

# **Vilonia School District No. 17**

**Faulkner County, Arkansas**

## **Regulatory Basis Financial Statements and Other Reports**

**June 30, 2008**

LEGISLATIVE JOINT AUDITING COMMITTEE

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FAULKNER COUNTY, ARKANSAS  
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JUNE 30, 2008

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**Sen. Bobby L. Glover**  
Senate Co-Chair  
**Rep. Johnny Hoyt**  
House Co-Chair  
**Sen. Bill Pritchard**  
Senate Co-Vice Chair  
**Rep. Beverly Pyle**  
House Co-Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Vilonia School District No. 17 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 Vilonia School District No. 17 (the "District"), as of and for the year ended June 30, 2008, 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.

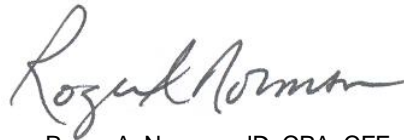
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2008, 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, 2008, and the respective changes in financial position and budgetary results 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 June 25, 2009 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 Four 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 Four 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  
June 25, 2009  
EDSD12108

Sen. Bobby L. Glover  
Senate Co-Chair  
Rep. Johnny Hoyt  
House Co-Chair  
Sen. Bill Pritchard  
Senate Co-Vice Chair  
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House Co-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*

Vilonia School District No. 17 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 Vilonia School District No. 17 (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated June 25, 2009. 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, 2008, and the respective changes in financial position and budgetary results 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting as prescribed or permitted by Arkansas Code such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2008-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 2008-1 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

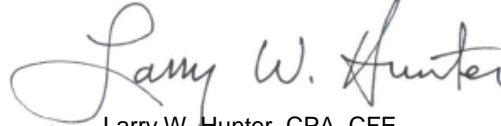
Compliance and Other Matters

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 it.

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 Arkansas Code Annotated § 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  
June 25, 2009

**Sen. Bobby L. Glover**  
Senate Co-Chair  
**Rep. Johnny Hoyt**  
House Co-Chair  
**Sen. Bill Pritchard**  
Senate Co-Vice Chair  
**Rep. Beverly Pyle**  
House Co-Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Vilonia School District No. 17 and School Board Members  
Legislative Joint Auditing Committee

#### Compliance

We have audited the compliance of the Vilonia School District No. 17 (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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.

As described in item 2008-2 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding allowable costs/cost principles that are applicable to its Education for Homeless Children and Youth program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed other 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 2008-3.

#### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

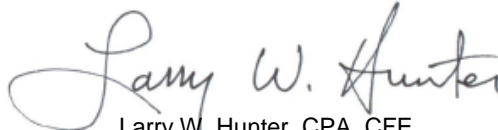
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2008-2 and 2008-3 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2008-2 to be a material weakness.

The District's response to the findings 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 it.

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 Arkansas Code Annotated § 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  
June 25, 2009

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2008

Exhibit A

	Governmental Funds		
	Major		
	General	Special Revenue	Fiduciary Fund Types
<b>ASSETS</b>			
Cash	\$ 1,675,384	\$ 601,926	\$ 34,991
Investments	828,910		14,596
Accounts receivable	9,031	4,349	
Due from other funds		13,399	
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,513,325</u></u>	<u><u>\$ 619,674</u></u>	<u><u>\$ 49,587</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 126,044	\$ 13,072	
Due student groups			\$ 47,987
Due to other funds	13,399		
Deferred taxes	834,159		
<b>Total Liabilities</b>	<u>973,602</u>	<u>13,072</u>	<u>47,987</u>
Fund Balances:			
Reserved:			
Scholarships			1,600
Unreserved:			
Undesignated	1,539,723	606,602	
<b>Total Fund Balances</b>	<u>1,539,723</u>	<u>606,602</u>	<u>1,600</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 2,513,325</u></u>	<u><u>\$ 619,674</u></u>	<u><u>\$ 49,587</u></u>

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

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VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2008

