

Cabot School District No. 4

Lonoke County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2011

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

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 |

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Senate Chair
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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

Cabot School District No. 4 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 Cabot School District No. 4 (the "District"), as of and for the year ended June 30, 2011, 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, 2011, 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, 2011, 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.

As discussed in Note 1 to the financial statements, the District changed the classifications of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2012 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

A handwritten signature in cursive script that reads "Roger A. Norman".

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

Little Rock, Arkansas
March 8, 2012
EDSD22811

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*

Cabot School District No. 4 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 Cabot School District No. 4 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 8, 2012. 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, 2011, 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

Management of the District is responsible for establishing and maintaining effective 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.

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 2011-1 to be a material weakness.

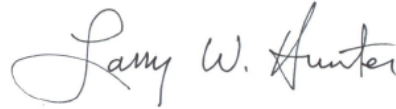
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free 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*.

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
March 8, 2012

Sen. Bill Pritchard
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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

Cabot School District No. 4 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Cabot School District No. 4 (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, 2011. 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, 2011.

Internal Control Over Compliance

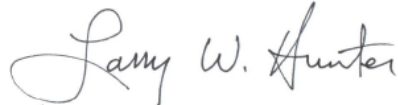
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over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

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

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 8, 2012

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2011

Exhibit A

| | Governmental Funds | | | |
|--|-----------------------------|--------------------------|-----------------------------|--------------------------|
| | Major | | | Fiduciary Fund Types |
| | General | Special Revenue | Other Aggregate | |
| ASSETS | | | | |
| Cash | \$ 11,819,088 | \$ 520,954 | \$ 7,375,025 | \$ 734,307 |
| Investments | | | 3,532,918 | |
| Accounts receivable | <u>11,844</u> | <u>2,753</u> | | |
| TOTAL ASSETS | <u><u>\$ 11,830,932</u></u> | <u><u>\$ 523,707</u></u> | <u><u>\$ 10,907,943</u></u> | <u><u>\$ 734,307</u></u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 328,905 | \$ 36,829 | \$ 676,389 | |
| Due student groups | | | | \$ 734,307 |
| Deferred taxes | <u>5,103,652</u> | | | |
| Total Liabilities | <u><u>5,432,557</u></u> | <u><u>36,829</u></u> | <u><u>676,389</u></u> | <u><u>734,307</u></u> |
| Fund Balances: | | | | |
| Restricted | 402,376 | 508,236 | 7,207,066 | |
| Assigned | 421,217 | | 3,026,094 | |
| Unassigned | <u>5,574,782</u> | <u>(21,358)</u> | <u>(1,606)</u> | |
| Total Fund Balances | <u><u>6,398,375</u></u> | <u><u>486,878</u></u> | <u><u>10,231,554</u></u> | |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 11,830,932</u></u> | <u><u>\$ 523,707</u></u> | <u><u>\$ 10,907,943</u></u> | <u><u>\$ 734,307</u></u> |

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

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

| | Major | | Other Aggregate |
|--|---------------------|--------------------|----------------------|
| | General | Special Revenue | |
| REVENUES | | | |
| Property taxes (including property tax relief trust distribution) | \$ 21,506,591 | | |
| State assistance | 51,066,365 | \$ 27,600 | \$ 4,506,705 |
| Federal assistance | 320,874 | 6,574,651 | 163,600 |
| Activity revenues | 774,742 | | |
| Meal sales | | 1,326,931 | |
| Investment income | | 3,123 | 135,762 |
| Other revenues | 187,399 | 566,629 | 911 |
| TOTAL REVENUES | 73,855,971 | 8,498,934 | 4,806,978 |
| EXPENDITURES | | | |
| Regular programs | 30,896,847 | 167,626 | 300,815 |
| Special education | 6,250,307 | 1,852,793 | |
| Workforce education programs | 2,338,235 | 41,569 | |
| Compensatory education programs | 116,073 | 636,338 | |
| Other instructional programs | 2,652,552 | 47,142 | |
| Student support services | 3,665,727 | 314,697 | 1,011 |
| Instructional staff support services | 5,163,219 | 1,932,697 | |
| General administration support services | 975,174 | 42,654 | |
| School administration support services | 4,008,033 | | 2,233 |
| Central services support services | 1,619,723 | | |
| Operation and maintenance of plant services | 6,984,144 | | 180,690 |
| Student transportation services | 3,298,744 | 3,449 | |
| Other support services | 52,446 | | |
| Food services operations | 11,182 | 3,471,740 | 17,818 |
| Community services operations | 11,000 | 118 | |
| Facilities acquisition and construction services | 166,310 | 88,162 | 9,718,167 |
| Non-programmed costs | | | |
| Activity expenditures | 680,556 | | |
| Debt Service: | | | |
| Principal retirement | | | 740,000 |
| Interest and fiscal charges | | | 1,862,740 |
| TOTAL EXPENDITURES | 68,890,272 | 8,598,985 | 12,823,474 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 4,965,699 | (100,051) | (8,016,496) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | | | 4,098,339 |
| Transfers out | (4,098,339) | | |
| Refund to grantor | (333,612) | | |
| Net bond issuance costs | | | (152,927) |
| Payment to refunding bond escrow agent | | | (5,682,133) |
| Proceeds from refunding bonds | | | 5,840,000 |
| TOTAL OTHER FINANCING SOURCES (USES) | (4,431,951) | | 4,103,279 |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 533,748 | (100,051) | (3,913,217) |
| FUND BALANCES - JULY 1 (RESTATED) | 5,864,627 | 586,929 | 14,144,771 |
| FUND BALANCES - JUNE 30 | \$ 6,398,375 | \$ 486,878 | \$ 10,231,554 |

