

**Lincoln Consolidated School District No. 48**

**Washington County, Arkansas**

**Regulatory Basis Financial Statements  
and Other Reports**

**June 30, 2013**

LEGISLATIVE JOINT AUDITING COMMITTEE

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WASHINGTON COUNTY, ARKANSAS  
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JUNE 30, 2013

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# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

#### INDEPENDENT AUDITOR'S REPORT

Lincoln Consolidated School District No. 48 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 Lincoln Consolidated School District No. 48 (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 February 7, 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  
February 7, 2014  
EDSD39013

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

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

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

#### INDEPENDENT AUDITOR'S REPORT

Lincoln Consolidated School District No. 48 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 Lincoln Consolidated School District No. 48 (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 February 7, 2014. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

#### **Internal Control Over Financial Reporting**

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

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

We noted certain matters that we reported to management of the District in a separate letter dated February 7, 2014.

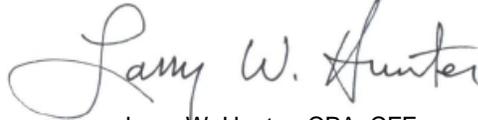
## **District's Response to Findings**

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  
February 7, 2014

Sen. Bryan B. King  
Senate Chair  
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House Chair  
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House Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

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

#### INDEPENDENT AUDITOR'S REPORT

Lincoln Consolidated School District No. 48 and School Board Members  
Legislative Joint Auditing Committee

#### **Report on Compliance for Each Major Federal Program**

We have audited the Lincoln Consolidated School District No. 48 (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***

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 major federal programs for the year ended June 30, 2013.

#### ***Other Matters***

The results of our auditing procedures disclosed 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 2013-003. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance finding 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.

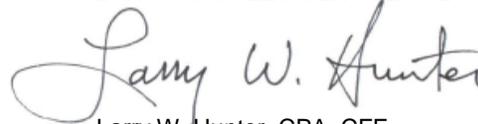
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. *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, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2013-003 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding 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  
February 7, 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

Lincoln Consolidated School District No. 48 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. Documented application recovery plans were not tested to verify their effectiveness. A plan that is not periodically tested and updated with current conditions could prove unreliable in a disaster situation.
2. The District paid an employee \$7,060 for air conditioning cleaning services without approval from the Arkansas Department of Education, as required by ethics provisions in Ark. Code Ann. § 6-24-107. A similar finding was reported in the previous audit.

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  
February 7, 2014

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2013

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 1,025,968	\$ 22,154	\$ 98,150	\$ 64,873
Investments	194,749			21,255
Accounts receivable	643	227,507		
Due from other funds	156,116			
Deposit with paying agent			758,217	
<b>TOTAL ASSETS</b>	<b>\$ 1,377,476</b>	<b>\$ 249,661</b>	<b>\$ 856,367</b>	<b>\$ 86,128</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 91,106	\$ 22,366	\$ 55,783	\$ 4,133
Due student groups				26,066
Due to other funds		156,116		
<b>Total Liabilities</b>	<b>91,106</b>	<b>178,482</b>	<b>55,783</b>	<b>30,199</b>
<b>Fund Balances:</b>				
Restricted	48,540	71,521	762,287	55,929
Assigned	34,871		38,297	
Unassigned	1,202,959	(342)		
<b>Total Fund Balances</b>	<b>1,286,370</b>	<b>71,179</b>	<b>800,584</b>	<b>55,929</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,377,476</b>	<b>\$ 249,661</b>	<b>\$ 856,367</b>	<b>\$ 86,128</b>

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

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 2,935,601		
State assistance	7,765,262	\$ 4,764	\$ 622,104
Federal assistance	15,882	2,315,756	317,945
Activity revenues	157,399		
Meal sales		168,182	
Investment income	5,997		1,443
Other revenues	184,566	56,939	
<b>TOTAL REVENUES</b>	<b>11,064,707</b>	<b>2,545,641</b>	<b>941,492</b>
<b>EXPENDITURES</b>			
Regular programs	3,450,187	599,457	232,481
Special education	574,649	148,804	
Career education programs	277,429		
Compensatory education programs	88,845	305,033	
Other instructional programs	370,897	14,331	
Student support services	547,141	148,676	
Instructional staff support services	856,811	599,826	
General administration support services	357,704		
School administration support services	550,670		
Central services support services	306,913	27,324	
Operation and maintenance of plant services	1,264,306	74,821	171,579
Student transportation services	493,120	4,876	
Other support services	46,280	3,983	
Food services operations	6,842	815,363	
Community services operations	108,881		
Facilities acquisition and construction services	452,611		1,004,836
Non-programmed costs		16,700	
Activity expenditures	197,119		
Debt Service:			
Principal retirement	742,275		125,000
Interest and fiscal charges	2,677		693,795
<b>TOTAL EXPENDITURES</b>	<b>10,695,357</b>	<b>2,759,194</b>	<b>2,227,691</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>369,350</b>	<b>(213,553)</b>	<b>(1,286,199)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			861,178
Transfers out	(861,178)		
Sale of capital assets	310,900		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(550,278)</b>		<b>861,178</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(180,928)</b>	<b>(213,553)</b>	<b>(425,021)</b>
<b>FUND BALANCES - JULY 1</b>	<b>1,467,298</b>	<b>284,732</b>	<b>1,225,605</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 1,286,370</b>	<b>\$ 71,179</b>	<b>\$ 800,584</b>

