

Harrison School District No. 1

Boone County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2010

LEGISLATIVE JOINT AUDITING COMMITTEE



HARRISON SCHOOL DISTRICT NO. 1
BOONE COUNTY, ARKANSAS
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JUNE 30, 2010

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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

Harrison School District No. 1 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 Harrison School District No. 1 (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.

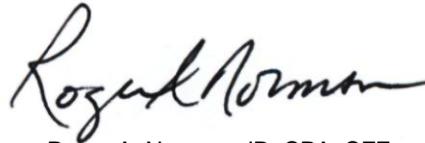
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 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 January 13, 2011 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 black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first name "Roger" being the most prominent.

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

Little Rock, Arkansas
January 13, 2011
EDSD02710

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*

Harrison School District No. 1 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 Harrison School District No. 1 (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 January 13, 2011. 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.

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.

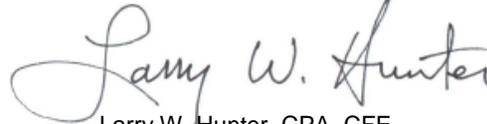
Compliance and Other Matters

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
January 13, 2011

Sen. Bill Pritchard
Senate Chair
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House Chair
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Senate Vice Chair
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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

Harrison School District No. 1 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Harrison School District No. 1'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 2010-2.

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.

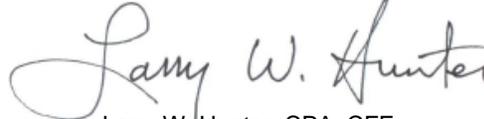
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 2010-2. 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

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 13, 2011

HARRISON SCHOOL DISTRICT NO. 1
BOONE COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2010

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 1,563,696	\$ 316,268	\$ 3,489,130	\$ 110,364
Investments	20,000		568,685	
Accounts receivable	17,400	120,492	3,567	
Property taxes receivable	138,556			
TOTAL ASSETS	\$ 1,739,652	\$ 436,760	\$ 4,061,382	\$ 110,364
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 100,638	\$ 12,683		
Due student groups				\$ 94,405
Total Liabilities	100,638	12,683		94,405
Fund Balances:				
Reserved:				
Endowment			\$ 568,685	
Scholarships				15,959
Library holdings			50,031	
Capital projects			3,442,666	
Unreserved:				
Undesignated	1,639,014	424,077		
Total Fund Balances	1,639,014	424,077	4,061,382	15,959
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,739,652	\$ 436,760	\$ 4,061,382	\$ 110,364

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

HARRISON SCHOOL DISTRICT NO. 1
BOONE 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)	\$ 10,261,827		
State assistance	11,552,708	\$ 10,086	
Federal assistance		3,655,340	
Activity revenues	326,370		
Meal sales		478,777	
Investment income	45,766	2,391	\$ 105,617
Other revenues	91,841	235,490	
TOTAL REVENUES	22,278,512	4,382,084	105,617
EXPENDITURES			
Regular programs	8,577,742	281,445	
Special education	1,505,449	492,580	
Workforce education	718,939	61,819	
Compensatory education	7,045	969,186	
Other instructional programs	1,235,424	64,675	
Student support services	1,041,179	346,509	7,837
Instructional staff support services	1,327,312	565,346	
General administration support services	526,394	7,379	
School administration support services	1,430,927		
Central services support services	752,225		
Operation and maintenance of plant services	2,040,752	30,876	
Student transportation services	1,030,198	124,079	
Other support services	21,127		
Food services operations	3,304	1,524,681	
Community services operations		3,502	
Facilities acquisition and construction services	3,150	64,497	903,279
Activity expenditures	325,127		
Debt Service:			
Principal retirement	43,695		250,000
Interest and fiscal charges	1,940		898,880
TOTAL EXPENDITURES	20,591,929	4,536,574	2,059,996
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,686,583	(154,490)	(1,954,379)
OTHER FINANCING SOURCES (USES)			
Transfers in	51,940		1,148,880
Transfers out	(1,148,880)		(51,940)
TOTAL OTHER FINANCING SOURCES (USES)	(1,096,940)		1,096,940
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	589,643	(154,490)	(857,439)
FUND BALANCES - JULY 1	1,049,371	578,567	4,918,821
FUND BALANCES - JUNE 30	\$ 1,639,014	\$ 424,077	\$ 4,061,382