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

CABOT SCHOOL DISTRICT NO. 4
LONOKE 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, 2011

Exhibit C

| | General | | | Special Revenue | | |
|---|-------------------|-------------------|--|------------------|------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| REVENUES | | | | | | |
| Property taxes (including property tax relief trust distribution) | \$ 22,500,000 | \$ 21,506,591 | \$ (993,409) | | | |
| State assistance | 49,969,745 | 51,066,365 | 1,096,620 | \$ 25,000 | \$ 27,600 | \$ 2,600 |
| Federal assistance | 150,000 | 320,874 | 170,874 | 7,652,722 | 6,574,651 | (1,078,071) |
| Activity revenues | | 774,742 | 774,742 | | | |
| Meal sales | | | | 1,412,650 | 1,326,931 | (85,719) |
| Investment income | | | | 3,000 | 3,123 | 123 |
| Other revenues | 117,000 | 187,399 | 70,399 | | 566,629 | 566,629 |
| TOTAL REVENUES | 72,736,745 | 73,855,971 | 1,119,226 | 9,093,372 | 8,498,934 | (594,438) |
| EXPENDITURES | | | | | | |
| Regular programs | 30,636,204 | 30,896,847 | (260,643) | 166,006 | 167,626 | (1,620) |
| Special education | 6,498,250 | 6,250,307 | 247,943 | 1,903,436 | 1,852,793 | 50,643 |
| Workforce education programs | 2,285,860 | 2,338,235 | (52,375) | 1,971 | 41,569 | (39,598) |
| Compensatory education programs | 173,596 | 116,073 | 57,523 | 706,841 | 636,338 | 70,503 |
| Other instructional programs | 2,920,695 | 2,652,552 | 268,143 | 35,325 | 47,142 | (11,817) |
| Student support services | 3,605,174 | 3,665,727 | (60,553) | 832,167 | 314,697 | 517,470 |
| Instructional staff support services | 5,433,027 | 5,163,219 | 269,808 | 2,128,849 | 1,932,697 | 196,152 |
| General administration support services | 1,002,905 | 975,174 | 27,731 | 41,688 | 42,654 | (966) |
| School administration support services | 4,009,642 | 4,008,033 | 1,609 | | | |
| Central services support services | 1,133,755 | 1,619,723 | (485,968) | | | |
| Operation and maintenance of plant services | 7,025,611 | 6,984,144 | 41,467 | 143,838 | | 143,838 |
| Student transportation services | 3,451,399 | 3,298,744 | 152,655 | 4,000 | 3,449 | 551 |
| Other support services | 51,854 | 52,446 | (592) | | | |
| Food services operations | 11,000 | 11,182 | (182) | 3,262,426 | 3,471,740 | (209,314) |
| Community services operations | 6,000 | 11,000 | (5,000) | 5,000 | 118 | 4,882 |
| Facilities acquisition and construction services | 100,909 | 166,310 | (65,401) | 195,553 | 88,162 | 107,391 |
| Non-programmed costs | 333,633 | | 333,633 | | | |
| Activity expenditures | | 680,556 | (680,556) | | | |
| TOTAL EXPENDITURES | 68,679,514 | 68,890,272 | (210,758) | 9,427,100 | 8,598,985 | 828,115 |

