

South Mississippi County School District No. 57

Mississippi County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI COUNTY, ARKANSAS
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JUNE 30, 2014

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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

South Mississippi County School District No. 57 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 South Mississippi County School District No. 57 (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 regulatory basis of accounting is 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.

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.

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 23, 2015 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 23, 2015
EDSD25614

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



Rep. Mary Broadway
House Chair
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Roger A. Norman, JD, CPA, CFE, CFF
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

South Mississippi County School District No. 57 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 South Mississippi County School District No. 57 (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 February 23, 2015. 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*.

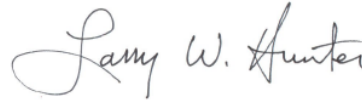
District's Response to Findings

The District's response to the 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 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

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 23, 2015

Arkansas

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Senate Chair
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Roger A. Norman, JD, CPA, CFE, CFF
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

South Mississippi County School District No. 57 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the South Mississippi County School District No. 57 (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 10.553 and 10.555 Child Nutrition Cluster (Cash Assistance Programs)

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding CFDA 10.553 and 10.555 Child Nutrition Cluster (Cash Assistance Programs) as described in finding number 2014-002 for Eligibility. 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 10.553 and 10.555 Child Nutrition Cluster (Cash Assistance Programs)

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 10.553 and 10.555 Child Nutrition Cluster (Cash Assistance Programs) 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.

Other 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.

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 a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 to be a material weakness.

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 23, 2015

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2014

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 3,318,896	\$ 275,779	\$ 3,512,851	\$ 6,290
Accounts receivable	49,766	212,973	1,164,328	
Deposit with paying agent			501,944	
TOTAL ASSETS	\$ 3,368,662	\$ 488,752	\$ 5,179,123	\$ 6,290
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 42,987	\$ 3,280		
Due student groups				\$ 6,290
Total Liabilities	42,987	3,280		6,290
Fund Balances:				
Nonspendable			\$ 206,555	
Restricted	330,409	485,472	1,552,348	
Assigned	66,528		3,420,220	
Unassigned	2,928,738			
Total Fund Balances	3,325,675	485,472	5,179,123	
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,368,662	\$ 488,752	\$ 5,179,123	\$ 6,290

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

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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 Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,810,333		
State assistance	8,093,279	\$ 5,319	\$ 5,704,942
Federal assistance	8,027	1,655,530	
Activity revenues	250,612		
Meal sales		58,011	
Investment income	25,378		3,427
Other revenues	549,369	9,041	
TOTAL REVENUES	11,736,998	1,727,901	5,708,369
EXPENDITURES			
Regular programs	4,152,747	64,831	
Special education	279,261	210,944	
Career education programs	195,583		
Compensatory education programs	663,704	338,951	
Other instructional programs	226,760		
Student support services	390,500	92,216	
Instructional staff support services	733,702	79,993	
General administration support services	282,497	24,618	
School administration support services	494,077		
Central services support services	295,408		
Operation and maintenance of plant services	1,429,661	14,683	
Student transportation services	907,427	22,308	
Other support services	14,253	538	
Food services operations		768,926	
Community services operations		2,005	
Facilities acquisition and construction services			9,904,305
Non-programmed costs	6,393	2,194	
Activity expenditures	257,187		
Debt Service:			
Principal retirement	34,639		260,000
Interest and fiscal charges	18,936		446,912
TOTAL EXPENDITURES	10,382,735	1,622,207	10,611,217
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,354,263	105,694	(4,902,848)
OTHER FINANCING SOURCES (USES)			
Transfers in			1,400,505
Transfers out	(1,400,505)		
Proceeds from postdated warrant	215,000		
TOTAL OTHER FINANCING SOURCES (USES)	(1,185,505)		1,400,505
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	168,758	105,694	(3,502,343)
FUND BALANCES - JULY 1	3,156,917	379,778	8,681,466
FUND BALANCES - JUNE 30	\$ 3,325,675	\$ 485,472	\$ 5,179,123

