

EARLE SCHOOL DISTRICT NUMBER ONE  
REGULATORY BASIS FINANCIAL STATEMENTS  
AND OTHER REPORTS

For the Year Ended June 30, 2011

EARLE SCHOOL DISTRICT NUMBER ONE  
REGULATORY BASIS FINANCIAL STATEMENTS  
AND OTHER REPORTS

For the Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	4 - 5
REGULATORY BASIS FINANCIAL STATEMENTS	
Balance Sheet – Regulatory Basis	7
Statement of Revenues, Expenditures and Changes in Fund Balance –Governmental Funds – Regulatory Basis	8
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual-General Fund- Regulatory Basis	9
Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual-Special Revenue Fund- Regulatory Basis	10
Notes to Basic Financial Statements	11 - 21

EARLE SCHOOL DISTRICT NUMBER ONE  
REGULATORY BASIS FINANCIAL STATEMENTS  
AND OTHER REPORTS

For the Year Ended June 30, 2011

TABLE OF CONTENTS (CONTINUED)

	<u>Page</u>
OTHER REPORTS AND SUPPLEMENTAL INFORMATION	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23 - 24
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	25 - 26
Independent Auditors' Report on Compliance with Arkansas Code Annotated 6-1-101 (Repl. 1993) and 6-20-311 (Supp. 1995)	27
Schedule of Capital Assets	28
Schedule of Expenditures of Federal Awards	29
Schedule of Findings and Questioned Costs	30 - 31
Schedule of Prior Audit Findings	32

# FREEMAN & COMPANY, INC.

CERTIFIED PUBLIC ACCOUNTANTS

3712 E. Highland Drive, Jonesboro, Arkansas 72401 Phone: 870-932-4514

## INDEPENDENT AUDITORS' REPORT

Members of the School Board  
Earle School District Number One  
Earle, Arkansas

We have audited the accompanying financial statements of Earle School District Number One, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Earle School District Number One's 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 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 effects 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 determined, 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 above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2011, or the changes in financial position thereof 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 a part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

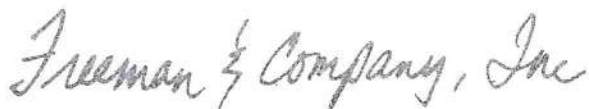
Members of the School Board  
Earle School District Number One  
Page Two

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011, on our consideration of Earle School District Number One'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, the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Findings and Questioned Costs and Summary of Prior Audit Findings are presented for purposes of additional analysis and are not a required part of the regulatory basis of financial statements. The Schedule of Expenditures of Federal Awards, Findings and Questioned Costs and Prior Audit Findings 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 has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

FREEMAN & COMPANY, INC.



Jonesboro, Arkansas  
December 9, 2011

**REGULATORY BASIS FINANCIAL STATEMENTS**

EARLE SCHOOL DISTRICT NUMBER ONE

BALANCE SHEET-REGULATORY BASIS

June 30, 2011

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 1,510,116	\$ 37,179	\$ 40,109	\$ 18,954
Deposit with paying agent	114,864		139,956	
Accounts receivable	21,762	188,401		
Property taxes receivable	<u>89,294</u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,736,036</u></b>	<b>\$ <u>225,580</u></b>	<b>\$ <u>180,065</u></b>	<b>\$ <u>18,954</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 58,330	\$ 87,137		\$ 2,814
Due student groups				<u>16,140</u>
<b>Total Liabilities</b>	<u>58,330</u>	<u>87,137</u>	<u>          </u>	<u>18,954</u>
<b>Fund Balances:</b>				
Restricted	205,263	138,443	\$ 180,065	
Assigned	137,103			
Unassigned	<u>1,335,340</u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Fund Balance</b>	<u>1,677,706</u>	<u>138,443</u>	<u>180,065</u>	<u>          </u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>1,736,036</u></b>	<b>\$ <u>225,580</u></b>	<b>\$ <u>180,065</u></b>	<b>\$ <u>18,954</u></b>