CABOT SCHOOL DISTRICT NO. 4
LONOKE 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, 2011

Exhibit C

| | General | | | Special Revenue | | |
|---|---------------------|---------------------|--|-------------------|-------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ 4,057,231 | \$ 4,965,699 | \$ 908,468 | \$ (333,728) | \$ (100,051) | \$ 233,677 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | 36,644,614 | | (36,644,614) | | | |
| Transfers out | (40,301,778) | (4,098,339) | 36,203,439 | | | |
| Refund to grantor | | (333,612) | (333,612) | | | |
| TOTAL OTHER FINANCING SOURCES (USES) | (3,657,164) | (4,431,951) | (774,787) | | | |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 400,067 | 533,748 | 133,681 | (333,728) | (100,051) | 233,677 |
| FUND BALANCES - JULY 1 | 6,549,546 | 5,864,627 | (684,919) | 637,640 | 586,929 | (50,711) |
| FUND BALANCES - JUNE 30 | <u>\$ 6,949,613</u> | <u>\$ 6,398,375</u> | <u>\$ (551,238)</u> | <u>\$ 303,912</u> | <u>\$ 486,878</u> | <u>\$ 182,966</u> |

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

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 Cabot School District (District). There are no component units.

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

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

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 |
| Building improvement | 7-20 |

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. 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.

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.

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

H. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

I. Stabilization Arrangements

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

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

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

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

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Encumbrances

The District does not utilize encumbrance accounting.

M. Change in Accounting Principle

The District adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

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) | \$ 500,000 | \$ 500,000 |
| Collateralized: | | |
| Collateral held by the pledging bank or pledging bank's trust department in the District's name | 23,482,292 | 24,680,450 |
| Total Deposits | \$ 23,982,292 | \$ 25,180,450 |

The above total deposits include certificates of deposit of \$3,532,918 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$14,597 at June 30, 2011 was comprised of the following:

| Description | Governmental Funds | | Total |
|------------------------|--------------------|--------------------|-----------|
| | Major | | |
| | General | Special Revenue | |
| Federal assistance | | \$ 2,753 | \$ 2,753 |
| Activity fund accounts | \$ 5,494 | | 5,494 |
| Other | 6,350 | | 6,350 |
| Totals | \$ 11,844 | \$ 2,753 | \$ 14,597 |

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2011:

A. Construction Contracts

| Project Name | Estimated Completion Date | Contract Balance |
|---------------------------------------|---------------------------|------------------|
| Health, P.E., and Recreation facility | December 2011 | \$ 3,144,007 |
| Junior High South Science addition | August 2011 | 666,171 |
| Fine Arts Auditorium renovations | August 2012 | 3,246,296 |
| Freshman Academy | August 2014 | 20,000,000 |
| Stadium Ticketbooth | October 2011 | 10,160 |
| Stadium Soccer | October 2011 | 15,239 |
| Stadium Restrooms/Concession | October 2011 | 25,399 |

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, 2011 | Maturities To June 30, 2011 |
|---------------|------------------------|------------------|------------------------------|--------------------------------|-----------------------------|
| 4/1/08 | 2/1/38 | 4 - 4.63% | \$ 21,655,000 | \$ 20,495,000 | \$ 1,160,000 |
| 6/1/10 | 2/1/32 | 2 - 4.25% | 32,645,000 | 32,545,000 | 100,000 |
| 11/1/10 | 6/30/32 | 2.25 - 4% | 5,840,000 | 5,790,000 | 50,000 |
| Totals | | | <u>\$ 60,140,000</u> | <u>\$ 58,830,000</u> | <u>\$ 1,310,000</u> |

Changes in Long-term Debt

| | Balance July 1, 2010 | Issued | Retired | Balance June 30, 2011 |
|-----------------------|----------------------|---------------------|---------------------|-----------------------|
| Bonds payable | \$ 59,295,000 | \$ 5,840,000 | \$ 6,305,000 | \$ 58,830,000 |
| Installment contracts | 174,254 | | 174,254 | |
| Totals | <u>\$ 59,469,254</u> | <u>\$ 5,840,000</u> | <u>\$ 6,479,254</u> | <u>\$ 58,830,000</u> |

*Includes \$5,565,000 early retirement of debt - See Note 6.

The retired amount for installment contracts consists of payments of \$65,231 from the District's activity funds (agency accounts) and \$109,023 from the Cabot Panther Education Foundation, a non-profit organization.

