

Helena-West Helena School District No. 2

Phillips County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2010

LEGISLATIVE JOINT AUDITING COMMITTEE



HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2010

Independent Auditor's Report
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*
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133
Management Letter

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet - Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Regulatory Basis	B
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis	C
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	3
Federal Award Programs - Summary Schedule of Prior Audit Findings	4
Schedule of Selected Information for the Last Five Years - Regulatory Basis (Unaudited)	5

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Helena-West Helena School District No. 2 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Helena-West Helena School District No. 2 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2010, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4), and Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
December 14, 2010
EDSD28810

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Helena-West Helena School District No. 2 and School Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Helena-West Helena School District No. 2 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated December 14, 2010. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices 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 financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

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 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 2010-1 to be a material weakness. 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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2 to be a significant deficiency.

Compliance and Other Matters

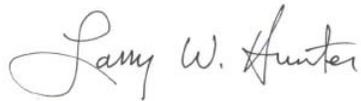
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, 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 December 14, 2010.

The District's responses to the findings identified in our audit, excluding the management letter findings, are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 14, 2010

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Helena-West Helena School District No. 2 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Helena-West Helena School District No. 2's (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 its major federal programs for the year ended June 30, 2010. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-3.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

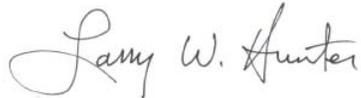
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-3. 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.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 14, 2010

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

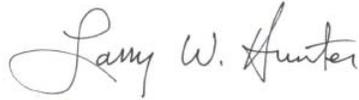
Helena-West Helena School District No. 2 and School Board Members
Legislative Joint Auditing Committee

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and to improve internal control. These matters were discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

1. During our examination of payroll records for thirty employees, we noted the following:
 - A. Districts are required to have written salary schedules which reflect actual paying practices of the District for certified and classified personnel; however, we noted the following deficiencies:
 - a. Two employees' actual pay did not agree with the salary schedules.
 - b. One employee's contracted position was not reflected on the classified salary schedule.
 - c. One classified employee was paid from a salary schedule that differed from her contracted position.
 - B. An approved hourly rate, agreed to by the employee, for after school tutoring services was not documented.
2. On October 19, 2009, the Helena-West Helena School District was notified by the Arkansas Department of Education that the Assistant Superintendent did not hold a license that allows him to serve as an Assistant Superintendent or any other position that requires licensure as a Building Level Administrator or Curriculum Program Administrator in an Arkansas public school. However, he remained in this capacity until June 30, 2010.
3. The District paid \$19,911, via electronic payments, to a credit card vendor without supporting documentation as required by Ark. Code Ann. § 6-13-701(e)(1).
4. During our examination of capital assets, we noted the District did not record depreciation expense for fiscal year 2010.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 14, 2010

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2010

Exhibit A

	Governmental Funds		
	Major		Fiduciary Fund Types
	General	Special Revenue	
ASSETS			
Cash	\$ 133,893	\$ 260,890	\$ 29,617
Investments	2,003,554		
Accounts receivable	88,649	500,452	
Property taxes receivable	202,976		
Due from other funds	49,265		
Accrued interest	1,928		
TOTAL ASSETS	\$ 2,480,265	\$ 761,342	\$ 29,617
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 67,627	\$ 123,750	
Due student groups			\$ 29,617
Due to other funds		49,265	
Total Liabilities	67,627	173,015	29,617
Fund Balances:			
Unreserved:			
Undesignated	2,412,638	588,327	
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,480,265	\$ 761,342	\$ 29,617

