

Pulaski County Special School District

Pulaski County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2013

LEGISLATIVE JOINT AUDITING COMMITTEE



PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
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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

Pulaski County Special School District and Arkansas Department of Education
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 Pulaski County Special School District (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 March 13, 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
March 13, 2014
EDSD32313

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



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

LEGISLATIVE JOINT AUDITING COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Pulaski County Special School District and Arkansas Department of Education
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 Pulaski County Special School District (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 March 13, 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the Schedule of Findings and Questioned Costs as item 2013-001, that we consider to be a significant deficiency.

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 March 13, 2014.

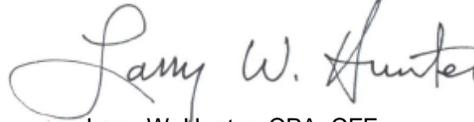
District's Response to Findings

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
March 13, 2014

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

Pulaski County Special School District and Arkansas Department of Education
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Pulaski County Special School District (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.

Report on Internal Control Over Compliance

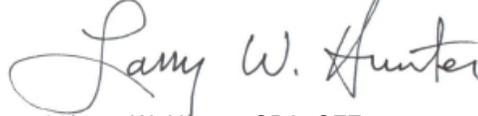
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the 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 in internal control over compliance, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

A handwritten signature in cursive script that reads "Larry W. Hunter". The signature is written in black ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 13, 2014

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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Pulaski County Special School District and Arkansas Department of Education
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. Assets were not properly tagged and serial numbers were not properly included in the capital assets listing for all funds, as well as assets not being properly removed from the listing. Additionally, construction projects that had been completed were not properly moved to the asset listing. A similar finding was reported in the previous two audits.
2. The District had uninsured and uncollateralized deposits totaling \$487,915 at Regions Bank at June 30, 2013. A similar finding was reported in the previous two audits.
3. District personnel performed, and Division of Legislative Audit staff reviewed, a comparison of Clinton Elementary School activity fund bank account deposits to cash collection reports submitted by sponsors from August 2, 2013 through February 6, 2014. The process indicated revenue of \$8,352 was not deposited.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, 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
March 13, 2014

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2013

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 19,768,337		\$ 14,331,858	\$ 295,097
Accounts receivable	144,406	\$ 3,444,405		
Due from other funds	2,479,759			
Deposit with paying agent	22,437		122,868	
TOTAL ASSETS	\$ 22,414,939	\$ 3,444,405	\$ 14,454,726	\$ 295,097
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 4,004,890	\$ 146,552	\$ 1,078,153	
Deferred revenues		57,415		
Due student groups				\$ 295,097
Due to other funds		2,479,759		
Total Liabilities	4,004,890	2,683,726	1,078,153	295,097
Fund Balances:				
Nonspendable	22,437		122,868	
Restricted	8,762,685	1,218,837	10,085,839	
Assigned	1,586,252		3,167,866	
Unassigned	8,038,675	(458,158)		
Total Fund Balances	18,410,049	760,679	13,376,573	
TOTAL LIABILITIES AND FUND BALANCES	\$ 22,414,939	\$ 3,444,405	\$ 14,454,726	\$ 295,097