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4: COMMITMENTS (Continued)

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

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

| Year Ended June 30, | Principal | Interest | Total |
|------------------------|----------------------|----------------------|----------------------|
| 2012 | \$ 1,805,000 | \$ 2,243,064 | \$ 4,048,064 |
| 2013 | 1,855,000 | 2,194,239 | 4,049,239 |
| 2014 | 1,795,000 | 2,144,001 | 3,939,001 |
| 2015 | 1,810,000 | 2,098,664 | 3,908,664 |
| 2016 | 1,865,000 | 2,052,713 | 3,917,713 |
| 2017-2021 | 10,245,000 | 9,362,056 | 19,607,056 |
| 2022-2026 | 12,520,000 | 7,390,803 | 19,910,803 |
| 2027-2031 | 15,375,000 | 4,634,863 | 20,009,863 |
| 2032-2036 | 8,605,000 | 1,701,770 | 10,306,770 |
| 2037-2038 | 2,955,000 | 210,090 | 3,165,090 |
| Totals | <u>\$ 58,830,000</u> | <u>\$ 34,032,263</u> | <u>\$ 92,862,263</u> |

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$1,042,123 at June 30, 2011 was comprised of the following:

| Description | Governmental Funds | | | Total |
|-----------------|--------------------|--------------------|--------------------|---------------------|
| | Major | | | |
| | General | Special Revenue | Other Aggregate | |
| Vendor payables | \$ 179,008 | \$ 36,829 | \$ 676,389 | \$ 892,226 |
| Due to grantor | 149,897 | | | 149,897 |
| Totals | <u>\$ 328,905</u> | <u>\$ 36,829</u> | <u>\$ 676,389</u> | <u>\$ 1,042,123</u> |

6: DEBT REFUNDINGS

On November 1, 2010, the District issued \$5,840,000 in general obligation bonds with interest rates of 2.25 to 4 percent to advance refund \$5,565,000 of outstanding bonds dated December 1, 2005, with interest rates of 3.5 to 4.5 percent. Bond proceeds totaling \$5,682,133 were deposited with an escrow agent to provide for all future debt service payments on the 2005 Series bonds. The 2005 Series bonds were called on February 1, 2011. The remaining proceeds of \$4,940, after net bond issuance costs of \$152,927, will be utilized by the District for future debt payments. The 2005 bonds were advance refunded to reduce the District's debt service requirements by \$181,508 over a period of 22 fiscal years.

7: INTERFUND TRANSFERS

The District transferred \$4,098,339 from the general fund to the other aggregate funds for debt related payments of \$2,098,339, refunding savings required to be used for capital expenditures of \$1,374,816, and \$625,184 for capital projects.

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011, 2010, and 2009 were \$7,266,949, \$6,657,049, and \$6,122,502, respectively, equal to the required contributions for each year.

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, 2011, 2010, and 2009 were \$6,668, \$7,510, and \$9,889, respectively, equal to the required contributions for each year.

9: PRIOR YEAR RESTATEMENT

The beginning fund balance of the general fund was decreased by \$247,790 to properly reclassify certain activity fund accounts as fiduciary fund types.

The beginning fund balances of the special revenue fund and other aggregate funds were decreased and increased by \$19,388, respectively, to comply with GASB Statement no. 54.

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 its coverage of student accidents and board 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 \$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 coverage of buildings, contents, and vehicles.

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 \$908,817 for the year ended June 30, 2011.

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

| Description | Governmental Funds | | | Total |
|--|---------------------|-------------------|----------------------|----------------------|
| | Major | | | |
| | General | Special Revenue | Other Aggregate | |
| Fund Balances: | | | | |
| Restricted for: | | | | |
| Alternative learning environment | \$ 6,312 | | | \$ 6,312 |
| Educational programs - national school lunch state categorical funding | 187,665 | | | 187,665 |
| English-language learners | 6,288 | | | 6,288 |
| Professional development | 34,122 | | | 34,122 |
| Capital projects | | | \$ 7,207,066 | 7,207,066 |
| Child nutrition programs | | \$ 92,167 | | 92,167 |
| Medical services | | 399,950 | | 399,950 |
| Special education programs | 23,370 | | | 23,370 |
| Other purposes | 144,619 | 16,119 | | 160,738 |
| Total Restricted | <u>402,376</u> | <u>508,236</u> | <u>7,207,066</u> | <u>8,117,678</u> |
| Assigned to: | | | | |
| Capital projects | | | 3,026,094 | 3,026,094 |
| Student activities | 416,797 | | | 416,797 |
| Other purposes | 4,420 | | | 4,420 |
| Total Assigned | <u>421,217</u> | | <u>3,026,094</u> | <u>3,447,311</u> |
| Unassigned | <u>5,574,782</u> | <u>(21,358)</u> | <u>(1,606)</u> | <u>5,551,818</u> |
| Totals | <u>\$ 6,398,375</u> | <u>\$ 486,878</u> | <u>\$ 10,231,554</u> | <u>\$ 17,116,807</u> |