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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 3,619,615		
State assistance	17,682,962	\$ 12,244	\$ 280,838
Federal assistance	32,709	6,476,648	
Activity revenues	80,088		
Meal sales		132,725	
Investment income	48,393		
Other revenues	461,023	88,725	
TOTAL REVENUES	21,924,790	6,710,342	280,838
EXPENDITURES			
Regular programs	10,221,287	611,905	
Special education	1,041,673	815,381	
Workforce education	818,342	66,226	
Compensatory education	695,957	670,652	
Other instructional programs	709,377	256,486	
Student support services	1,177,342	177,783	
Instructional staff support services	1,700,933	2,197,592	
General administration support services	802,299	131,801	
School administration support services	1,945,106	49,737	
Central services support services	614,429	10,949	
Operation and maintenance of plant services	2,976,252	200,800	
Student transportation services	851,965	114,824	
Other support services	50,568		
Food services operations	91,089	1,655,208	
Facilities acquisition and construction services	38,690	103,672	56,722
Non-programmed costs		23,598	
Activity expenditures	87,987		
Debt Service:			
Principal retirement			430,000
Interest and fiscal charges			326,149
TOTAL EXPENDITURES	23,823,296	7,086,614	812,871
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,898,506)	(376,272)	(532,033)
OTHER FINANCING SOURCES (USES)			
Transfers in			532,033
Transfers out	(532,033)		
Refund to grantor		(12,316)	
TOTAL OTHER FINANCING SOURCES (USES)	(532,033)	(12,316)	532,033
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(2,430,539)	(388,588)	
FUND BALANCES - JULY 1	4,843,177	976,915	
FUND BALANCES - JUNE 30	\$ 2,412,638	\$ 588,327	\$ 0

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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS 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, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 3,866,147	\$ 3,619,615	\$ (246,532)			
State assistance	18,948,761	17,682,962	(1,265,799)	\$ 10,000	\$ 12,244	\$ 2,244
Federal assistance	39,000	32,709	(6,291)	13,582,953	6,476,648	(7,106,305)
Activity revenues		80,088	80,088			
Meal sales				168,000	132,725	(35,275)
Investment income	90,000	48,393	(41,607)			
Other revenues	38,500	461,023	422,523		88,725	88,725
TOTAL REVENUES	22,982,408	21,924,790	(1,057,618)	13,760,953	6,710,342	(7,050,611)
EXPENDITURES						
Regular programs	9,949,943	10,221,287	(271,344)	1,204,413	611,905	592,508
Special education	988,680	1,041,673	(52,993)	836,415	815,381	21,034
Workforce education	793,357	818,342	(24,985)	92,426	66,226	26,200
Compensatory education	553,133	695,957	(142,824)	2,186,325	670,652	1,515,673
Other instructional programs	600,104	709,377	(109,273)	75,386	256,486	(181,100)
Student support services	1,269,196	1,177,342	91,854	144,489	177,783	(33,294)
Instructional staff support services	1,280,816	1,700,933	(420,117)	3,918,954	2,197,592	1,721,362
General administration support services	718,038	802,299	(84,261)	137,252	131,801	5,451
School administration support services	1,818,774	1,945,106	(126,332)		49,737	(49,737)
Central services support services	653,282	614,429	38,853	76,228	10,949	65,279
Operation and maintenance of plant services	2,721,235	2,976,252	(255,017)	2,908,151	200,800	2,707,351
Student transportation services	802,324	851,965	(49,641)	89,449	114,824	(25,375)
Other support services	22,298	50,568	(28,270)			
Food services operations	31,950	91,089	(59,139)		1,655,208	(1,655,208)
Community services operations				4,806		4,806
Facilities acquisition and construction services	350,000	38,690	311,310	1,475,103	103,672	1,371,431
Non-programmed costs					23,598	(23,598)
Activity expenditures		87,987	(87,987)			
Debt Service:						
Principal retirement	47,000		47,000			
Interest and fiscal charges	1,020		1,020			
TOTAL EXPENDITURES	22,601,150	23,823,296	(1,222,146)	13,149,397	7,086,614	6,062,783

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS 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, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 381,258	\$ (1,898,506)	\$ (2,279,764)	\$ 611,556	\$ (376,272)	\$ (987,828)
OTHER FINANCING SOURCES (USES)						
Transfers in	11,507,053		(11,507,053)			
Transfers out	(12,264,553)	(532,033)	11,732,520			
Refund to grantor					(12,316)	(12,316)
TOTAL OTHER FINANCING SOURCES (USES)	(757,500)	(532,033)	225,467		(12,316)	(12,316)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(376,242)	(2,430,539)	(2,054,297)	611,556	(388,588)	(1,000,144)
FUND BALANCES - JULY 1	4,766,873	4,843,177	76,304	1,014,525	976,915	(37,610)
FUND BALANCES - JUNE 30	\$ 4,390,631	\$ 2,412,638	\$ (1,977,993)	\$ 1,626,081	\$ 588,327	\$ (1,037,754)

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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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 Helena-West Helena 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 the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

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

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

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

F. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

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 Designations

Undesignated fund balance indicates that portion of the fund balance not reserved or designated.