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

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 85,540,513		\$ 11,352,701
State assistance	79,855,036	\$ 54,395	393,439
Federal assistance	543,311	18,876,338	
Activity revenues	2,151,516		
Meal sales		1,528,415	
Investment income	96,859	81	376
Other revenues	1,460,389	126,767	57,426
TOTAL REVENUES	169,647,624	20,585,996	11,803,942
EXPENDITURES			
Regular programs	59,726,379	368,969	7,030
Special education	14,371,786	2,794,066	
Workforce education programs	4,212,848	257,425	
Adult/continuing education program	846,389	293,427	
Compensatory education programs	3,626,831	2,179,421	
Other instructional programs	5,416,040	405,639	
Student support services	9,843,693	1,104,141	
Instructional staff support services	7,601,382	5,604,518	219,865
General administration support services	3,080,164	131,898	
School administration support services	10,414,156	89,797	
Business support services	6,118,001		636,323
Operation and maintenance of plant services	16,783,347	22,627	227,246
Student transportation services	13,823,877	4,526	
Other support services	148,454	28,818	798,637
Food services operations	18,154	8,092,435	
Community services operations	23,427	94,558	
Facilities acquisition and construction services	226,797		6,889,673
Non-programmed costs	3,033,221	256,785	
Activity expenditures	2,179,752		
Debt Service:			
Principal retirement	105,472		4,092,573
Interest and fiscal charges	24,757		5,789,231
TOTAL EXPENDITURES	161,624,927	21,729,050	18,660,578
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	8,022,697	(1,143,054)	(6,856,636)
OTHER FINANCING SOURCES (USES)			
Transfers in		360,602	4,302,707
Transfers out	(4,663,309)		
Proceeds from refunding bond issue			3,755,000
Payment to refunding bond escrow agent			(3,662,639)
Net bond issuance costs			(81,182)
Compensation for loss of capital assets	312,079		
TOTAL OTHER FINANCING SOURCES (USES)	(4,351,230)	360,602	4,313,886
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	3,671,467	(782,452)	(2,542,750)
FUND BALANCES - JULY 1	14,738,582	1,543,131	15,919,323
FUND BALANCES - JUNE 30	\$ 18,410,049	\$ 760,679	\$ 13,376,573

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

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 85,765,674	\$ 85,540,513	\$ (225,161)			
State assistance	80,464,261	79,855,036	(609,225)	\$ 55,000	\$ 54,395	\$ (605)
Federal assistance	255,000	543,311	288,311	22,406,027	18,876,338	(3,529,689)
Activity revenues		2,151,516	2,151,516			
Meal sales				1,982,316	1,528,415	(453,901)
Investment income	50,000	96,859	46,859		81	81
Other revenues	435,436	1,460,389	1,024,953	1,140	126,767	125,627
TOTAL REVENUES	166,970,371	169,647,624	2,677,253	24,444,483	20,585,996	(3,858,487)
EXPENDITURES						
Regular programs	62,843,977	59,726,379	3,117,598	717,035	368,969	348,066
Special education	14,609,226	14,371,786	237,440	3,482,606	2,794,066	688,540
Career education programs	4,411,720	4,212,848	198,872	188,220	257,425	(69,205)
Adult/continuing education program	814,532	846,389	(31,857)	250,000	293,427	(43,427)
Compensatory education programs	3,924,751	3,626,831	297,920	2,604,828	2,179,421	425,407
Other instructional programs	5,357,934	5,416,040	(58,106)	422,786	405,639	17,147
Student support services	10,565,697	9,843,693	722,004	1,551,315	1,104,141	447,174
Instructional staff support services	8,033,884	7,601,382	432,502	7,973,468	5,604,518	2,368,950
General administration support services	2,453,948	3,080,164	(626,216)	146,626	131,898	14,728
School administration support services	11,070,039	10,414,156	655,883	98,580	89,797	8,783
Central services support services	6,253,227	6,118,001	135,226			
Operation and maintenance of plant services	16,889,922	16,783,347	106,575	23,945	22,627	1,318
Student transportation services	14,266,506	13,823,877	442,629	32,501	4,526	27,975
Other support services	140,092	148,454	(8,362)	28,714	28,818	(104)
Food services operations	5,000	18,154	(13,154)	7,948,860	8,092,435	(143,575)
Community services operations	60,202	23,427	36,775	140,536	94,558	45,978
Facilities acquisition and construction services	389,637	226,797	162,840	2,550		2,550
Non-programmed costs	3,001,214	3,033,221	(32,007)	374,529	256,785	117,744
Activity expenditures		2,179,752	(2,179,752)			
Debt Service:						
Principal retirement	127,191	105,472	21,719			
Interest and fiscal charges	29,084	24,757	4,327			
TOTAL EXPENDITURES	165,247,783	161,624,927	3,622,856	25,987,099	21,729,050	4,258,049