13: DEFICIT FUND BALANCES

The deficit unassigned fund balance of \$21,358 in the special revenue fund, as displayed in the table at Note 12 above, pertains to the following federal programs: special education (\$18,977), Title I (\$1,865), and Career and Technical Education (\$516). The deficit unassigned fund balance of \$1,606 in the other aggregate funds pertains to the ARRA - Stabilization federal program for capital outlay expenditures. The temporary deficit balances were caused by the recognition of minor accounts payable at year-end.

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(Unaudited)

Schedule 1

| | Balance June 30, 2011 |
|---|--------------------------|
| <i>Nondepreciable capital assets:</i> | |
| Land | \$ 3,218,617 |
| Construction in progress | 14,650,039 |
| Total nondepreciable capital assets | 17,868,656 |
| <i>Depreciable capital assets:</i> | |
| Buildings | 105,518,470 |
| Improvements/infrastructure | 4,638,410 |
| Equipment | 13,831,671 |
| Total depreciable capital assets | 123,988,551 |
| Less accumulated depreciation for: | |
| Buildings | 17,695,616 |
| Improvements/infrastructure | 1,805,230 |
| Equipment | 9,244,268 |
| Total accumulated depreciation | 28,745,114 |
| Total depreciable capital assets, net | 95,243,437 |
| Capital assets, net | \$ 113,112,093 |

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---------------------------|--|-------------------------|
| CHILD NUTRITION CLUSTER | | | |
| <u>U. S. Department of Agriculture</u> | | | |
| Direct Program: | | | |
| National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3) | 10.555 | | \$ 8,691 |
| Passed Through State Department of Education: | | | |
| School Breakfast Program - Cash Assistance | 10.553 | 43-04 | 377,890 |
| National School Lunch Program - Cash Assistance | 10.555 | 43-04 | 1,483,626 |
| Total State Department of Education | | | <u>1,861,516</u> |
| Passed Through State Department of Human Services: | | | |
| National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4) | 10.555 | 4304000 | <u>168,215</u> |
| TOTAL CHILD NUTRITION CLUSTER | | | <u>2,038,422</u> |
| 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 | 43-04 | 1,035,655 |
| ARRA - Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | 43-04 | <u>344,816</u> |
| TOTAL TITLE I, PART A CLUSTER | | | <u>1,380,471</u> |
| SPECIAL EDUCATION CLUSTER (IDEA) | | | |
| <u>U. S. Department of Education</u> | | | |
| Passed Through State Department of Education: | | | |
| Special Education - Grants to States | 84.027 | 43-04 | 1,709,580 |
| ARRA - Special Education - Grants to States, Recovery Act | 84.391 | 43-04 | <u>197,070</u> |
| TOTAL SPECIAL EDUCATION CLUSTER (IDEA) | | | <u>1,906,650</u> |
| OTHER PROGRAMS | | | |
| <u>U. S. Department of Agriculture</u> | | | |
| Passed Through State Department of Human Services: | | | |
| Child and Adult Care Food Program | 10.558 | 43-04 | <u>14,079</u> |
| Passed Through State Department of Education: | | | |
| Fresh Fruit and Vegetable Program | 10.582 | 43-04 | <u>23,889</u> |
| Total U. S. Department of Agriculture | | | <u>37,968</u> |
| <u>U. S. Department of Defense</u> | | | |
| Direct Program: | | | |
| ROTC (Note 5) | 12.AR040053 | | <u>35,818</u> |