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

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 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)	\$ 2,564,053	\$ 2,810,333	\$ 246,280			
State assistance	8,269,816	8,093,279	(176,537)	\$ 5,710	\$ 5,319	\$ (391)
Federal assistance	10,000	8,027	(1,973)	1,978,847	1,655,530	(323,317)
Activity revenues	311,815	250,612	(61,203)			
Meal sales				106,700	58,011	(48,689)
Investment income	16,500	25,378	8,878			
Other revenues	422,387	549,369	126,982		9,041	9,041
TOTAL REVENUES	11,594,571	11,736,998	142,427	2,091,257	1,727,901	(363,356)
EXPENDITURES						
Regular programs	4,220,457	4,152,747	67,710	15,127	64,831	(49,704)
Special education	293,523	279,261	14,262	390,919	210,944	179,975
Career education programs	207,352	195,583	11,769			
Compensatory education programs	649,786	663,704	(13,918)	388,248	338,951	49,297
Other instructional programs	295,952	226,760	69,192			
Student support services	425,634	390,500	35,134	211,136	92,216	118,920
Instructional staff support services	925,039	733,702	191,337	196,346	79,993	116,353
General administration support services	264,350	282,497	(18,147)	27,736	24,618	3,118
School administration support services	513,720	494,077	19,643			
Central services support services	342,960	295,408	47,552	3,847		3,847
Operation and maintenance of plant services	1,250,377	1,429,661	(179,284)	26,570	14,683	11,887
Student transportation services	741,922	907,427	(165,505)	26,376	22,308	4,068
Other support services	10,750	14,253	(3,503)		538	(538)
Food services operations				757,698	768,926	(11,228)
Community services operations				8,000	2,005	5,995
Non-programmed costs		6,393	(6,393)	15,420	2,194	13,226
Activity expenditures	296,695	257,187	39,508			
Debt Service:						
Principal retirement	34,639	34,639				
Interest and fiscal charges	13,936	18,936	(5,000)			
TOTAL EXPENDITURES	10,487,092	10,382,735	104,357	2,067,423	1,622,207	445,216

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 1,107,479	\$ 1,354,263	\$ 246,784	\$ 23,834	\$ 105,694	\$ 81,860
OTHER FINANCING SOURCES (USES)						
Transfers in	12,337,152		(12,337,152)			
Transfers out	(13,074,216)	(1,400,505)	11,673,711			
Proceeds from postdated warrant		215,000	215,000			
TOTAL OTHER FINANCING SOURCES (USES)	(737,064)	(1,185,505)	(448,441)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	370,415	168,758	(201,657)	23,834	105,694	81,860
FUND BALANCES - JULY 1	3,314,932	3,156,917	(158,015)	304,769	379,778	75,009
FUND BALANCES - JUNE 30	<u>\$ 3,685,347</u>	<u>\$ 3,325,675</u>	<u>\$ (359,672)</u>	<u>\$ 328,603</u>	<u>\$ 485,472</u>	<u>\$ 156,869</u>

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

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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 South Mississippi County 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.

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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:

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	20-50
Equipment	5-25

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.

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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. Fund Balance Classifications

1. Nonspendable fund balance – represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
2. 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.
3. 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.
4. 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

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

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

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

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 293,049	\$ 293,309
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	6,820,767	7,078,947
Total Deposits	\$ 7,113,816	\$ 7,372,256

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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	Other Aggregate
State assistance	\$ 2,812		\$ 1,164,328
Federal assistance		\$ 212,973	
Other	46,954		
Totals	\$ 49,766	\$ 212,973	\$ 1,164,328

4: COMMITMENTS

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

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
Elementary School	February 1, 2015	\$ 2,723,926

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, 2014	Maturities To June 30, 2014
6/1/05	6/1/15		\$ 330,413	\$ 330,413	
9/1/05	2/1/25	2.95 - 4%	520,000	325,000	\$ 195,000
12/1/06	2/1/22	3.7 - 3.9%	530,000	315,000	215,000
5/5/10	5/5/20	4.9%	159,750	104,938	54,812
4/1/11	2/1/34	1 - 4.25%	5,410,000	5,135,000	275,000
2/23/12	2/23/22	4%	230,370	191,292	39,078
6/1/12	2/1/43	1.625 - 4%	6,600,000	6,575,000	25,000
3/25/14	3/25/24	3.49%	215,000	215,000	
Totals			\$ 13,995,533	\$ 13,191,643	\$ 803,890

Changes in Long-term Debt

	Balance July 1, 2013	Issued	Retired	Balance June 30, 2014
Bonds payable	\$ 12,610,000		\$ 260,000	\$ 12,350,000
Postdated warrants	330,413	\$ 215,000		545,413
Capital leases	330,869		34,639	296,230
Totals	\$ 13,271,282	\$ 215,000	\$ 294,639	\$ 13,191,643

