District did not verify enough applications as required by the standard sampling procedures and the District did not complete the verification process by November 15, 2013.

Cause: District personnel did not properly monitor the verification procedures to ensure the correct number of applications were verified and to ensure the verification process was completed by the November 15, 2013 deadline.

Recommendation: The District should implement procedures to ensure that standard sampling procedures are followed and deadlines are met.

Views of responsible officials and planned corrective actions: We agree with the finding. The District will follow sampling procedures when verifying free and reduced price meal applications. Specifically, we now understand that verifications pulled for cause do not count in the number of verifications we are required to pull. We received a letter in February from ADE and this deficiency was corrected prior to the audit. We will provide professional development to relevant staff on the verification process and the importance of completing and submitting reports on time.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS)

2013 - Finding 2013-002: Child Nutrition Cluster (Cash Assistance Programs) - CFDA Numbers 10.553 and 10.555

Condition: The District did not obtain acceptable written evidence of all household income for one verified application, nor did the District make a follow-up attempt to obtain sufficient evidence of income as required by the USDA's "Eligibility Manual for School Meals - Federal and State Policy for Determining and Verifying Eligibility".

Recommendation: The District should obtain acceptable and sufficient documentation by the applicants during the verification process regarding eligibility for free and reduced price meals.

Current Status: Corrective action was taken.

2013 - Finding 2013-003: Child Nutrition Cluster (Cash Assistance Programs) - CFDA Numbers 10.553 and 10.555

Condition: An examination of fiscal year 2013 Claims for Reimbursement revealed the total number claimed for breakfast and lunch meals, or snacks did not agree to the daily count sheets for five of the ten months with meal and snack reimbursement claims. Breakfast reimbursement claims were overstated 23 meals, lunch reimbursements claims were understated 93 meals, and snack reimbursement claims were overstated 187 snacks. These errors resulted in a net breakfast overclaim of \$73, a net lunch underclaim of \$32, and a snack overclaim of \$146, for a total net overclaim of \$187.

Recommendation: Establish appropriate reporting procedures and monitor the information included in the daily record forms to ensure the monthly Claims for Reimbursement are accurately completed.

Current Status: Corrective action was taken.

HUGHES SCHOOL DISTRICT EXHIBIT

Western Yell County School District No. 9

Yell County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



WESTERN YELL COUNTY SCHOOL DISTRICT NO. 9
YELL COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

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

FEDERAL AWARDS

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010 and 84.389	Title I, Part A Cluster
84.027 and 84.391	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

WESTERN YELL COUNTY SCHOOL DISTRICT NO. 9
YELL COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2012-1. Internal Control

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

Condition: A deficiency in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented or detected and corrected on a timely basis. The District has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting. The District has one employee that has access to all aspects of the payroll processing including adding new employees, processing payroll checks, and reconciling of the bank statements. The District has another employee who has access to all aspects of the accounts payable processing including adding new vendors, processing accounts payable checks, and reconciling of the bank statements.

Context: An understanding of the five components of internal control sufficient to assess the risk of material 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, were adversely affected by the identified weakness in the above internal control component.

Cause: District management, due to cost/benefit implications, which hindered the District's ability to hire sufficient appropriate personnel, 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 action procedures to the extent possible.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

WESTERN YELL COUNTY SCHOOL DISTRICT NO. 9
YELL COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2011 - Finding 2011-3: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: The District exceeded the Title I budget (non-ARRA) for object code 66000 (materials and supplies) by \$5,770 more than the 10 percent allowed. Total expenditures did not exceed the total overall budget.

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

Current status: Corrective action was taken.

2011 - Finding 2011-4: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: Two required components were not included in the Arkansas Comprehensive School Improvement Plan (ACSIP) for the Title I program (non-ARRA): (1) schoolwide reform strategies, and (2) transition plans for assisting preschool children in the successful transition to the schoolwide program.

Recommendation: The District should implement procedures to ensure that all required components for the ACSIP are addressed.

Current status: Corrective action was taken.

2011 - Finding 2011-5: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: The District did not contact applicable private school officials for possible participation in the Title I program (non-ARRA).

Recommendation: The District should implement procedures to ensure that all private schools that could be eligible to participate in the program are properly notified.

Current status: Corrective action was taken.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - SPECIAL EDUCATION GRANTS TO STATES, RECOVERY ACT

2011 - Finding 2011-6: ARRA - Special Education Grants to States, Recovery Act - CFDA Number 84.391

Condition: The District did not budget expenditures for ARRA special education object 66000 (supplies and materials) of function 1297 (early intervening services) of \$299 and function 2230 (instruction-related technology) of \$888; and object 67000 (capital outlay) of function 1220 (resource room) of \$2,272, but incurred expenditures from those budget cells.