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

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. S. Department of Education | | | |
| Direct Program: | | | |
| Impact Aid | 84.041 | | \$ 320,874 |
| Passed Through State Department of Career Education: | | | |
| Career and Technical Education - Basic Grants to States | 84.048 | 43-04 | 49,215 |
| Tech-Prep Education | 84.243 | 43-04 | 45,495 |
| Total State Department of Career Education | | | <u>94,710</u> |
| Passed Through State Department of Education: | | | |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | 43-04 | 442 |
| Twenty-First Century Community Learning Centers | 84.287 | 43-04 | 246,163 |
| English Language Acquisition Grants | 84.365 | 43-04 | 11,324 |
| Improving Teacher Quality State Grants | 84.367 | 43-04 | 267,453 |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | 43-04 | 730,312 |
| Total State Department of Education | | | <u>1,255,694</u> |
| Total U. S. Department of Education | | | <u>1,671,278</u> |
| <u>U. S. Department of Health and Human Services</u> | | | |
| Passed Through State Department of Career Education: | | | |
| Temporary Assistance for Needy Families | 93.558 | Unavailable | 38,972 |
| Passed Through State Department of Human Services: | | | |
| Child Care and Development Block Grant | 93.575 | Unavailable | 7,750 |
| Passed Through State Department of Education: | | | |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems | 93.938 | Unavailable | 1,540 |
| Total U. S. Department of Health and Human Services | | | <u>48,262</u> |
| TOTAL OTHER PROGRAMS | | | <u>1,793,326</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 7,118,869</u> |

The accompanying notes are an integral part of this schedule.

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Cabot School District No. 4 (District) under programs of the federal government for the year ended June 30, 2011. 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 this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 6: During the year ended June 30, 2011, the District received Medicaid funding of \$286,584 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2011-1. Internal Control

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

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: the comptroller has the ability to process receipts, disbursements, and journal entries, and the maintenance of accounting records for all funds maintained, without compensating controls. Other employees perform some of the duties listed on a daily basis but the comptroller has full access to all processes in Arkansas Public School Computer Network (APSCN), without compensating controls. The comptroller and four other employees have the ability to prepare payroll checks, make changes to the payroll amounts, and unrestricted access to the District's checks with preprinted authorized signatures, without compensating controls.

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

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

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

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

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 4

There were no findings in the prior audit.

CABOT SCHOOL DISTRICT NO. 4
LONOKE COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011
(Unaudited)

| General Fund | Year Ended June 30, | | | | |
|--------------------------------------|---------------------|---------------|--------------|--------------|--------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Total Assets | \$ 11,830,932 | \$ 11,411,537 | \$ 9,816,655 | \$ 8,283,348 | \$ 6,013,907 |
| Total Liabilities | 5,432,557 | 5,299,120 | 5,451,307 | 3,691,447 | 3,615,927 |
| Total Fund Balances | 6,398,375 | 6,112,417 | 4,365,348 | 4,591,901 | 2,397,980 |
| Total Revenues | 73,855,971 | 72,525,704 | 67,565,898 | 64,232,484 | 59,952,358 |
| Total Expenditures | 68,890,272 | 64,715,680 | 62,199,886 | 60,033,406 | 58,965,083 |
| Total Other Financing Sources (Uses) | (4,431,951) | (6,062,955) | (5,592,565) | (2,005,157) | (2,087,335) |
| Special Revenue Fund | | | | | |
| Total Assets | 523,707 | 637,639 | 532,380 | 387,464 | 196,192 |
| Total Liabilities | 36,829 | 31,322 | 91,430 | 24,239 | 47,110 |
| Total Fund Balances | 486,878 | 606,317 | 440,950 | 363,225 | 149,082 |
| Total Revenues | 8,498,934 | 10,288,223 | 6,893,881 | 6,850,768 | 6,228,497 |
| Total Expenditures | 8,598,985 | 10,122,856 | 6,886,288 | 6,630,143 | 6,414,311 |
| Total Other Financing Sources (Uses) | | | 70,132 | (6,482) | 206,733 |
| Other Aggregate Funds | | | | | |
| Total Assets | 10,907,943 | 15,523,323 | 19,267,194 | 24,984,998 | 8,767,415 |
| Total Liabilities | 676,389 | 1,397,940 | 391,947 | 17,342 | 1,025,474 |
| Total Fund Balances | 10,231,554 | 14,125,383 | 18,875,247 | 24,967,656 | 7,741,941 |
| Total Revenues | 4,806,978 | 9,429,690 | 1,688,988 | 4,508,855 | 6,783,618 |
| Total Expenditures | 12,823,474 | 20,246,210 | 13,053,830 | 10,676,178 | 17,950,356 |
| Total Other Financing Sources (Uses) | 4,103,279 | 6,066,656 | 5,272,433 | 23,393,038 | 14,609,602 |