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





EARLE SCHOOL DISTRICT NUMBER ONE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS-REGULATORY BASIS (CONTINUED)

For The Year Ended June 30, 2011

	<u>General</u>	<u>Special Revenue</u>	<u>Other Aggregate</u>
NET CHANGE IN FUND BALANCE	1,486,145	79,976	(11,823)
FUND BALANCE, BEGINNING OF YEAR	<u>191,561</u>	<u>58,467</u>	<u>191,888</u>
FUND BALANCE, END OF YEAR	\$ <u>1,677,706</u>	\$ <u>138,443</u>	\$ <u>180,065</u>

EARLE SCHOOL DISTRICT NUMBER ONE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL-GENERAL FUND-REGULATORY BASIS

For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>			
Property taxes	\$ 1,152,830	\$ 1,085,317	\$ (67,513)
State revenues	5,463,591	5,922,420	458,829
Tuition, fees and other	165,000	1,836,699	1,671,699
Interest	<u>                    </u>	<u>1,842</u>	<u>1,842</u>
Total Revenues	<u>6,781,421</u>	<u>8,846,278</u>	<u>2,064,857</u>
<b>EXPENDITURES</b>			
Instructional services	3,602,660	4,198,520	(595,860)
Student support	206,749	212,897	(6,148)
Instructional support services	450,359	434,340	16,019
Pupil transportation services	247,981	256,383	(8,402)
Operation and maintenance of plant	1,124,880	1,002,258	122,622
School administration	320,196	197,721	122,475
General administration	383,717	504,166	(120,449)
Capital outlay		52,018	(52,018)
Debt service:			
Principal	85,000	66,625	18,375
Interest and fiscal charges	<u>20,100</u>	<u>80,046</u>	<u>(59,946)</u>
Total expenditures	<u>6,441,642</u>	<u>7,004,974</u>	<u>(563,332)</u>
Revenues over expenditures	<u>339,779</u>	<u>1,841,304</u>	<u>1,501,525</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In (Out)	<u>(335,690)</u>	<u>(355,159)</u>	<u>(19,469)</u>
Total other financing sources (uses)	<u>(335,690)</u>	<u>(355,159)</u>	<u>(19,469)</u>
NET CHANGE IN FUND BALANCE	4,089	1,486,145	1,482,056
<b>FUND BALANCE, BEGINNING OF YEAR</b>			
	<u>736,577</u>	<u>191,561</u>	<u>(545,016)</u>
FUND BALANCE, END OF YEAR	\$ <u>740,666</u>	\$ <u>1,677,706</u>	\$ <u>937,040</u>

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

EARLE SCHOOL DISTRICT NUMBER ONE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL-SPECIAL REVENUE FUND-REGULATORY BASIS

For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Federal revenues	\$ 2,160,850	\$ 3,493,345	\$ 1,332,495
State revenues		3,359	3,359
Tuition, fees and other		<u>7,862</u>	<u>7,862</u>
Total Revenues	<u>2,160,850</u>	<u>3,504,566</u>	<u>1,343,716</u>
EXPENDITURES			
Instructional services	1,095,691	1,147,724	(52,033)
Student support	110,633	232,935	(122,302)
Instructional support services	647,320	438,298	209,022
General administration	5,000	4,500	500
Food services	562,918	648,754	(85,836)
Community services	2,137		2,137
Capital outlay		<u>1,080,917</u>	<u>(1,080,917)</u>
Total expenditures	<u>2,423,699</u>	<u>3,553,128</u>	<u>(1,129,429)</u>
Revenues over (under) expenditures	<u>(262,849)</u>	<u>(48,562)</u>	<u>214,287</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)		<u>128,538</u>	<u>128,538</u>
Total other financing sources (uses)		<u>128,538</u>	<u>128,538</u>
NET CHANGE IN FUND BALANCE	(262,849)	79,976	342,825
FUND BALANCE, BEGINNING OF YEAR	<u>173,484</u>	<u>58,467</u>	<u>(115,017)</u>
FUND BALANCE, END OF YEAR	\$ <u>(89,365)</u>	\$ <u>138,443</u>	\$ <u>227,808</u>

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

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Education, a five 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 Earle School District (District). There are no component units.