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 3,981,388		
State assistance	16,526,097	\$ 11,810	\$ 348,774
Federal assistance		2,227,018	
Activity revenues	418,007		
Meal sales		614,027	
Investment income	120,526	5,492	
Other revenues	610,653	254,181	
<b>TOTAL REVENUES</b>	<b>21,656,671</b>	<b>3,112,528</b>	<b>348,774</b>
EXPENDITURES			
Regular programs	9,397,913	97,749	
Special education	1,141,656	383,448	
Workforce education	791,423	29,224	
Compensatory education	155,120	204,934	
Other instructional programs	958,122		
Student support services	1,105,810	202,774	
Instructional staff support services	1,180,723	441,696	
General administration support services	405,137		
School administration support services	1,242,812		
Central services support services	414,479		
Operation and maintenance of plant services	2,096,468		
Student transportation services	982,530	6,833	
Other support services	197,951		
Food services operations	3,000	1,402,358	
Community services operations	354,625	183,822	
Facilities acquisition and construction services	40,112		568,931
Non-programmed costs	30,415		
Activity expenditures	456,226		
Debt Service:			
Principal retirement	79,694		325,000
Interest and fiscal charges	3,729		676,722
<b>TOTAL EXPENDITURES</b>	<b>21,037,945</b>	<b>2,952,838</b>	<b>1,570,653</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>618,726</b>	<b>159,690</b>	<b>(1,221,879)</b>
OTHER FINANCING SOURCES (USES)			
Transfers in		90,000	1,243,670
Transfers out	(1,333,670)		
Value of capital lease	116,794		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,216,876)</b>	<b>90,000</b>	<b>1,243,670</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(598,150)</b>	<b>249,690</b>	<b>21,791</b>
FUND BALANCES - JULY 1	2,137,873	356,912	(21,791)
FUND BALANCES - JUNE 30	<u>\$ 1,539,723</u>	<u>\$ 606,602</u>	<u>\$ 0</u>

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

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER 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, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 4,288,635	\$ 3,981,388	\$ (307,247)			
State assistance	16,227,416	16,526,097	298,681	\$ 15,000	\$ 11,810	\$ (3,190)
Federal assistance				1,757,456	2,227,018	469,562
Activity revenues		418,007	418,007			
Meal sales				660,000	614,027	(45,973)
Investment income	150,000	120,526	(29,474)	10,000	5,492	(4,508)
Other revenues	504,962	610,653	105,691		254,181	254,181
<b>TOTAL REVENUES</b>	<b>21,171,013</b>	<b>21,656,671</b>	<b>485,658</b>	<b>2,442,456</b>	<b>3,112,528</b>	<b>670,072</b>
<b>EXPENDITURES</b>						
Regular programs	9,274,127	9,397,913	(123,786)	244,346	97,749	146,597
Special education	1,160,766	1,141,656	19,110	389,877	383,448	6,429
Workforce education	845,359	791,423	53,936	29,224	29,224	
Compensatory education	161,500	155,120	6,380	212,566	204,934	7,632
Other instructional programs	815,693	958,122	(142,429)			
Student support services	1,155,437	1,105,810	49,627	190,988	202,774	(11,786)
Instructional staff support services	1,145,879	1,180,723	(34,844)	500,493	441,696	58,797
General administration support services	556,895	405,137	151,758			
School administration support services	1,269,084	1,242,812	26,272			
Central services support services	423,154	414,479	8,675			
Operation and maintenance of plant services	2,209,854	2,096,468	113,386			
Student transportation services	991,732	982,530	9,202	15,001	6,833	8,168
Other support services	183,670	197,951	(14,281)			
Food services operations		3,000	(3,000)	1,400,000	1,402,358	(2,358)
Community services operations	310,742	354,625	(43,883)	235,802	183,822	51,980
Other non-instructional services	24,687		24,687			
Facilities acquisition and construction services	56,000	40,112	15,888			
Non-programmed costs		30,415	(30,415)			
Activity expenditures		456,226	(456,226)			
Debt Service:						
Principal retirement	115,829	79,694	36,135			
Interest and fiscal charges	3,708	3,729	(21)			
<b>TOTAL EXPENDITURES</b>	<b>20,704,116</b>	<b>21,037,945</b>	<b>(333,829)</b>	<b>3,218,297</b>	<b>2,952,838</b>	<b>265,459</b>