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

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON 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)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 3,034,319	\$ 2,935,601	\$ (98,718)			
State assistance	7,715,723	7,765,262	49,539	\$ 4,500	\$ 4,764	\$ 264
Federal assistance		15,882	15,882	2,597,092	2,315,756	(281,336)
Activity revenues		157,399	157,399			
Meal sales				165,500	168,182	2,682
Investment income	4,731	5,997	1,266			
Other revenues	151,387	184,566	33,179		56,939	56,939
<b>TOTAL REVENUES</b>	<b>10,906,160</b>	<b>11,064,707</b>	<b>158,547</b>	<b>2,767,092</b>	<b>2,545,641</b>	<b>(221,451)</b>
<b>EXPENDITURES</b>						
Regular programs	3,360,532	3,450,187	(89,655)	599,227	599,457	(230)
Special education	581,072	574,649	6,423	189,290	148,804	40,486
Career education programs	284,231	277,429	6,802			
Compensatory education programs	89,231	88,845	386	420,059	305,033	115,026
Other instructional programs	422,119	370,897	51,222	47,136	14,331	32,805
Student support services	550,463	547,141	3,322	159,235	148,676	10,559
Instructional staff support services	1,094,123	856,811	237,312	953,371	599,826	353,545
General administration support services	355,476	357,704	(2,228)			
School administration support services	527,420	550,670	(23,250)			
Central services support services	304,199	306,913	(2,714)	21,941	27,324	(5,383)
Operation and maintenance of plant services	1,240,011	1,264,306	(24,295)	77,821	74,821	3,000
Student transportation services	479,350	493,120	(13,770)	4,868	4,876	(8)
Other support services	28,595	46,280	(17,685)	3,700	3,983	(283)
Food services operations	5,500	6,842	(1,342)	717,568	815,363	(97,795)
Community services operations	107,344	108,881	(1,537)	3,500		3,500
Facilities acquisition and construction services	210,670	452,611	(241,941)			
Non-programmed costs				16,700	16,700	
Activity expenditures	30,325	197,119	(166,794)			
Debt Service:						
Principal retirement	80,000	742,275	(662,275)			
Interest and fiscal charges		2,677	(2,677)			
<b>TOTAL EXPENDITURES</b>	<b>9,750,661</b>	<b>10,695,357</b>	<b>(944,696)</b>	<b>3,214,416</b>	<b>2,759,194</b>	<b>455,222</b>

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON 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	\$ 1,155,499	\$ 369,350	\$ (786,149)	\$ (447,324)	\$ (213,553)	\$ 233,771
OTHER FINANCING SOURCES (USES)						
Transfers in	4,515,508		(4,515,508)			
Transfers out	(5,247,043)	(861,178)	4,385,865			
Sale of capital assets		310,900	310,900			
TOTAL OTHER FINANCING SOURCES (USES)	(731,535)	(550,278)	181,257			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	423,964	(180,928)	(604,892)	(447,324)	(213,553)	233,771
FUND BALANCES - JULY 1	1,523,814	1,467,298	(56,516)	264,638	284,732	20,094
FUND BALANCES - JUNE 30	<u>\$ 1,947,778</u>	<u>\$ 1,286,370</u>	<u>\$ (661,408)</u>	<u>\$ (182,686)</u>	<u>\$ 71,179</u>	<u>\$ 253,865</u>

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

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

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

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

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

C. Measurement Focus and Basis of Accounting

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

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

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

F. Property Taxes

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

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

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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.

K. Minimum Fund Balance Policies

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

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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

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:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	1,176,949	1,383,220
Total Deposits	\$ 1,426,949	\$ 1,633,220

The above total deposits do not include cash on hand of \$200. The above total deposits include certificates of deposit of \$216,004 reported as investments and classified as nonparticipating contracts.