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

4: COMMITMENTS (Continued)

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

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2015	\$ 654,919	\$ 457,304	\$ 1,112,223
2016	331,750	448,737	780,487
2017	339,088	439,945	779,034
2018	351,525	430,961	782,486
2019	359,064	421,037	780,101
2020-2024	1,825,296	1,934,553	3,759,850
2025-2029	1,890,000	1,634,376	3,524,376
2030-2034	2,250,000	1,261,981	3,511,981
2035-2039	2,690,000	810,610	3,500,610
2040-2043	2,500,000	254,000	2,754,000
Totals	<u>\$ 13,191,643</u>	<u>\$ 8,093,505</u>	<u>\$ 21,285,148</u>

Capital Leases

Capital assets acquired through capital leases consisted of the following at June 30, 2014:

Class of Property	Cost	Accumulated Depreciation	Net Value
Buses	<u>\$ 390,120</u>	<u>\$ 168,398</u>	<u>\$ 221,722</u>

The present value of the net minimum lease payments is as follows at June 30, 2014:

Total Minimum Lease Payments	\$ 347,809
Less: Amount Representing Interest	<u>51,579</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 296,230</u>

Qualified Zone Academy Bond (QZAB)

On June 1, 2005, the District obtained funding of \$330,413 through the Qualified Zone Academy Bond (QZAB) program, a debt financial arrangement authorized under the Taxpayer Relief Act of 1997. The District will deposit \$31,135 annually into a sinking fund for 10 years for a total of \$311,350. This amount plus interest earned will be used to retire the debt when due.

Security for Debt Payments

Ark. Code Ann. § 6-20-1204 specifies procedures to be followed if a school district is delinquent in a payment to the paying agent for bonded debt. As additional security, any delinquent payment for bonded debt will be satisfied by the Arkansas Department of Education (ADE). Depending on the date of the bond issue, ADE will recover the full amount of any delinquency payment through the withholding of a school district's state funding or a direct payment from the school district. There were no delinquent bond payments incurred by the District during the audit period.

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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	
	General	Special Revenue
Vendor payables	\$ 40,513	\$ 3,280
Payroll withholdings and matching	2,474	
Totals	<u>\$ 42,987</u>	<u>\$ 3,280</u>

6: INTERFUND TRANSFERS

The District transferred \$1,400,505 from the general fund to the other aggregate funds for debt related payments of \$949,602, to supplement capital projects by \$435,000, and debt refunding savings of \$15,903 required to be used for capital expenditures.

7: RETIREMENT PLANS

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain 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 \$899,239, \$889,554, and \$916,719, respectively, equal to the required contributions for each year.

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain non-teaching school employees. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

7: RETIREMENT PLANS (Continued)

Arkansas Public Employees Retirement System

Funding Policy. APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the years ended June 30, 2014, 2013, and 2012 were \$2,081, \$1,992, and \$1,920, 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 \$13,060,000 issued from September 1, 2005 through June 1, 2012. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$20,348,485, payable through June 1, 2043. Principal and interest paid for the current year and total property taxes pledged for debt service were \$703,446 and \$978,106, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 71.92 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 its board liability, student accidents, and catastrophic crop 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 \$185,048 for the year ended June 30, 2014.

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
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:			
Nonspendable:			
Deposit with paying agent			\$ 206,555
Restricted for:			
Educational programs - national school lunch state categorical funding	\$ 148,259		
English-language learners	12,713		
Professional development	34,243		
Capital projects			1,256,959
Child nutrition programs		\$ 370,800	
Debt service			295,389
Medical services		77,463	
Special education programs	3,130	32,611	
Juvenile instruction	91,226		
Other purposes	40,838	4,598	
Total Restricted	<u>330,409</u>	<u>485,472</u>	<u>1,552,348</u>
Assigned to:			
Capital projects			3,415,220
Debt service			5,000
Student activities	66,528		
Total Assigned	<u>66,528</u>		<u>3,420,220</u>
Unassigned	<u>2,928,738</u>		
Totals	<u>\$3,325,675</u>	<u>\$ 485,472</u>	<u>\$5,179,123</u>