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 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, 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 including the following:

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

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP requires 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, 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.

Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Information on capital assets and related depreciation is reported in the Other Supplemental Information. 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>Assets Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

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 that are due at the end of the fiscal year and collected within 60 days are accrued. Deferred property taxes are not recognized.

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

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classifications

*Restricted fund balance*- represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Assigned fund balance*- represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.

*Unassigned fund balance*- represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

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.

Stabilization Arrangements

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

Minimum Fund Balance Policies

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

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classification Policies and Procedures

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

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

Encumbrances

The District does not utilize encumbrance accounting.

Change in Accounting Principle

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

Estimates and Subsequent Events

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The District has evaluated subsequent events through December 9, 2011 which is the date that the financial statements were available to be issued.



EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

NOTE 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:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 1,606,358	\$ 2,047,869

NOTE 3: RECEIVABLES

The receivables of \$299,457 at June 30, 2011, are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Property Taxes	\$ 89,294		\$ 89,294
Federal Grants		\$ 188,401	188,401
Other	<u>21,762</u>	<u>          </u>	<u>21,762</u>
Totals	\$ <u>111,056</u>	\$ <u>188,401</u>	\$ <u>299,457</u>

NOTE 4: COMMITMENTS

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, 2011</u>	<u>Maturities to June 30, 2011</u>
08/01/2010	05/01/2028	1.0-2.7%	\$ 3,725,000	\$ 3,725,000	
08/01/2010	05/01/2034	1.8-3.7%	2,160,000	2,160,000	
10/01/2008	02/01/2034	3.8-5.4%	1,350,000	1,325,000	\$ 25,000
10/12/2007	01/15/2017	5.85%	430,000	315,525	114,475
12/29/2009	12/29/2019	5.5%	300,000	264,692	35,308
06/17/2003	06/17/2013		<u>146,329</u>	<u>146,329</u>	<u>          </u>
Totals			\$ <u>8,111,329</u>	\$ <u>7,936,546</u>	\$ <u>174,783</u>

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

NOTE 4: COMMITMENTS (CONTINUED)

Changes in Long-Term Debt

	<u>Balance</u> <u>July 1, 2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>June 30, 2011</u>
Bonds payable	\$ 7,005,000	\$ 5,885,000	\$ 5,680,000	\$ 7,210,000
Postdated warrants	146,329			146,329
Capital leases	<u>646,842</u>		<u>66,625</u>	<u>580,217</u>
Totals	\$ <u>7,798,171</u>	\$ <u>5,885,000</u>	\$ <u>5,746,625</u>	\$ <u>7,936,546</u>

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

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 220,494	\$ 273,959	\$ 494,453
2013	420,917	267,711	688,628
2014	303,920	260,819	564,739
2015	328,503	252,933	581,436
2016	333,353	243,731	577,084
2017-2021	1,524,359	1,074,965	2,599,324
2022-2026	1,575,000	845,126	2,420,126
2027-2031	1,895,000	532,523	2,427,523
2032-2034	<u>1,335,000</u>	<u>108,366</u>	<u>1,443,366</u>
	\$ <u>7,936,546</u>	\$ <u>3,860,133</u>	\$ <u>11,796,679</u>

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

NOTE 4: COMMITMENTS (CONTINUED)

CAPITAL LEASES

The District has executed the following capital leases:

<u>Class of Property</u>	<u>Asset Balance June 30, 2011</u>
Vocational training facilities	\$ 430,000
Total Minimum Lease Payments	<u>June 30, 2011</u> \$ 378,679
Less: Amount Representing Interest	<u>63,154</u>
Total Present Value of Net Minimum Lease Payments	\$ <u>315,525</u>

<u>Class of Property</u>	<u>Asset Balance June 30, 2011</u>
Escrow account for purchase of facilities and equipment	\$ 139,956
Facilities and equipment	<u>160,044</u>
	\$ <u>300,000</u>
Total Minimum Lease Payments	<u>June 30, 2011</u> \$ 334,926
Less: Amount Representing Interest	<u>70,234</u>
Total Present Value of Net Minimum Lease Payments	\$ <u>264,692</u>