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI 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	\$ 1,722,588	\$ 8,022,697	\$ 6,300,109	\$ (1,542,616)	\$ (1,143,054)	\$ 399,562
OTHER FINANCING SOURCES (USES)						
Transfers in	74,377,175		(74,377,175)		360,602	360,602
Transfers out	(75,144,331)	(4,663,309)	70,481,022			
Compensation for loss of capital assets		312,079	312,079			
TOTAL OTHER FINANCING SOURCES (USES)	(767,156)	(4,351,230)	(3,584,074)		360,602	360,602
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	955,432	3,671,467	2,716,035	(1,542,616)	(782,452)	760,164
FUND BALANCES - JULY 1	15,509,682	14,738,582	(771,100)	1,764,145	1,543,131	(221,014)
FUND BALANCES - JUNE 30	<u>\$ 16,465,114</u>	<u>\$ 18,410,049</u>	<u>\$ 1,944,935</u>	<u>\$ 221,529</u>	<u>\$ 760,679</u>	<u>\$ 539,150</u>

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

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On June 20, 2011, the Arkansas Department of Education (ADE) assumed control of the Pulaski County Special School District (District) and dissolved the local school board and replaced the superintendent. 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.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	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.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI 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. 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.

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 Arkansas Department of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Minimum Fund Balance Policies

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

L. Fund Balance Classification Policies and Procedures

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

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

M. Encumbrances

The District does not utilize encumbrance accounting.

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)	\$ 28,126,209	\$ 35,450,821
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	5,781,289	5,802,543
Uninsured and uncollateralized	487,794	487,915
Total Deposits	\$ 34,395,292	\$ 41,741,279

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy addressing custodial credit risk. At June 30, 2013, \$487,915 of the District's bank balance of \$41,741,279 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$487,915</u>
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PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$3,588,811 at June 30, 2013 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 53,421		\$ 53,421
Federal assistance		\$3,395,391	3,395,391
Other	90,985	49,014	139,999
Totals	\$ 144,406	\$3,444,405	\$3,588,811

4: COMMITMENTS

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Baker Elementary School restroom renovation	January 2014	\$ 61,437
Bates Elementary School restroom renovation	January 2014	70,896
Landmark Elementary School restroom renovation	January 2014	76,080
Lawson Elementary School door replacement and restroom renovation	January 2014	42,403
Robinson Elementary School restroom renovation	January 2014	53,085
Mills High School door replacement and University studies renovation	January 2014	50,938
Mills High School boiler door/cooling tower renovation	January 2014	325,004
Bayou Meto Elementary School restroom renovation	October 2013	87,168
Cato Elementary School restroom renovation	October 2013	55,322
Clinton Elementary School restroom renovation	October 2013	45,948
Crystal Hill Elementary School restroom renovation	October 2013	82,235
Dupree Elementary School restroom renovation	October 2013	92,262
Harris Elementary School restroom renovation	October 2013	30,264
Oak Grove Elementary School restroom renovation	October 2013	102,298
Tolleson Elementary School restroom renovation	October 2013	48,563

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
6/15/09	2/1/35	4.9%	\$ 81,365,000	\$ 72,275,000	\$ 9,090,000
2/15/10	2/1/32	2 - 4.25%	15,750,000	15,310,000	440,000
1/1/11	2/1/32	2.5 - 4.5%	18,605,000	17,420,000	1,185,000
10/1/10	2/1/19	1 - 2.5%	1,700,000	1,230,000	470,000
10/15/10	2/1/35	2.25 - 4.125%	12,245,000	12,065,000	180,000
4/1/12	2/1/35	3 - 4%	21,860,000	21,860,000	
11/1/12	2/1/35	2 - 3.375%	3,755,000	3,755,000	
3/31/11	3/31/16	3.92%	389,412	223,548	165,864
3/31/11	3/31/16	3.92%	2,400,237	1,360,124	1,040,113
Totals			\$ 158,069,649	\$ 145,498,672	\$ 12,570,977

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

4: COMMITMENTS (Continued)

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

Changes in Long-term Debt

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013
Bonds payable	\$147,260,000	\$ 3,755,000	\$ 7,100,000	\$143,915,000
Capital leases	2,266,717		683,045	1,583,672
Totals	<u>\$149,526,717</u>	<u>\$ 3,755,000</u>	<u>\$ 7,783,045</u>	<u>* \$145,498,672</u>

*Includes \$3,585,000 early retirement of debt – See Note 6.