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$228,150 at June 30, 2013 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance		\$ 221,077	\$ 221,077
Meal sales		6,430	6,430
Other	\$ 643		643
Totals	\$ 643	227,507	228,150

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**4: COMMITMENTS**

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

A. Construction Contracts

Project Name	Completion Date	Contract Balance
Lincoln High School	August 1, 2013	\$ 743
Athletic complex	October 1, 2013	63,420
Safe room	January 31, 2015	41,250

B. Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2013	Maturities To June 30, 2013
9/1/05	9/1/21		\$ 115,000	\$ 115,000	
6/10/08	6/10/18		800,000	400,000	\$ 400,000
8/1/10	2/1/34	1 - 4%	3,485,000	3,415,000	70,000
8/1/10	2/1/37	3 - 4.125%	4,315,000	4,130,000	185,000
8/26/10	8/1/27	5.25%	5,585,000	5,585,000	
11/1/10	2/1/37	1 - 4.375%	2,000,000	1,835,000	165,000
7/28/11	7/1/27	4.72%	925,000	925,000	
5/1/12	2/1/34	1.25 - 3.125%	685,000	685,000	
6/20/12	7/20/15	0.9%	1,657,372	995,097	662,275
Totals			<u>\$ 19,567,372</u>	<u>\$ 18,085,097</u>	<u>\$ 1,482,275</u>

Changes in Long-term Debt

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013
Bonds payable	\$ 16,815,000		\$ 125,000	\$ 16,690,000
Postdated warrants	480,000		80,000	400,000
Capital leases	1,657,372		662,275	995,097
Totals	<u>\$ 18,952,372</u>	<u>\$ 0</u>	<u>\$ 867,275</u>	<u>\$ 18,085,097</u>

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**4: COMMITMENTS (Continued)**

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

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 596,317	\$ 714,128	\$ 1,310,445
2015	619,843	698,327	1,318,170
2016	628,937	690,945	1,319,882
2017	290,000	684,891	974,891
2018	295,000	680,129	975,129
2019-2023	1,295,000	3,311,785	4,606,785
2024-2028	7,890,000	2,946,721	10,836,721
2029-2033	3,415,000	1,037,665	4,452,665
2034-2037	3,055,000	309,238	3,364,238
Totals	<u>\$ 18,085,097</u>	<u>\$ 11,073,829</u>	<u>\$ 29,158,926</u>

Capital Lease

The District has executed the following capital lease:

Class of Property	Asset Balance June 30, 2013
Computers	<u>\$ 2,149,060</u>
	<u>June 30, 2013</u>
Total Minimum Lease Payments	\$ 1,023,522
Less: Amount Representing Interest	<u>28,425</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 995,097</u>

Qualified Zone Academy Bond (QZAB)

On September 1, 2005, the District obtained funding of \$115,000 through the Qualified Zone Academy Bond (QZAB) program, a debt financial arrangement authorized under the Taxpayer Relief Act of 1997. The District will deposit \$5,462 annually into a sinking fund for 16 years for a total of \$87,392. This amount plus interest earned will be used to retire the debt when due.

On June 10, 2008, the District obtained funding of \$800,000 through the Qualified Zone Academy Bond (QZAB) program, a debt financial arrangement authorized under the Taxpayer Relief Act of 1997. The District is required to remit annual payments to retire this debt.

Qualified School Construction Bonds

On August 26, 2010, the District obtained funding of \$5,585,000 from Qualified School Construction Bonds, a debt financial arrangement authorized by the American Recovery and Reinvestment Act of 2009. The District will deposit a specified amount annually into a sinking fund for 17 years. This amount plus interest earned will be used to retire the debt when due.

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
 WASHINGTON COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013

**4: COMMITMENTS (Continued)**

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

Qualified School Construction Bonds (Continued)

On July 28, 2011, the District obtained funding of \$925,000 from Qualified School Construction Bonds, a debt financial arrangement authorized by the American Recovery and Reinvestment Act of 2009. The District will deposit a specified amount annually into a sinking fund for 16 years. This amount plus interest earned will be used to retire the debt when due.

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$173,388 at June 30, 2013 was comprised of the following:

Description	Governmental Funds			Fiduciary Fund Types	Total
	Major		Other Aggregate		
	General	Special Revenue			
Vendor payables	\$ 91,106	\$ 22,366	\$ 55,783	\$ 4,133	\$ 173,388

**6: INTERFUND TRANSFERS**

The District transferred \$861,178 from the general fund to the other aggregate funds for capital outlay related payments of \$98,150 and for debt related payments of \$763,028.

**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.

**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 \$1,024,581, \$1,083,951, and \$1,070,341, respectively, equal to the required contributions for each year.