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.

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.

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)	\$ 2,253,554	\$ 2,253,554
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	174,400	3,326,876
Total Deposits	\$ 2,427,954	\$ 5,580,430

The above total deposits include certificates of deposit of \$2,003,554 reported as investments and classified as nonparticipating contracts.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$589,101 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance		\$ 490,570	\$ 490,570
Other	\$ 88,649	9,882	98,531
Totals	\$ 88,649	\$ 500,452	\$ 589,101

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2010:

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, 2010	Maturities To June 30, 2010
6/1/03	2/1/11	2 - 4.5%	\$ 2,510,000	\$ 350,000	\$ 2,160,000
6/1/03	2/1/23	3.1 - 4.5%	8,075,000	7,400,000	675,000
Totals			\$ 10,585,000	\$ 7,750,000	\$ 2,835,000

Changes in Long-Term Debt

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Bonds Payable	\$ 8,180,000	\$ 0	\$ 430,000	\$7,750,000

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

4: COMMITMENTS (CONTINUED)

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

Year Ended June 30,	Principal	Interest	Total
2011	\$ 450,000	\$ 307,953	\$ 757,953
2012	470,000	289,003	759,003
2013	490,000	273,492	763,492
2014	510,000	256,832	766,832
2015	535,000	238,983	773,983
2016-2020	3,070,000	871,133	3,941,133
2021-2023	2,225,000	199,642	2,424,642
Totals	<u>\$ 7,750,000</u>	<u>\$ 2,437,038</u>	<u>\$ 10,187,038</u>

5: ACCOUNTS PAYABLE

The accounts payable balance of \$191,377 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	<u>\$ 67,627</u>	<u>\$ 123,750</u>	<u>\$ 191,377</u>

6: INTERFUND TRANSFERS

The District transferred \$532,033 from the general fund to the other aggregate funds for debt related payments.

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 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, 2010, 2009, and 2008 were \$2,219,617, \$2,184,829, and \$2,112,039, respectively, equal to the required contributions for each year.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

7: 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, 2010, 2009, and 2008 were \$21,059, \$21,202, and \$21,171, respectively, equal to the required contributions for each year.

8: 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 accidents. 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 \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The District participates in the Public School Property and Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member districts, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for its buildings, contents, and vehicles.

9: 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 \$323,273 for the year ended June 30, 2010.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

10: SUBSEQUENT EVENTS

On September 13, 2010, 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.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Unaudited)

Schedule 1

	Balance June 30, 2010
<i>Nondepreciable capital assets:</i>	
Land	\$ 528,625
<i>Depreciable capital assets:</i>	
Buildings	14,327,126
Improvements/infrastructure	8,278,221
Equipment	7,979,735
Total depreciable capital assets	30,585,082
Less accumulated depreciation for:	
Buildings	14,543,624
Improvements/infrastructure	60,314
Equipment	5,338,785
Total accumulated depreciation	19,942,723
Total depreciable capital assets, net	10,642,359
Capital assets, net	\$ 11,170,984

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010

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	54-03	\$ 431,866
National School Lunch Program - Cash Assistance	10.555	54-03	996,589
Total State Department of Education			1,428,455
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 2)	10.555	54-03	84,407
TOTAL CHILD NUTRITION CLUSTER			1,512,862
TITLE I, PART A CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	54-03	1,914,083
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	54-03	343,657
TOTAL TITLE I, PART A CLUSTER			2,257,740
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	54-03	798,722
ARRA - Special Education - Grants to States, Recovery Act	84.391	54-03	349,543
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			1,148,265
STATE FISCAL STABILIZATION FUND CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	54-03	1,043,231
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	54-03	83,823
TOTAL STATE FISCAL STABILIZATION FUND CLUSTER			1,127,054
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	54-03	3,707
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 3)	12.AR05		54,883