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER 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, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 466,897	\$ 618,726	\$ 151,829	\$ (775,841)	\$ 159,690	\$ 935,531
OTHER FINANCING SOURCES (USES)						
Transfers in	11,013,859		(11,013,859)	90,000	90,000	
Transfers out	(12,354,759)	(1,333,670)	11,021,089			
Value of capital lease		116,794	116,794			
TOTAL OTHER FINANCING SOURCES (USES)	(1,340,900)	(1,216,876)	124,024	90,000	90,000	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(874,003)	(598,150)	275,853	(685,841)	249,690	935,531
FUND BALANCES - JULY 1	2,021,559	2,137,873	116,314	361,492	356,912	(4,580)
FUND BALANCES - JUNE 30	<u>\$ 1,147,556</u>	<u>\$ 1,539,723</u>	<u>\$ 392,167</u>	<u>\$ (324,349)</u>	<u>\$ 606,602</u>	<u>\$ 930,951</u>

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

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VILONIA SCHOOL DISTRICT NO. 17  
FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**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 Vilonia School District (District). There are no component units.

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

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 Arkansas Code Annotated § 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.

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

**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	25-50
Building improvement	7-30
Equipment	5-20

VILONIA SCHOOL DISTRICT NO. 17  
FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**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 30<sup>th</sup> is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30<sup>th</sup> 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. Arkansas Code Annotated § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. Fund Balance Designations

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.

I. Budget and Budgetary Accounting

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

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

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

I. Budget and Budgetary Accounting (Continued)

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

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 300,000	\$ 300,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	2,855,682	4,279,068
Total Deposits	\$ 3,155,682	\$ 4,579,068

The above total deposits do not include cash on hand in the amount of \$125. The above total deposits include certificates of deposit of \$843,506 reported as investments and classified as nonparticipating contracts.

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$13,380 at June 30, 2008 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 9,031		\$ 9,031
Federal assistance		\$ 4,349	4,349
Totals	\$ 9,031	\$ 4,349	\$ 13,380

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2008:

A. Operating Leases (noncapital leases with initial noncancellable lease terms in excess of one year)

General description of leases and leasing arrangements:

Three Ricoh 2035 copiers, 72 months

1. Future minimum rental payments (aggregate) at June 30, 2008: \$244,375

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

**4: COMMITMENTS (CONTINUED)**

A. (Continued)

2. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2009	\$ 57,500
2010	57,500
2011	57,500
2012	57,500
2013	14,375
Total	<u>\$ 244,375</u>

Rental payments for the operating leases described above were approximately \$57,500 for the year ended June 30, 2008.

B. Long-Term Debt Issued and Outstanding

The District is presently paying on the following long-term debt:

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2008</u>	<u>Maturities To June 30, 2008</u>
7/1/03	2/1/33	2.6 - 4.8%	\$ 6,595,000	\$ 5,695,000	\$ 900,000
1/1/06	2/1/21	3.25 - 3.75%	530,000	475,000	55,000
11/1/04	2/1/36	4 - 4.8%	9,500,000	9,055,000	445,000
1/12/05	1/11/09	4.1%	52,943	37,226	15,717
10/17/07	12/6/11	5.9%	116,794	86,050	30,744
Totals			<u>\$ 16,794,737</u>	<u>\$ 15,348,276</u>	<u>\$ 1,446,461</u>

Changes in Long-Term Debt

	<u>Balance July 1, 2007</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2008</u>
Bonds payable	\$ 15,550,000		\$ 325,000	\$ 15,225,000
Capital leases		\$ 116,794	30,744	86,050
Installment contracts	86,176		48,950	37,226
Totals	<u>\$ 15,636,176</u>	<u>\$ 116,794</u>	<u>\$ 404,694</u>	<u>\$ 15,348,276</u>