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

HARRISON SCHOOL DISTRICT NO. 1
BOONE 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)	\$ 10,484,108	\$ 10,261,827	\$ (222,281)			
State assistance	10,871,886	11,552,708	680,822		\$ 10,086	\$ 10,086
Federal assistance				\$ 4,696,038	3,655,340	(1,040,698)
Activity revenues		326,370	326,370			
Meal sales				586,000	478,777	(107,223)
Investment income	92,850	45,766	(47,084)		2,391	2,391
Other revenues	86,000	91,841	5,841		235,490	235,490
TOTAL REVENUES	21,534,844	22,278,512	743,668	5,282,038	4,382,084	(899,954)
EXPENDITURES						
Regular programs	8,506,910	8,577,742	(70,832)	300,078	281,445	18,633
Special education	1,488,031	1,505,449	(17,418)	685,471	492,580	192,891
Workforce education	722,855	718,939	3,916	54,209	61,819	(7,610)
Compensatory education	9,500	7,045	2,455	1,023,998	969,186	54,812
Other instructional programs	1,223,832	1,235,424	(11,592)	62,447	64,675	(2,228)
Student support services	1,060,376	1,041,179	19,197	455,960	346,509	109,451
Instructional staff support services	1,329,986	1,327,312	2,674	314,639	565,346	(250,707)
General administration support services	534,141	526,394	7,747	10,345	7,379	2,966
School administration support services	1,440,915	1,430,927	9,988			
Central services support services	796,567	752,225	44,342	307,300		307,300
Operation and maintenance of plant services	2,134,622	2,040,752	93,870		30,876	(30,876)
Student transportation services	993,015	1,030,198	(37,183)	129,738	124,079	5,659
Other support services	46,500	21,127	25,373			
Food services operations		3,304	(3,304)	1,431,462	1,524,681	(93,219)
Community services operations				10,500	3,502	6,998
Facilities acquisition and construction services	10,000	3,150	6,850	730,675	64,497	666,178
Activity expenditures		325,127	(325,127)			
Debt Service:						
Principal retirement	43,695	43,695				
Interest and fiscal charges	1,970	1,940	30			
TOTAL EXPENDITURES	20,342,915	20,591,929	(249,014)	5,516,822	4,536,574	980,248

HARRISON SCHOOL DISTRICT NO. 1
BOONE 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	\$ 1,191,929	\$ 1,686,583	\$ 494,654	\$ (234,784)	\$ (154,490)	\$ 80,294
OTHER FINANCING SOURCES (USES)						
Transfers in	10,866,905	51,940	(10,814,965)			
Transfers out	(11,963,248)	(1,148,880)	10,814,368			
TOTAL OTHER FINANCING SOURCES (USES)	(1,096,343)	(1,096,940)	(597)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	95,586	589,643	494,057	(234,784)	(154,490)	80,294
FUND BALANCES - JULY 1	1,998,022	1,049,371	(948,651)	563,597	578,567	14,970
FUND BALANCES - JUNE 30	\$ 2,093,608	\$ 1,639,014	\$ (454,594)	\$ 328,813	\$ 424,077	\$ 95,264

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

HARRISON SCHOOL DISTRICT NO. 1
BOONE 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 Harrison 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.

Permanent Fund – The Permanent Fund is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

Fiduciary Fund types include the following:

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

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

C. Measurement Focus and Basis of Accounting

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

HARRISON SCHOOL DISTRICT NO. 1
 BOONE 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 RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

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

HARRISON SCHOOL DISTRICT NO. 1
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Amendment no. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Fund Balance Designations

1. Reserved fund balance – represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Undesignated fund balance – indicates that portion of the fund balance not reserved or designated.