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS**

ADDITIONS	
Donations	\$ 27,149
DEDUCTIONS	
Scholarships	38,657
CHANGE IN FUND BALANCE	(11,508)
FUND BALANCE - JULY 1, as previously reported	46,257
Restatement adjustment - unrecorded investments	21,180
FUND BALANCE - JULY 1, as restated	67,437
FUND BALANCE - JUNE 30	\$ 55,929

**9: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$17,110,000 issued from September 1, 2005 through May 1, 2012. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$27,735,405, payable through February 1, 2037. Principal and interest paid for the current year and total property taxes pledged for debt service were \$816,362 and \$1,216,865, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 67.09 percent.

**10: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for student accident, business trip accidental death and dismemberment, and school board legal liability. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

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

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

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**10: RISK MANAGEMENT (Continued)**

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

**11: ON-BEHALF PAYMENTS**

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$123,052 for the year ended June 30, 2013.

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

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted for:				
Educational programs - national school lunch state categorical funding	\$ 5,421			\$ 5,421
English-language learners	13,590			13,590
Professional development	3,742			3,742
Child nutrition programs		\$ 30,634		30,634
Debt service			\$ 762,287	762,287
Medical services		19,766		19,766
Other purposes	25,787	21,121		46,908
Total Restricted	<u>48,540</u>	<u>71,521</u>	<u>762,287</u>	<u>882,348</u>
Assigned to:				
Capital projects			38,297	38,297
Student activities	27,482			27,482
Other purposes	7,389			7,389
Total Assigned	<u>34,871</u>		<u>38,297</u>	<u>73,168</u>
Unassigned	<u>1,202,959</u>	<u>(342)</u>		<u>1,202,617</u>
Totals	<u>\$1,286,370</u>	<u>\$ 71,179</u>	<u>\$ 800,584</u>	<u>\$2,158,133</u>

**13: DEFICIT FUND BALANCE**

The deficit unassigned fund balance of \$342 in the special revenue fund in the above table pertains to the Title I program. The temporary deficit was caused by the recognition of a minor accounts payable at year end.

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON 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	\$ 570,877
Construction in progress	1,293,293
Total nondepreciable capital assets	1,864,170
 <i>Depreciable capital assets:</i>	
Buildings	25,230,016
Improvements/infrastructure	1,302,998
Equipment	3,198,913
Total depreciable capital assets	29,731,927
 Less accumulated depreciation for:	
Buildings	4,447,182
Improvements/infrastructure	303,257
Equipment	2,278,705
Total accumulated depreciation	7,029,144
Total depreciable capital assets, net	22,702,783
Capital assets, net	\$ 24,566,953

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON 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
<u>CHILD NUTRITION CLUSTER</u>			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 1,998
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	72-05	162,027
National School Lunch Program - Cash Assistance	10.555	72-05	361,992
Total State Department of Education			<u>524,019</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	7205000	38,791
TOTAL CHILD NUTRITION CLUSTER			<u>564,808</u>
<u>OTHER PROGRAMS</u>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program	10.582	7205	38,256
<u>U. S. Environmental Protection Agency</u>			
Passed Through State Department of Environmental Quality:			
State Clean Diesel Grant Program	66.040	Unavailable	8,180
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	72-05	400,592
Special Education - Grants to States	84.027	72-05	279,125
Charter Schools	84.282	72-05	174,347
Twenty-First Century Community Learning Centers	84.287	72-05	69,002
Rural Education	84.358	72-05	16,732
English Language Acquisition Grants	84.365	72-05	10,236
Improving Teacher Quality State Grants	84.367	72-05	64,465
ARRA - Education Jobs Fund, Recovery Act	84.410	72-05	8,864
Total State Department of Education			<u>1,023,363</u>
Passed through National Institute for Excellence in Teaching:			
Teacher Incentive Fund	84.374	72-05	824,316
Total U. S. Department of Education			<u>1,847,679</u>
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Temporary Assistance for Needy Families	93.558	0000200340	14,370
TOTAL OTHER PROGRAMS			<u>1,908,485</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,473,293</u>

The accompanying notes are an integral part of this schedule.

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON 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 Lincoln Consolidated School District No.48 (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 \$34,094 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
 WASHINGTON 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 84.374	Child Nutrition Cluster Teacher Incentive Fund

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

Auditee qualified as low-risk auditee?  yes  no

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON 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 more than 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 employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting. Specifically, the same employee that was responsible for establishing vendor information also prepared disbursements; and the same employee who established employees in the payroll system also processed payroll, without compensating controls.