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

**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
2009	\$ 392,895	\$ 669,747	\$ 1,062,642
2010	367,183	655,203	1,022,386
2011	373,786	641,500	1,015,286
2012	359,412	627,283	986,694
2013	370,000	614,038	984,038
2014-2018	2,070,000	2,846,820	4,916,820
2019-2023	2,405,000	2,399,043	4,804,043
2024-2028	2,830,000	1,855,361	4,685,361
2029-2033	3,580,000	1,146,525	4,726,525
2034-2036	2,600,000	253,680	2,853,680
Totals	<u>\$ 15,348,276</u>	<u>\$ 11,709,199</u>	<u>\$ 27,057,475</u>

Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2008
Equipment - computers	<u>\$ 116,794</u>
	<u>June 30, 2008</u>
Total Minimum Lease Payments	\$ 96,904
Less: Amount Representing Interest	<u>10,854</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 86,050</u>

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

**5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The accounts payable and accrued liabilities balance of \$139,116 at June 30, 2008 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 90,871	\$ 11,850	\$ 102,721
Salaries payable	35,173	1,222	36,395
Totals	<u>\$ 126,044</u>	<u>\$ 13,072</u>	<u>\$ 139,116</u>

**6: INTERFUND TRANSFERS**

The District transferred \$1,243,670 from the general fund to the other aggregate funds for debt related payments of \$1,001,722 and to supplement capital expenditures by \$241,948. Additionally, the District transferred \$90,000 from the general fund to the special revenue fund to supplement its food services operations.

**7: RETIREMENT PLANS**

**Arkansas Teacher Retirement System**

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

**Funding Policy.** ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2008, 2007 and 2006 were \$2,003,067, \$1,886,782 and \$1,697,484, 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.

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

**7: RETIREMENT PLANS (CONTINUED)**

Arkansas Public Employees Retirement System (Continued)

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, 2008, 2007 and 2006 were \$4,922, \$4,853 and \$5,239, respectively, equal to the required contributions for each year.

**8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS**

ADDITIONS	
Donations	\$ 4,350
DEDUCTIONS	
Scholarships	5,000
CHANGE IN FUND BALANCE	(650)
FUND BALANCE - JULY 1	2,250
FUND BALANCE - JUNE 30	\$ 1,600

**9: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for 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.

VILONIA SCHOOL DISTRICT NO. 17  
FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**10: SUBSEQUENT EVENTS**

The District issued \$1,045,000 of construction bonds dated May 1, 2009.

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VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2008  
 (Unaudited)

Schedule 1

	Balance June 30, 2008
<i>Nondepreciable capital assets:</i>	
Land	<u>\$          580,774</u>
<i>Depreciable capital assets:</i>	
Buildings	24,918,592
Improvements/infrastructure	3,433,141
Equipment	<u>5,282,522</u>
Total depreciable capital assets	<u>33,634,255</u>
Less accumulated depreciation for:	
Buildings	4,679,834
Improvements/infrastructure	797,368
Equipment	<u>3,164,924</u>
Total accumulated depreciation	<u>8,642,126</u>
Total depreciable capital assets, net	<u>24,992,129</u>
Capital assets, net	<u><u>\$         25,572,903</u></u>

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2008

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	63-01	\$ 149,561
National School Lunch Program	10.555	63-01	<u>453,531</u>
TOTAL CHILD NUTRITION CLUSTER			<u>603,092</u>
<b>CHILD CARE CLUSTER</b>			
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Human Services:			
Child Care and Development Block Grant	93.575	63-01	1,000
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	63-01	<u>4,506</u>
TOTAL CHILD CARE CLUSTER			<u>5,506</u>
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Agriculture</u>			
Food Donation (Notes 2 and 4)	10.550		2,724
Passed Through State Department of Human Services:			
Food Donation (Notes 3 and 4)	10.550	63-01	<u>86,262</u>
Total U. S. Department of Agriculture			<u>88,986</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	63-01	209,796
Special Education - Grants to States	84.027	63-01	544,899
Safe and Drug-Free Schools and Communities - State Grants	84.186	63-01	7,830
Education for Homeless Children and Youth	84.196	63-01	11,726
Charter Schools	84.282	63-01	297,281
Twenty-First Century Community Learning Centers	84.287	63-01	249,725
State Grants for Innovative Programs	84.298	63-01	1,692
Improving Teacher Quality State Grants	84.367	63-01	77,951
Passed Through State Department of Workforce Education:			
Career and Technical Education - Basic Grants to States	84.048	63-01	<u>29,224</u>
Total U. S. Department of Education			<u>1,430,124</u>
<u>Corporation for National and Community Service</u>			
Passed Through State Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	63-01	<u>9,314</u>
TOTAL OTHER PROGRAMS			<u>1,528,424</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,137,022</u>

The accompanying notes are an integral part of this schedule.