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 4,667,096	\$ 5,863,017	\$ 10,530,113
2015	4,743,715	5,683,505	10,427,220
2016	4,617,861	5,287,832	9,905,693
2017	4,440,000	5,420,991	9,860,991
2018	4,955,000	5,240,936	10,195,936
2019-2023	28,055,000	22,813,740	50,868,740
2024-2028	33,970,000	17,862,208	51,832,208
2029-2033	41,520,000	9,937,170	51,457,170
2034-2035	18,530,000	1,269,194	19,799,194
Totals	<u>\$ 145,498,672</u>	<u>\$ 79,378,593</u>	<u>\$ 224,877,265</u>

Capital Lease

The District has executed the following capital lease:

Class of Property	Asset Balance June 30, 2013
Computers	<u>\$ 2,775,864</u>
	<u>June 30, 2013</u>
Total Minimum Lease Payments	\$ 1,687,051
Less: Amount Representing Interest	<u>103,379</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 1,583,672</u>

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$5,229,595 at June 30, 2013 was comprised of the following:

Description	Governmental Funds			Total
	General	Special Revenue	Other Aggregate	
Vendor payables	\$ 3,312,233	\$ 146,375	\$ 1,078,153	\$ 4,536,761
Payroll withholdings and matching	425,876	177		426,053
Due to grantors	181,054			181,054
Other	85,727			85,727
Totals	\$ 4,004,890	\$ 146,552	\$ 1,078,153	\$ 5,229,595

6: DEBT REFUNDINGS

On November 1, 2012, the District issued \$3,755,000 in refunding bonds with interest rates of 2 to 3.375 percent to advance refund \$3,585,000 of outstanding bonds dated November 1, 2007 (2007 bonds), with interest rates of 3.4 to 4.45 percent. Net bond proceeds of \$3,662,639 were remitted to an escrow agent to provide for all future debt service payments on the 2007 bonds. The 2007 Series bonds were called on February 1, 2013. The remaining proceeds of \$11,179 (after payment of net bond issuance costs of \$81,182) will be utilized by the District for future debt payments. This refunding resulted in a savings of \$408,947 over a period of 23 fiscal years.

7: INTERFUND TRANSFERS

The District transferred \$4,302,707 from the general fund to the other aggregate funds for debt refunding savings of \$1,138,308 required to be utilized for capital expenditures and to supplement future capital projects by \$3,164,399. Additionally, \$360,602 was transferred from the general fund to the special revenue fund to supplement the District's food services operations.

8: RETIREMENT PLANS

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2013, 2012, and 2011 were \$15,422,446, \$16,641,163, and \$16,936,626, respectively, equal to the required contributions for each year.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

8: RETIREMENT PLANS (Continued)

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteachers hired before July 1, 1989. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the years ended June 30, 2013, 2012, and 2011 were \$23,744, \$33,976, and \$38,898, respectively, equal to the required contributions for each year.

9: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$155,280,000 issued from June 15, 2009 through November 1, 2012. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$223,190,214, payable through February 1, 2035. Principal and interest paid for the current year and total property taxes pledged for debt service were \$9,216,202 and \$35,233,896, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 26.16 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 athletics, buildings, contents, vehicles, and 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.

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 \$2,163,278 for the year ended June 30, 2013.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Fund Balances:				
Nonspendable:				
Deposit with paying agent	\$ 22,437		\$ 122,868	\$ 145,305
Restricted for:				
Alternative learning environment	4,532			4,532
Educational programs - national school lunch state categorical funding	440,061			440,061
English-language learners	12,616			12,616
Professional development	86,076			86,076
Impact Aid	268,348			268,348
M-to-M program	6,133,524			6,133,524
Magnet and M-to-M transportation	474,212			474,212
Adult basic education	69,513			69,513
ROTC		\$ 275,994		275,994
Education for homeless children and youth		98,056		98,056
Capital projects			10,085,839	10,085,839
Medical services		701,968		701,968
Soft drink vending contract	57,942			57,942
Arkansas Better Chance	161,894			161,894
Secondary workforce center	291,978			291,978
Special education programs	613,796	112,537		726,333
Other purposes	148,193	30,282		178,475
Total Restricted	<u>8,762,685</u>	<u>1,218,837</u>	<u>10,085,839</u>	<u>20,067,361</u>
Assigned to:				
Capital projects			3,167,866	3,167,866
Student activities	940,051			940,051
Federal indirect costs	536,999			536,999
Other purposes	109,202			109,202
Total Assigned	<u>1,586,252</u>		<u>3,167,866</u>	<u>4,754,118</u>
Unassigned	<u>8,038,675</u>	<u>(458,158)</u>		<u>7,580,517</u>
Totals	<u>\$ 18,410,049</u>	<u>\$ 760,679</u>	<u>\$ 13,376,573</u>	<u>\$ 32,547,301</u>