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.

HARRISON SCHOOL DISTRICT NO. 1
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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)	\$ 603,987	\$ 687,152
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	5,388,621	7,228,939
Uninsured, Uncollateralized		7,073
Total Deposits	\$ 5,992,608	\$ 7,923,164

The above total deposits do not include cash on hand of \$200. The above total deposits include certificates of deposit of \$513,350 reported as investments and classified as nonparticipating contracts.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2010, \$7,073 of the District's bank balance of \$7,923,164 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$7,073</u>
--------------------------------	----------------

3: INVESTMENTS

At June 30, 2010, the District's investments consisted of Windstream common stock with a market value of \$75,335. The investment earnings from this stock are used for library holdings. Additionally, investments included certificates of deposit of \$513,350 classified as nonparticipating contracts. See Note 2.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in Windstream stock. Of the investments reported in the other aggregate funds, \$75,335 was invested in Windstream stock, related to a gift from Lena A. Moore.

HARRISON SCHOOL DISTRICT NO. 1
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$141,459 at June 30, 2010 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Federal assistance		\$ 120,492		\$ 120,492
Investment income			\$ 3,567	3,567
Other	\$ 17,400			17,400
Totals	\$ 17,400	\$ 120,492	\$ 3,567	\$ 141,459

5: COMMITMENTS

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Forest Heights Elementary addition	August 13, 2010	\$ 1,391,810
Skyline Heights Elementary addition	August 13, 2010	427,372
Woodland Heights Elementary addition	August 13, 2010	523,852

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, 2010	Maturities To June 30, 2010
4/1/09	4/1/39	2.5 - 4.9%	\$ 14,325,000	\$ 14,320,000	\$ 5,000
6/1/05	6/1/23	3 - 3.75%	5,255,000	4,085,000	1,170,000
Totals			\$ 19,580,000	\$ 18,405,000	\$ 1,175,000

Changes in Long-term Debt

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Bonds payable	\$ 18,655,000		\$ 250,000	\$ 18,405,000
Installment contracts	43,695		43,695	
Totals	\$ 18,698,695	\$ 0	\$ 293,695	\$ 18,405,000

HARRISON SCHOOL DISTRICT NO. 1
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

5: 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
2011	\$ 360,000	\$ 782,346	\$ 1,142,346
2012	370,000	772,071	1,142,071
2013	380,000	761,496	1,141,496
2014	390,000	749,858	1,139,858
2015	405,000	737,906	1,142,906
2016-2020	2,225,000	3,477,761	5,702,761
2021-2025	2,665,000	3,040,605	5,705,605
2026-2030	3,305,000	2,432,865	5,737,865
2031-2035	4,160,000	1,613,140	5,773,140
2036-2039	4,145,000	517,400	4,662,400
Totals	<u>\$ 18,405,000</u>	<u>\$ 14,885,448</u>	<u>\$ 33,290,448</u>

6: ACCOUNTS PAYABLE

The accounts payable balance of \$113,321 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	<u>\$ 100,638</u>	<u>\$ 12,683</u>	<u>\$ 113,321</u>

7: INTERFUND TRANSFERS

The District transferred \$1,148,880 from the general fund to the other aggregate funds for debt related payments. The District transferred \$51,940 from the other aggregate funds to the general fund for reimbursement of prior year expenditures.

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.

HARRISON SCHOOL DISTRICT NO. 1
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8: RETIREMENT PLANS (Continued)

Arkansas Teacher Retirement System (Continued)

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 \$2,147,062, \$1,959,624, and \$1,814,322, 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, 2010, 2009, and 2008 were \$1,590, \$1,551, and \$2,639, respectively, equal to the required contributions for each year.

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 24,150
DEDUCTIONS	
Scholarships	<u>25,079</u>
CHANGE IN FUND BALANCE	(929)
FUND BALANCE - JULY 1	<u>16,888</u>
FUND BALANCE - JUNE 30	<u><u>\$ 15,959</u></u>

The District maintains a scholarship fund for the purpose of awarding scholarships to qualifying seniors. Various donors and organizations contribute to the scholarship fund on an annual basis.