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
OTHER PROGRAMS (CONTINUED)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Career and Technical Education - Basic Grants to States	84.048	54-03	\$ 35,524
Tech-Prep Education	84.243	54-03	1,506
Total State Department of Career Education			<u>37,030</u>
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	54-03	10,684
Even Start - State Educational Agencies	84.213	54-03	2,500
Reading First State Grants	84.357	54-03	219,439
Rural Education	84.358	54-03	65,983
Improving Teacher Quality State Grants	84.367	54-03	388,336
Hurricane Education Recovery	84.938	54-03	73,500
Total State Department of Education			<u>760,442</u>
Total U. S. Department of Education			<u>797,472</u>
<u>U. S. Department of Health and Human Services:</u>			
Passed Through State Department of Human Services:			
Child Care and Development Block Grant	93.575	54-03	750
TOTAL OTHER PROGRAMS			<u>856,812</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 6,902,733</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 includes the federal grant activity of Helena-West Helena School District No. 2 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.
- Note 2: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 3: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 4: During the year ended June 30, 2010, the District received Medicaid funding of \$41,989 from the State Department of Human Services. Such payments are not considered federal awards expended, and therefore, are not included in the above schedule.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Types of auditor's reports issued: GAAP basis of reporting - adverse
 Regulatory basis opinion units - unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010 and 84.389	Title I, Part A Cluster
84.027 and 84.391	Special Education Cluster (IDEA)
84.394 and 84.397	State Fiscal Stabilization Fund Cluster
84.367	Improving Teacher Quality State Grants

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

Auditee qualified as low-risk auditee? yes no

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2010-1. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five interrelated components - *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Condition: A deficiency in the internal control component of control activities affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. The District has not adequately segregated financial accounting duties related to cash, investments, accounts receivable, revenues, payroll and non-payroll expenditures to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting.

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 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, 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 transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Views of responsible officials and planned corrective actions: The District's ability to adequately segregate payroll and non-payroll expenditures is limited by the District's hiring capacity. Currently, the finance department is comprised of three individuals which include a Chief Financial Officer, a payroll clerk, and an accounts payable clerk. In our efforts to strengthen internal controls, an additional employee will be assigned to the finance department which will allow the District to further segregate financial accounting duties.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS
(CONTINUED)**

SIGNIFICANT DEFICIENCY

2010-2. Payroll Expenditures

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 payroll transactions consistent with management's assertions embodied in the financial statements.

Condition: During our examination of payroll records, we noted the following internal control weaknesses:

1. According to documentation provided for thirty employees, we noted five employees appeared to have been overpaid in amounts ranging from \$330 to \$716 and four employees appeared to have been underpaid in amounts ranging from \$54 to \$345.
2. Documentation of tutoring services provided on December 4, 2009 indicated payment was not made to the teachers until June 7, 2010.
3. Documentation for extra duties performed by twelve employees on October 24, 2009 and January 16, 2010 totaling \$2,850 was provided; however, we were unable to verify payment was made to the employees.
4. During review of time sheets for the payroll preparer, we noted there was no approval by supervisory personnel.

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 for payroll transactions was obtained.

Effect: The District's ability to initiate, authorize, record, process, and report payroll transactions consistent with management's assertions embodied in the financial statements was adversely affected by the lack of internal controls.

Cause: Lack of internal controls and adequate management oversight.

Recommendation: Management review payroll records to determine proper payments have been made to all personnel.

Views of responsible officials and planned corrective actions: (1) A review of payroll records will be conducted to assure that proper payments have been made to all personnel. All employees that have been overpaid will receive notification to return the overpaid amount within thirty days. Overpayment will be automatically deducted from individual payroll disbursements if the District is not reimbursed thirty days from receipt of written notification. Written notification will be sent via certified mail. (2) In addition to reviewing payroll reports on a biweekly basis and carefully comparing the monthly expenditure report with the bank statement, efforts will be made to ensure that all payments for services rendered will be made in a timely manner and in accordance with the payroll distribution schedule. The superintendent will closely monitor the payroll process. (3) A review of payroll reports will be conducted biweekly and carefully compared to previous payroll reports. When time sheets are submitted to the financial department for extra duties, the payroll clerk will verify the payment status. (4) All time sheets shall be reviewed and signed by the immediate supervisor prior to being submitted to the superintendent for approval. If this process is not adhered to, the staff member in question will be recommended for termination.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
TITLE I, PART A CLUSTER - CFDA NUMBERS 84.010 AND 84.389
SPECIAL EDUCATION CLUSTER - CFDA NUMBERS 84.027 AND 84.391
STATE FISCAL STABILIZATION FUND CLUSTER - CFDA NUMBERS 84.394 AND 84.397
PASS-THROUGH NUMBER 54-03
AUDIT PERIOD - YEAR ENDED JUNE 30, 2010