VILONIA SCHOOL DISTRICT NO. 17  
FAULKNER COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 2

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 the Vilonia School District No. 17 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: CFDA Number 10.550 pertains to food commodities distributed by USDA for use in the following categorical program: National School Lunch Program (CFDA 10.555). USDA deleted this number from the CFDA in April 2008. The audit covering the District's fiscal year beginning July 1, 2008, and future audits, will therefore identify commodity assistance by the CFDA numbers of the programs in which the commodities are used.
- Note 5: During the year ended June 30, 2008, the District received Medicaid funding of \$178,606 from the State Department of Human Services. Such payments are not considered Federal awards expended and therefore are not included in the above schedule.

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2008

**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 that are not considered to be material weakness(es)?  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 that are not considered to be material weakness(es)?  yes  none reported

Type of auditor's report issued on compliance for major programs: unqualified for all major programs except for Education for Homeless Children and Youth, which was qualified.

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.027	Special Education - Grants to States
84.196	Education for Homeless Children and Youth
84.287	Twenty-First Century Community Learning Centers

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

Auditee qualified as low-risk auditee?  yes  no

VILONIA SCHOOL DISTRICT NO. 17  
FAULKNER COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

SIGNIFICANT DEFICIENCY

2008-1. 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 more than a remote likelihood that a misstatement of the District's financial statements that would be more than inconsequential would not be prevented or detected. The District has not segregated the 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, were adversely affected by the identified weakness in the above internal control component.

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

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

Views of responsible officials and planned corrective actions: We concur with the recommendation.

VILONIA SCHOOL DISTRICT NO. 17  
FAULKNER COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

SIGNIFICANT DEFICIENCIES

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
EDUCATION FOR HOMELESS CHILDREN AND YOUTH - CFDA NUMBER 84.196  
PASS-THROUGH NUMBER 63-01  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2008

2008-2. Allowable Costs/Cost Principles

Criteria or specific requirement: The primary objective of this program is to ensure that all homeless children and youth have equal access to the same free, appropriate public education available to other children. Office of Management and Budget (OMB) Circular A-87 establishes principles for determining the allowable costs incurred by the governmental units under federal awards. To be allowable under federal awards, costs must meet certain criteria.

Condition: District personnel brought to our attention a review performed by the Arkansas Department of Education, which revealed \$22,660 of unallowable expenditures in the 2007 fiscal year. During our audit of the 2008 fiscal year, we noted \$13,399 of unallowable expenditures. The fiscal year 2007 unallowable expenditures were reimbursed by the District to the Arkansas Department of Education.

Questioned costs: The amount of the additional questioned costs was \$13,399.

Context: Interview with District management and examination of documentation.

Effect: Unallowable costs of \$22,660 were reimbursed to the Arkansas Department of Education and unallowable costs of \$13,399 are due to the Arkansas Department of Education.

Cause: Lack of management oversight and controls over program expenditures.

Recommendation: The District should implement controls to ensure only allowable expenditures are incurred.

Views of responsible officials and planned corrective actions: Unallowable costs of \$22,660 were reimbursed to the Arkansas Department of Education and a check for \$13,399 has been written to the Arkansas Department of Education to cover additional unallowable costs. These unallowable costs were part of the McKinney-Vento Education for Homeless Children and Youth Program. The problems in relation to these expenditures resulted from local administrative oversight of the funds. The person in charge of this program at the time the unallowable costs were made is no longer an employee of the District. The problems also resulted from a lack of direction and indecision from the state level. It was not always clear what was allowable or not allowable from communications received. Greater management and control will be exerted over expenditures made from this program.