13: FISCAL DISTRESS STATUS

On May 16, 2011, the State Board of Education classified the District in fiscal distress. The District, in conjunction with the Arkansas Department of Education, has adopted a plan to implement effective cost reduction measures. As disclosed in Note 1, the Arkansas Department of Education assumed control of the District on June 20, 2011.

14: PENDING LITIGATION

Joe & Kathy White d/b/a White's Lawn Service and Darryl Beard d/b/a Jewel of a Lawn, LLC v. Pulaski County Special School District; Pulaski County Circuit Court No. 60CV-14-234

On January 17, 2014, the plaintiffs filed suit against the District alleging that the District was guilty of breach of contract, promissory estoppel, and unjust enrichment in connection with plaintiffs' work providing lawn maintenance services for the District. Each plaintiff seeks in excess of \$200,000 in damages, plus attorney's fees and costs. This matter has not yet been scheduled for trial. An unfavorable outcome is possible, but not likely.

15: DEFICIT FUND BALANCES

The deficit unassigned fund balance of \$458,158 in the special revenue fund, as displayed in the table at Note 12 above, is the result of journal entries to eliminate child nutrition program inventories from the balance sheet for regulatory basis reporting purposes.

16: COMPENSATION FOR LOSS OF CAPITAL ASSETS

The District received insurance proceeds totaling \$267,461 for tornado damage, snow and ice damage, water damage, wind damage, and flood damage, and insurance proceeds of \$44,618 for vandalism and theft of property sustained throughout fiscal year 2013 at various campuses.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI 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	\$ 8,806,063
Construction in progress	998,002
Total nondepreciable capital assets	9,804,065
 <i>Depreciable capital assets:</i>	
Buildings	210,973,313
Improvements/infrastructure	24,022,820
Equipment	40,855,005
Total depreciable capital assets	275,851,138
 Less accumulated depreciation for:	
Buildings	49,795,141
Improvements/infrastructure	1,065,643
Equipment	22,807,274
Total accumulated depreciation	73,668,058
Total depreciable capital assets, net	202,183,080
Capital assets, net	\$ 211,987,145

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	60-03	\$ 1,494,361
National School Lunch Program - Cash Assistance	10.555	60-03	3,997,871
Total State Department of Education			<u>5,492,232</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	6003000	486,149
			<u>486,149</u>
			<u>5,978,381</u>
TOTAL CHILD NUTRITION CLUSTER			
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	60-03	2,879,117
Special Education - Preschool Grants	84.173	60-03	48,708
			<u>2,927,825</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			
SCHOOL IMPROVEMENT GRANTS CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
School Improvement Grants	84.377	60-03	530,942
ARRA - School Improvement Grants, Recovery Act	84.388	60-03	1,418,660
			<u>1,949,602</u>
TOTAL SCHOOL IMPROVEMENT GRANTS CLUSTER			
OTHER PROGRAMS			
<u>U. S. Department of Defense</u>			
Direct Programs:			
ROTC (Note 4)	12.AR060081		359,432
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools			
	12.556		165,971
Total U. S. Department of Defense			<u>525,403</u>
<u>National Endowment for the Arts</u>			
Passed Through Department of Arkansas Heritage - Arkansas Arts Council:			
Promotion of the Arts - Partnership Agreements	45.025	Unavailable	1,373
			<u>1,373</u>
<u>U. S. Department of Education</u>			
Direct Program:			
Impact Aid	84.041		296,719
Passed Through State Department of Career Education:			
Adult Education - Basic Grants to States	84.002	60-03	293,427
Career and Technical Education - Basic Grants to States	84.048	60-03	270,285
Total State Department of Career Education			<u>563,712</u>
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	60-03	5,028,553
Education for Homeless Children and Youth	84.196	60-03	73,480
Twenty-First Century Community Learning Centers	84.287	60-03	367,456
English Language Acquisition Grants	84.365	60-03	48,337
Improving Teacher Quality State Grants	84.367	60-03	694,916
Total State Department of Education			<u>6,212,742</u>
Total U. S. Department of Education			<u>7,073,173</u>