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

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

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

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

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

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON 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 the 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 totaling \$556,838 in the general fund. A similar finding was reported in the previous audit. The financial statements were subsequently corrected by adjusting journal entries during audit fieldwork. Adjusted errors were as follows:

	<u>General Fund</u>
Understatement of accounts payable	\$ 21,495
Sale of assets improperly classified as activity revenues	310,900
Misclassification of principal and interest payments as instructional staff support services	224,443

Context: Identification of misstatements not initially detected by the District's internal control and necessary adjustments to the financial statements.

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

Cause: Financial accounting records had not been properly monitored by management.

Recommendation: To achieve accurate financial accounting records, the District should exercise due care to ensure all transactions are properly recorded.

Views of responsible officials and planned corrective actions: The District will ensure that all accounts payable are coded correctly according to the fiscal year as shown by the invoice date. The issue of computers that were sold and deposited to the wrong account has been corrected. In addition, the Apple Lease payment to CDW has been corrected to reflect both principal and interest.

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON 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 72-05  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH NATIONAL INSTITUTE FOR EXCELLENCE IN TEACHING  
TEACHER INCENTIVE FUND - CFDA NUMBER 84.374  
PASS-THROUGH NUMBER 72-05  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2013

2013-003. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires the preparation of periodic time certifications when an employee works solely on a single federal program.

Condition: Although standard payroll documentation supporting the employees' work in the applicable program was available for audit inspection, periodic time certifications were not prepared for the District's employees paid from the child nutrition program and the Teacher Incentive Fund. A similar finding was reported in the previous audit regarding the Teacher Incentive Fund.

Context: Examination of documentation substantiating time work by employees.

Effect: The District was unable to provide required documentation substantiating the time charged to the child nutrition program and the Teacher Incentive Fund.

Cause: The District was unaware of the OMB Circular A-87 requirement pertaining to periodic time certifications.

Recommendation: The District should prepare the periodic time certifications for all applicable employees.

Views of responsible officials and planned corrective actions: The District is aware of the requirements for periodic time certifications. Time certifications for the Child Nutrition Cluster were completed and have been submitted now for review. Time certifications will be completed for all other required federal funds in the future, including the Teacher Incentive Fund.

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
WASHINGTON 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 NATIONAL INSTITUTE FOR EXCELLENCE IN TEACHING  
TEACHER INCENTIVE FUND

2012 - Finding 2012-3: Teacher Incentive Fund - CFDA Number 83.374

Condition: Although standard payroll documentation supporting the employees' work in the applicable program was available for audit inspection, periodic time certifications were not prepared for the District's employees paid from the Teacher Incentive Fund.

Recommendation: The District should prepare periodic time certifications for all applicable employees.

Current Status: Exceptions were detected in the current audit period. See finding 2013-003 at Schedule 3.

LINCOLN CONSOLIDATED SCHOOL DISTRICT NO. 48  
 WASHINGTON COUNTY, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013  
 (Unaudited)

<b>General Fund</b>	Year Ended June 30,				
	2013	2012	2011	2010	2009
Total Assets	\$ 1,377,476	\$ 1,588,153	\$ 2,093,603	\$ 2,794,758	\$ 2,924,080
Total Liabilities	91,106	120,855	267,017	200,230	223,128
Total Fund Balances	1,286,370	1,467,298	1,826,586	2,594,528	2,700,952
Total Revenues	11,064,707	11,321,344	11,737,099	10,656,969	10,730,563
Total Expenditures	10,695,357	12,265,355	12,496,154	10,174,358	9,434,521
Total Other Financing Sources (Uses)	(550,278)	584,723	(8,887)	(589,035)	(599,152)
 <b>Special Revenue Fund</b>					
Total Assets	249,661	474,077	179,239	584,310	186,980
Total Liabilities	178,482	189,345	12,987	242,848	7,228
Total Fund Balances	71,179	284,732	166,252	341,462	179,752
Total Revenues	2,545,641	2,651,937	2,035,511	3,091,675	1,640,422
Total Expenditures	2,759,194	2,534,511	2,167,193	2,929,965	1,735,116
Total Other Financing Sources (Uses)		1,054			
 <b>Other Aggregate Funds</b>					
Total Assets	856,367	2,971,909	9,229,836	834,108	461,512
Total Liabilities	55,783	1,746,304	86,339	506,274	
Total Fund Balances	800,584	1,225,605	9,143,497	327,834	461,512
Total Revenues	941,492	5,283,785	923,951	469,268	497
Total Expenditures	2,227,691	14,704,594	2,350,084	1,191,981	1,363,600
Total Other Financing Sources (Uses)	861,178	1,502,917	10,198,268	589,035	599,152