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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	\$ 3,417,038
Construction in progress	13,580,421
Total nondepreciable capital assets	16,997,459
 <i>Depreciable capital assets:</i>	
Buildings	10,973,891
Improvements/infrastructure	704,155
Equipment	3,514,085
Total depreciable capital assets	15,192,131
 Less accumulated depreciation for:	
Buildings	4,710,321
Improvements/infrastructure	309,699
Equipment	2,197,220
Total accumulated depreciation	7,217,240
 Total depreciable capital assets, net	 7,974,891
 Capital assets, net	 \$ 24,972,350

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 1,500
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	47-06-000	192,065
National School Lunch Program - Cash Assistance	10.555	47-06-000	435,108
Total State Department of Education			<u>627,173</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	4706000	54,166
TOTAL CHILD NUTRITION CLUSTER			<u>682,839</u>
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program	10.582	Unavailable	46,933
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 5)	12.AE13001		63,047
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	47-06	411,544
Special Education - Grants to States	84.027	4706	292,926
Rural Education	84.358	4706	20,690
Improving Teacher Quality State Grants	84.367	4706	57,798
Total U. S. Department of Education			<u>782,958</u>
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Temporary Assistance for Needy Families	93.558	0000200604	8,027
TOTAL OTHER PROGRAMS			<u>900,965</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,583,804</u>

The accompanying notes are an integral part of this schedule.

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

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 South Mississippi School District No. 57 (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 U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: The Federal CFDA Number was not available. An alternative identifying number was utilized.

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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 Child Nutrition Cluster (Cash Assistance Programs), which were 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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 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.

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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 WEAKNESS

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 47-06-000
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 obtain written applications from households and to perform verification procedures for a specific number of these 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: For the junior and senior high schools, the District did not retain, for audit inspection, applications and the related verification documentation that was submitted by household applicants regarding eligibility status for free and reduced price meals.

Context: Examination of verification procedures and supporting documentation of free and reduced price meal applications at the junior and senior high schools was not maintained. Applications and verified information at the remaining schools were available and testing procedures were performed.

Effect: Classification of applicants' free and reduced price meal status could not be substantiated at the junior and senior high schools.

Cause: District personnel did not establish proper safeguard procedures to ensure that proper documentation was retained for audit inspection.

Recommendation: The District should retain for audit inspection all documentation submitted by the applicants during the application and verification process regarding eligibility for free and reduced price meals.

Views of responsible officials and planned corrective actions: All applications within the District will be handled, processed, verified, and retained by one person in one central location. The Superintendent and supervisor will work together to avoid this issue in the future.

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
MISSISSIPPI 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.

SOUTH MISSISSIPPI COUNTY SCHOOL DISTRICT NO. 57
 MISSISSIPPI 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	\$ 3,368,662	\$ 3,198,767	\$ 3,236,304	\$ 2,708,446	\$ 2,581,735
Total Liabilities	42,987	41,850	476,415	90,516	250,647
Total Fund Balances	3,325,675	3,156,917	2,759,889	2,617,930	2,331,088
Total Revenues	11,736,998	11,455,862	10,927,449	10,144,837	10,492,770
Total Expenditures	10,382,735	9,687,806	10,593,323	9,394,845	9,560,570
Total Other Financing Sources (Uses)	(1,185,505)	(1,371,028)	(192,167)	(475,246)	(378,459)
 Special Revenue Fund					
Total Assets	488,752	381,575	314,502	175,644	293,708
Total Liabilities	3,280	1,797	8,625	7,986	17,676
Total Fund Balances	485,472	379,778	305,877	167,658	276,032
Total Revenues	1,727,901	1,707,783	2,225,185	2,725,341	2,479,336
Total Expenditures	1,622,207	1,633,882	2,086,966	2,810,803	2,566,752
Total Other Financing Sources (Uses)				(22,912)	48,756
 Other Aggregate Funds					
Total Assets	5,179,123	8,681,466	6,905,771	303,660	207,026
Total Liabilities				108,766	19,469
Total Fund Balances	5,179,123	8,681,466	6,905,771	194,894	187,557
Total Revenues	5,708,369	2,684,307	1,000,926	112,713	48,881
Total Expenditures	10,611,217	4,062,673	1,217,444	592,709	505,532
Total Other Financing Sources (Uses)	1,400,505	3,154,061	6,927,395	487,333	489,453