2010-3. Procurement and Suspension and Debarment

Criteria or specific requirement: In accordance with 34 CFR 80.35 and part 85, the District must not make or permit any applicable transaction to any vendor which is suspended or debarred or otherwise excluded from participation in federal assistance programs. The District is required to verify the vendor is not suspended or debarred or otherwise excluded. This verification can be accomplished by (a) checking the *Excluded Parties List System (EPLS)*, (b) collecting a certification from the vendor, or (c) adding a clause or condition to the applicable transaction with the vendor. Additionally, the Arkansas Department of Education issued a memorandum to all school districts on December 17, 2009 stipulating verification procedures to be followed regarding suspension and debarment when federal funds are utilized for applicable transactions.

Condition: The District failed to establish internal controls to ensure vendors were not suspended or debarred, thus increasing the risk of the District doing business with prohibited parties. Although goods and services had been properly received or rendered, the District did not verify that applicable vendors had not been suspended or debarred by the Federal Government. However, no vendors with which the District conducted business were identified during the audit period as suspended or debarred parties.

Context: Examination of controls related to the procurement and suspension and debarment and the examination of procurement contracts that were equal to or exceeded \$25,000.

Effect: Without adequate internal controls, payments could be made to suspended or debarred vendors with federal funds, which could require repayment to the grantor.

Cause: Lack of internal controls and adequate management oversight.

Recommendation: Establish an internal control system to ensure applicable transactions are not conducted with suspended or debarred parties.

Views of responsible officials and planned corrective actions: The suspension and debarment list will be reviewed prior to signing vendor contracts. In addition the list will be quickly accessible in order to screen all new vendors to ensure compliance. Before a vendor is added in the system the debarment list will be checked and attached to the 1099 before proceeding.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
PHILLIPS COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 4

There were no findings in the prior audit.

HELENA-WEST HELENA SCHOOL DISTRICT NO. 2
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Unaudited)

Schedule 5

<u>General Fund</u>	Year Ended June 30,				
	2010	2009	2008	2007	2006
Total Assets	\$ 2,480,265	\$ 4,853,169	\$ 6,298,052	\$ 6,616,656	\$ 6,969,138
Total Liabilities	67,627	9,992	207,621		40,207
Total Fund Balances	2,412,638	4,843,177	6,090,431	6,616,656	6,928,931
Total Revenues	21,924,790	23,201,790	24,127,471	24,498,802	24,679,061
Total Expenditures	23,823,296	24,014,827	24,066,224	23,800,360	21,842,471
Total Other Financing Sources (Uses)	(532,033)	(434,217)	(587,472)	(710,717)	(745,022)
 <u>Special Revenue Fund</u>					
Total Assets	761,342	1,049,051	1,538,115	1,978,170	1,866,330
Total Liabilities	173,015	72,136	32,730	6,653	106,231
Total Fund Balances	588,327	976,915	1,505,385	1,971,517	1,760,099
Total Revenues	6,710,342	5,040,504	5,824,270	6,230,708	6,357,444
Total Expenditures	7,086,614	5,568,894	6,424,260	6,019,290	6,018,729
Total Other Financing Sources (Uses)	(12,316)	(80)	133,858		(7,749)
 <u>Other Aggregate Funds</u>					
Total Assets			264,531		35,991
Total Liabilities			235,663		2,897
Total Fund Balances			28,868		33,094
Total Revenues	280,838		293,399		
Total Expenditures	812,871	756,524	755,155	785,175	1,205,513
Total Other Financing Sources (Uses)	532,033	727,656	490,624	752,081	751,930