HARRISON SCHOOL DISTRICT NO. 1
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

10: LENA A. MOORE AND EULA ALBRIGHT ENDOWMENT FUND

On April 12, 1987, from a donation from Lena A. Moore, the District received 2,300 shares of common stock of Alltel Corporation valued at \$65,263. This gift created the "Lena A. Moore and Eula Albright Endowment Fund". On July 12, 2006, the District received 7,134 shares of Windstream Corporation common stock as a result of the spin-off of Alltel's wire line business and subsequent merger with Valor Communications Group, Inc. On November 16, 2007, as a result of this merger, the District was also required to exchange its 6,900 shares of Alltel stock for \$71.50 per share, or \$493,350. The District purchased a certificate of deposit with the proceeds. The increase in market value of the Windstream stock increased the value of the endowment fund to \$568,685 at June 30, 2010.

The investment earnings from the certificate of deposit and stock are restricted for the purchase of books for the District's libraries. The balance of the unexpended investment earnings was \$50,031 at June 30, 2010.

11: 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 board liability and 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 coverage of buildings, contents, and vehicles.

12: 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 \$245,984 for the year ended June 30, 2010.

13: SUBSEQUENT EVENTS

The District issued refunding bonds of \$4,245,000 on November 1, 2010. The proceeds will be used to refund the 2005 bond issue.

HARRISON SCHOOL DISTRICT NO. 1
 BOONE 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	\$ 623,332
Construction in progress	908,089
Total nondepreciable capital assets	1,531,421
 <i>Depreciable capital assets:</i>	
Buildings	24,987,216
Improvements/infrastructure	495,865
Equipment	6,434,768
Total depreciable capital assets	31,917,849
 Less accumulated depreciation for:	
Buildings	5,336,876
Improvements/infrastructure	372,106
Equipment	4,126,256
Total accumulated depreciation	9,835,238
 Total depreciable capital assets, net	22,082,611
 Capital assets, net	\$ 23,614,032

HARRISON SCHOOL DISTRICT NO. 1
BOONE 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>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 2)	10.555		\$ 2,903
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	05-03	191,387
National School Lunch Program - Cash Assistance	10.555	05-03	542,659
Total State Department of Education			734,046
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	0503	56,833
Summer Food Service Program for Children - Cash Assistance	10.559	SA-172	14,990
Total State Department of Human Services			71,823
TOTAL CHILD NUTRITION CLUSTER			808,772
 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	05-03	808,242
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	05-03	313,418
TOTAL TITLE I, PART A CLUSTER			1,121,660
 SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	05-03	566,054
Special Education - Preschool Grants	84.173	05-03	28,643
ARRA - Special Education - Grants to States, Recovery Act	84.391	05-03	257,663
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			852,360
 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	05-03	767,932
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	05-03	26,267
TOTAL STATE FISCAL STABILIZATION FUND CLUSTER			794,199

HARRISON SCHOOL DISTRICT NO. 1
BOONE 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			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program	10.582	05-03	\$ 32,464
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Career and Technical Education - Basic Grants to States	84.048	05-03	65,185
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	05-03	13,407
Education for Homeless Children and Youth	84.196	05-03	8,487
Improving Teacher Quality State Grants	84.367	05-03	104,931
Hurricane Education Recovery	84.938	05-03	11,250
Total State Department of Education			138,075
Total U. S. Department of Education			203,260
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	05-03	143
Passed Through State Department of Human Services:			
Social Services Block Grant	93.667	05-03	28,709
Total U. S. Department of Health and Human Services			28,852
TOTAL OTHER PROGRAMS			264,576
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,841,567

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 Harrison School District No. 1 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 U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2010, the District received Medicaid funding of \$153,981 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

HARRISON SCHOOL DISTRICT NO. 1
 BOONE 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, 84.173, and 84.391	Special Education Cluster (IDEA)
84.394 and 84.397	State Fiscal Stabilization Fund Cluster

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

Auditee qualified as low-risk auditee? yes no

HARRISON SCHOOL DISTRICT NO. 1
BOONE 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 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. The District has not segregated financial accounting duties among appropriate employees 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's assets.