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

Current status: Corrective action was taken.

HUGHES SCHOOL DISTRICT EXHIBIT

Western Yell County School District No. 9

Yell County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2013

LEGISLATIVE JOINT AUDITING COMMITTEE



WESTERN YELL COUNTY SCHOOL DISTRICT NO. 9
YELL COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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 - unmodified

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: unmodified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

WESTERN YELL COUNTY SCHOOL DISTRICT NO. 9
YELL COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2013-001. Internal Control

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

Condition: A deficiency in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. The District has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting. The District has one employee that has access to all aspects of the payroll processing including adding new employees, processing payroll checks, and reconciliation of the bank statements. The District has another employee who has access to all aspects of the accounts payable processing including adding new vendors, processing accounts payable checks, and reconciliation of the bank statements.

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 hire sufficient appropriate personnel, 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 action procedures to the extent possible.

WESTERN YELL COUNTY SCHOOL DISTRICT NO. 9
YELL COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

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 75-09
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-002. 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: Unallowable costs paid from the child nutrition program totaling \$836 for the period July 1, 2012 to July 31, 2013 were revealed. These expenditures resulted from an employee issuing checks to herself and other individuals who cashed the checks on her behalf. The employee has been charged with theft of property.

Questioned Costs: The amount of the questioned costs was \$836.

Context: An examination of child nutrition program expenditures.

Effect: Unallowable costs of \$836 for the period July 1, 2012 to July 31, 2013 occurred.

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

Recommendation: The District should contact the Arkansas Department of Education for guidance regarding this matter and implement proper controls over program expenditures.

Views of responsible officials and planned corrective actions: The District has included all board members on the bank account signature card. The District credit card is not available to employees for POS purchases and all online use has been assigned to pass through the administration office. Other numerous duties and responsibilities have been reassigned for the purpose of more efficient supervision. All efforts are being made to use existing personnel in a manner to protect the security of District transactions. These efforts will be closely monitored by the superintendent of the District.

WESTERN YELL COUNTY SCHOOL DISTRICT NO. 9
YELL COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

There were no findings in the prior audit.

HUGHES SCHOOL DISTRICT EXHIBIT

Western Yell County School District No. 9

Yell County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



WESTERN YELL COUNTY SCHOOL DISTRICT NO. 9
YELL COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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 - unmodified

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 federal programs:

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

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

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 federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B
programs:

\$ 300,000

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

WESTERN YELL COUNTY SCHOOL DISTRICT NO. 9
YELL COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2014-001. 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. The District has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting. The District has one employee that has access to all aspects of the payroll processing including adding new employees, processing payroll checks, and reconciliation of the bank statements. The District has another employee who has access to all aspects of the accounts payable processing including adding new vendors, processing accounts payable checks, and reconciliation of the bank statements.

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 hire sufficient appropriate personnel, 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 action procedures to the extent possible.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

WESTERN YELL COUNTY SCHOOL DISTRICT NO. 9
YELL COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Schedule 4

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER (CASH ASSISTANCE PROGRAMS)

2013 - Finding 2013-002: Child Nutrition Cluster (Cash Assistance Programs) - CFDA Numbers 10.553 and 10.555

Condition: Unallowable costs paid from the child nutrition program totaling \$836 for the period July 1, 2012 to July 31, 2013 were revealed. These expenditures resulted from an employee issuing checks to herself and other individuals who cashed the checks on her behalf. The employee has been charged with theft of property.

Recommendation: The District should contact the Arkansas Department of Education for guidance regarding this matter and implement proper controls over program expenditures.

Current Status: Corrective action was taken.

From: Dr. Dexter Suggs

To: Commissioner Johnny Key

Re: April 2015 - Update Little Rock School District

The past few months have been extremely busy for the staff of the Little Rock School District; change is difficult, and as we work through this transition period and toward transforming our school system into a national model of excellence, we are reaffirming our commitment to putting children first, and to retaining highly qualified staff who are equally committed to a new, more efficiently run LRSD. The successful transformation of an urban school district such as the Little Rock School District will require a commitment to time, care, determination, and effort on everyone's part. We must not forget that this is a process, and it will take some time to develop a culture of high expectations for all persons, and a true culture conducive to learning for all.

The following information will serve as an update on the current status of the Little Rock School District.

The first meeting of the Civic Advisory Committee is scheduled for April 21, 2015, from 5:00-6:00pm in the Little Rock School District Administration Building, 810 W. Markham. The agenda will include introductions and defining the purpose of the committee. The May meeting agenda will focus on the data that was utilized to designate the six schools in academic distress. Future meetings will focus on identifying and refining the communication needed for town hall meetings. This information will also inform the district communication plan.