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI 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>OTHER PROGRAMS (Continued)</u>			
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Temporary Assistance for Needy Families	93.558	0000200549	\$ 246,592
TOTAL OTHER PROGRAMS			<u>7,846,541</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 18,702,349</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Pulaski County Special School District (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: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 5: During the year ended June 30, 2013, the District received Medicaid funding of \$485,582 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI 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
84.027 and 84.173	Special Education Cluster (IDEA)
84.377 and 84.388	School Improvement Grants Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs: \$ 561,070

Auditee qualified as low-risk auditee? yes no

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2013-001. Internal Control

Criteria or specific requirement: An effective internal control system is the responsibility of management and requires sound accounting policies and proper oversight that will, among other things, help to ensure the proper initiating, authorization, recording, processing, and reporting of transactions consistent with management's assertions embodied in the financial statements.

Condition: Financial accounting duties pertaining to activity funds were not adequately segregated among employees at the offices at the individual campuses located throughout the District to properly receipt, record, and safeguard assets of the District. Specifically, the key weakness at the level of the individual campuses is that one employee is responsible for maintaining the accounting records, without adequate compensating controls.

Context: A lack of controls and inadequate segregation of financial accounting duties could result in unauthorized transactions or misappropriation of District assets

Effect: The District's ability to initiate, authorize, record, process, and report activity fund 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 weakness 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 at the multiple campuses did not effectively address the deficiency 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 activity fund transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets at the individual campuses throughout the District.

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Schedule 4

There were no findings in the prior audit.

PULASKI COUNTY SPECIAL SCHOOL DISTRICT
PULASKI COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2013
(Unaudited)

General Fund	Year Ended June 30,				
	2013	2012	2011	2010	2009
Total Assets	\$ 22,414,939	\$ 18,274,273	\$ 20,851,657	\$ 23,135,490	\$ 17,990,428
Total Liabilities	4,004,890	3,535,691	17,292,353	13,310,563	9,097,886
Total Fund Balances	18,410,049	14,738,582	3,559,304	9,824,927	8,892,542
Total Revenues	169,647,624	182,205,779	160,584,060	157,085,868	163,850,964
Total Expenditures	161,624,927	170,647,947	167,095,601	156,726,267	152,102,739
Total Other Financing Sources (Uses)	(4,351,230)	70,168	(694,681)	572,784	(11,532,509)
 Special Revenue Fund					
Total Assets	3,444,405	3,350,016	3,364,924	11,801,392	3,525,761
Total Liabilities	2,683,726	1,806,885	1,114,434	7,727,335	23
Total Fund Balances	760,679	1,543,131	2,250,490	4,074,057	3,525,738
Total Revenues	20,585,996	23,959,260	28,662,364	30,431,428	20,408,780
Total Expenditures	21,729,050	25,678,631	26,719,081	30,564,372	20,189,507
Total Other Financing Sources (Uses)	360,602	591,827	(3,766,850)	681,263	694,559
 Other Aggregate Funds					
Total Assets	14,454,726	17,939,791	37,692,225	93,872,450	124,785,267
Total Liabilities	1,078,153	2,020,468	5,166,391	20,681,570	14,135,670
Total Fund Balances	13,376,573	15,919,323	32,525,834	73,190,880	110,649,597
Total Revenues	11,803,942	14,781,444	20,346,122	13,743,843	10,179,474
Total Expenditures	18,660,578	32,703,706	68,067,063	49,948,513	17,947,430
Total Other Financing Sources (Uses)	4,313,886	1,735,936	7,055,895	(1,254,047)	92,202,950