Views of responsible officials and planned corrective actions: Management will continue to segregate duties as much as possible with the limited personnel available.

HARRISON SCHOOL DISTRICT NO. 1
BOONE 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
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT - CFDA
NUMBER 84.394
PASS THROUGH NUMBER 05-03
AUDIT PERIOD - YEAR ENDED JUNE 30, 2010

2010-2. Davis-Bacon Act

Criteria or specific requirement: The Davis-Bacon Act requires all contractors and subcontractors performing on construction contracts in excess of \$2,000, financed by Federal funds, to pay their laborers and mechanics not less than the prevailing wage rates as determined by the Department of Labor. Non-federal entities are to include in the applicable construction contracts a requirement that the contractor or subcontractor comply with the provisions of the Davis-Bacon Act and the Department of Labor regulations. Such requirements include the submission of weekly certified payrolls, for each week in which any contract work is performed, to the non-federal entities.

Condition: The District did not include a requirement that the contractor comply with the provisions of the Davis-Bacon Act in a contract of \$308,656 for technology infrastructure updates, including labor and materials. However, the contractor did submit weekly certified payrolls to the District.

Context: Examination of payments made to a contractor and supporting documentation for technology infrastructure updates.

Effect: The District did not comply with the notification requirements regarding compliance with the Davis-Bacon Act.

Cause: The District did not monitor the applicable construction contract to ensure notification of the Davis-Bacon Act requirements were included.

Recommendation: The District should ensure that all applicable construction contracts contain the required Davis-Bacon Act clause.

Views of responsible officials and planned corrective actions: The District is aware of the Davis-Bacon requirements and this was discussed with the vendor both orally and through e-mail. In addition, the District did obtain required payroll records to verify that the requirements were met. In the future the District will be more diligent about written agreements with vendors.

HARRISON SCHOOL DISTRICT NO. 1
BOONE 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.

HARRISON SCHOOL DISTRICT NO. 1
 BOONE COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Unaudited)

Schedule 5

General Fund	Year Ended June 30,				
	2010	2009	2008	2007	2006
Total Assets	\$ 1,739,652	\$ 1,272,971	\$ 1,408,875	\$ 1,093,902	\$ 1,813,748
Total Liabilities	100,638	223,600	171,979	215,699	58,660
Total Fund Balances	1,639,014	1,049,371	1,236,896	878,203	1,755,088
Total Revenues	22,278,512	21,757,363	21,481,723	20,039,944	19,222,109
Total Expenditures	20,591,929	20,779,621	20,025,935	19,763,802	18,324,101
Total Other Financing Sources (Uses)	(1,096,940)	(1,165,267)	(1,097,095)	(1,153,027)	(1,371,506)
 Special Revenue Fund					
Total Assets	436,760	588,849	356,958	276,975	313,639
Total Liabilities	12,683	10,282	8,924		
Total Fund Balances	424,077	578,567	348,034	276,975	313,639
Total Revenues	4,382,084	3,266,555	3,035,001	2,804,658	2,689,374
Total Expenditures	4,536,574	3,036,022	2,963,942	2,841,322	2,604,421
Total Other Financing Sources (Uses)					
 Other Aggregate Funds					
Total Assets	4,061,382	4,918,821	603,154	592,657	463,901
Total Liabilities					
Total Fund Balances	4,061,382	4,918,821	603,154	592,657	463,901
Total Revenues	105,617	40,996	25,473	141,564	24,640
Total Expenditures	2,059,996	646,677	1,175,094	1,165,835	2,068,799
Total Other Financing Sources (Uses)	1,096,940	4,921,348	1,160,118	1,153,027	1,382,690