District Improvements

Reorganize Central Administration – reduction and/or restructuring of staff - [Note: Recommendation for non-renewal sent on Friday, April 3, 2015. Process will be followed in accordance to the Arkansas Teacher Fair Dismissal Act or the Public School Employee Fair Hearing Act for all qualified persons.]**

- In a budget where more than 80% of the expenses are salary and benefits, while unpleasant, it is inevitable that there will be a reduction of staff, realignment of positions, and adjustments in salary to accommodate these changes
- Reduction and/or restructuring of LRSD's administrative staff in order to reduce LRSD's budget in response to the impending loss of desegregation funding
- New organizational structure will provide more responsive support to schools (reduce middle man inefficiency)
- Responsive support to needs of students



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- Potential cost savings to district TBD
- Responsive support to needs of principals, teachers, and students

****All middle school principals' contracts adjusted from 12 month to 11.50 month (230 days)**

- Bring all principal contracts into alignment: Elementary principals on 11 month contracts; Middle school principals on 11.5 month contracts; High School principals on 12 month contracts
- Potential cost savings to district TBD

****Canceled 12 month elementary principal contracts and offered 11 month contracts to affected employees**

- Bring all principals contracts into alignment: Elementary principals on 11 month contracts; Middle School principals on 11.5 month contracts; High School principals on 12 month contracts
- Potential cost savings to district TBD

LRSD Transition to APSCN

- eSchool 3.1 version -- projected date July 1, 2017
- eFinance Plus - projected date July 1, 2017
- Professional development for COGNOS and GPS dashboards will begin 2015-2016
- Potential cost savings to district TBD

LRSD financial audit by Bureau of Legislative Audit

- Potential cost savings to district TBD

Attendance zone and Feeder Patterns

- Families would identify the school that best fits their child's needs. A computer algorithm would consider student and neighborhood preferences to assign students.
- Students and parents will benefit from choice to attend a school that fits the student's learning style and interest. Learning will be relevant, challenging, and engaging.
- Improved attendance
- Improved graduation rate
- Improved student achievement



Consideration of charter school waivers (HB1377), conversion charter, and/or schools of innovation

- Provide more targeted response to interventions including wrap around services for students

Examining district finance (Finance Committee, Baker Kurrus)

- Ensure effective, efficacy, and efficiency in budgeting and expenditures. Plan for future building projects

Communication with parents, students, teachers, administrators, and community

- The Civic Advisory Committee and LRSD administration will collaborate to provide communication through written and electronic messages and town hall meetings
- Engage the community in district support and pride

Provide early childhood services to all 4 year olds.

- Continue to provide early childhood services for funded 3 year olds
- The district currently provides 1, 137 seats
- Possibility of converting an elementary school into an Early Childhood Center for 3 and 4 year olds to accommodate increased slots for 4 year olds
- On-going study

Implement bilingual community liaison specialists (4)

- Serve as liaison for parents (emphasis on language minority parents) to navigate the educational systems and processes
- Potential annual cost \$163,910.00

Implementation of quarterly improvement goals as noted by ADE

- ADE School Improvement Specialists monitor the 45 day plans weekly and report to the ADE and State Board of Education

22 credits/26 credits – all high schools

- Students may still complete additional courses beyond 22 credit requirements
- More students will graduate on time (4 years)
- Students will have more time to double block difficult classes
- Students will have more time for credit recovery



- Increase long-term earning capacity for high school graduates
- Improve graduation rate for high schools and district
- Lower number of dropouts is a potential cost savings to city and state

7 period day schedule - all middle schools, Hall High School, J. A. Fair High School, and McClellan High School

- Teachers will be teaching 6 out of 7 periods per day
- Students will have more time on task in classrooms
- Students will have more continuous opportunity for teacher feedback and support
- Potential cost savings to district TBD

Hall High School Redesign

- 2015-2016 finalize redesign, provide professional development 2016-2017 implement redesign
- Students will graduate with college credit and or skills necessary for focused careers
- Increase long-term earning capacity for high school graduates
- Improve graduation rate
- Lower number of dropouts is a potential cost savings to city and state

Reconstitution of Baseline Elementary:

- More responsive driven instruction and potential cost for implementation
- The new Baseline Early Reading and Language Lab Academy (2015-2016)
- Response to intervention process includes core instruction, targeted interventions and Sheltered Instruction Observation Protocol (SIOP) in all classrooms
- Targeted professional development for teachers and administration
- Onsite bilingual community liaison specialist
- Intervention to ensure students are on grade level
- Increased student achievement
- Long-term potential cost savings to district due to early intervention
- Improved teacher retention

State of the District Address

- June ?, 2015 (TBD)
- Communicate the direction of the district for the 2015-16 school



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