VILONIA SCHOOL DISTRICT NO. 17  
FAULKNER COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

SIGNIFICANT DEFICIENCIES (CONTINUED)

U. S. DEPARTMENT OF AGRICULTURE  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
CHILD NUTRITION CLUSTER - CFDA NUMBERS 10.553 AND 10.555  
PASS-THROUGH NUMBER 63-01  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2008

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
SPECIAL EDUCATION - GRANTS TO STATES - CFDA NUMBER 84.027  
PASS-THROUGH NUMBER 63-01  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2008

2008-3. Allowable Costs/Cost Principles

Criteria or specific requirement: OMB Circular A-87 requires the preparation of monthly personnel activity reports or equivalent documentation when District employees work multiple activities. Periodic time certifications are required when an employee works solely on a single federal program.

Condition: Monthly personnel activity reports were not prepared for one child nutrition employee and one special education employee who also worked other activities. Periodic time certifications were not prepared for thirty-three employees and nine employees who worked solely with the child nutrition and special education programs, respectively.

Context: Examination of documentation substantiating time worked by employees.

Effect: The District was unable to provide required documentation substantiating the time charged to the child nutrition or special education programs.

Cause: The District was unaware of the OMB Circular A-87 requirement pertaining to monthly personnel activity reports and periodic time certifications.

Recommendation: The District should prepare the monthly personnel activity reports and periodic time certifications for all applicable employees.

Views of responsible officials and planned corrective actions: The District will prepare the monthly personnel activity reports and periodic time certifications for employees paid from child nutrition and/or Title VI federal funds.

VILONIA SCHOOL DISTRICT NO. 17  
FAULKNER COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 4

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS

2007 - Finding 2007-2: Twenty-First Century Community Learning Centers - CFDA Number 84.287

Condition: Subsequent to the audit year, District personnel discovered, and we verified, two unauthorized payments totaling \$10,491 to LIFE (Literacy is For Everyone) whose Director is the sister of the District's Preschool/Grant Coordinator, Dr. Debra McAfee. After being contacted by District management, the LIFE Director reimbursed \$10,491 to the District. District personnel also discovered, and we verified, unallowable expenditures of \$800 and \$600, respectively, in fiscal year ended June 30, 2007 and in fiscal year ending June 30, 2008, for restaurant gift cards.

Recommendation: The District should obtain reimbursement of \$1,400 for the gift cards.

Current Status: The District reimbursed the program \$1,400.

VILONIA SCHOOL DISTRICT NO. 17  
 FAULKNER COUNTY, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FOUR YEARS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2008  
 (Unaudited)

Schedule 5

<b>General Fund</b>	Year Ended June 30,			
	2008	2007	2006	2005
Total Assets	\$ 2,513,325	\$ 2,883,953	\$ 3,581,932	\$ 3,415,526
Total Liabilities	973,602	746,080	452,450	174,033
Total Fund Balances	1,539,723	2,137,873	3,129,482	3,241,493
Total Revenues	21,656,671	20,325,727	19,875,812	18,039,670
Total Expenditures	21,037,945	20,213,853	18,705,406	16,595,414
Total Other Financing Sources (Uses)	(1,216,876)	(1,103,483)	(1,282,417)	(1,442,673)
 <b>Special Revenue Fund</b>				
Total Assets	619,674	361,492	469,161	562,306
Total Liabilities	13,072	4,580	28,246	24,422
Total Fund Balances	606,602	356,912	440,915	537,884
Total Revenues	3,112,528	2,364,596	2,389,956	2,961,991
Total Expenditures	2,952,838	2,523,599	2,561,925	2,890,441
Total Other Financing Sources (Uses)	90,000	75,000	75,000	129,877
 <b>Other Aggregate Funds</b>				
Total Assets			2,716,034	9,316,525
Total Liabilities		21,791	223,116	
Total Fund Balances		(21,791)	2,492,918	9,316,525
Total Revenues	348,774	597,295	190,028	123,152
Total Expenditures	1,570,653	4,140,487	8,730,859	1,534,402
Total Other Financing Sources (Uses)	1,243,670	1,028,483	1,717,225	10,051,315