QUALIFIED ZONE ACADEMY BOND (QZAB)

On June 17, 2003, the District obtained funding through the Qualified Zone Academy Bond (QZAB). A QZAB does not generally require interest payments from the borrower. The principal is not due until the end of the term. The borrower makes annual deposits into an interest-bearing sinking fund. The District borrowed \$146,329 using this method by issuing postdated warrants. The District will deposit \$13,449 into a sinking fund for ten years for a total of \$134,490. This amount plus interest will be used to retire the debt when due.

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

NOTE 5: RETIREMENT PLANS

Arkansas Teacher Retirement Systems

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 prior to July 1, 1989. ATRS 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 non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Board of Trustees. The current employer rate is 14%. The District's contributions to ATRS for the years ended June 30, 2011, 2010, and 2009 were \$826,256, \$872,673, and \$791,341, 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 nonteaching Arkansas public school employees hired before July 1, 1989. APERS 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, One Union National Plaza, 124 W. Capital, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by law to contribute 5% of their salary. Each participating employer is required by law to contribute at a rate established by the Board of Trustees. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to APERS for the years ended June 30, 2011, 2010, 2009 were \$2,602, \$2,300 and \$2,292, respectively, equal to the required contributions for each year.

EARLE SCHOOL DISTRICT NUMBER ONE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

NOTE 6: CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

NOTE 7: 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 \$90,097 for the year ended June 30, 2011.

NOTE 8: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS  
DISPLAYED IN THE AGGREGATE

Description	Governmental Funds			Total
	Major		Other	
	General	Special Revenue	Aggregate	
Fund Balances:				
Restricted for:				
Educational programs - national school lunch state categorical funding	\$ 2,001			\$ 2,001
Professional development	2,951			2,951
Debt service	114,864		\$ 4,129	118,993
Capital projects			175,936	175,936
Medical services		\$ 41,249		41,249
Title I programs		26,641		26,641
Special education programs	498	49,836		50,334
Other purposes	84,949	20,717		105,666
Total Restricted	<u>205,263</u>	<u>138,443</u>	<u>180,065</u>	<u>523,771</u>
Assigned to:				
Capital projects	137,103			137,103
Total Assigned	<u>137,103</u>			<u>137,103</u>
Unassigned	<u>1,335,340</u>			<u>1,335,340</u>
Totals	\$ <u>1,677,706</u>	\$ <u>138,443</u>	\$ <u>180,065</u>	\$ <u>1,996,214</u>

EARLE SCHOOL DISTRICT NUMBER ONE  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

NOTE 9: FISCAL DISTRESS STATUS

On May 16, 2011, the State Board of Education classified the District in Fiscal Distress. The Arkansas Department of Education is currently monitoring the District's financial activity.

NOTE 10: CONSTRUCTION IN PROGRESS

The construction in progress amount reflected in Other Supplemental Information consists of costs pertaining to construction projects of a fire alarm system with a remaining balance of \$64,816 and an agriculture building with a remaining balance of \$72,287.

NOTE 11: LITIGATION

A former employee has filed a discrimination suit against the District. Management and legal counsel have indicated this matter is not yet scheduled for trial, and that the District intends to contest this matter vigorously. Management and legal counsel indicated an unfavorable outcome is possible; however, a specific estimate of the amount or range of potential loss could not be made.

OTHER REPORTS AND  
SUPPLEMENTAL INFORMATION

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*

Members of the School Board  
Earle School District Number One  
Earle, Arkansas

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Earle School District Number One as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated December 9, 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 effects 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 determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position 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 Earle School District Number One's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Earle School District Number One's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Earle School District Number One's internal control over financial reporting.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Earle School District Number One's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Earle School District Number One in a separate letter dated December 9, 2011.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and 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.

FREEMAN & COMPANY, INC.

A handwritten signature in cursive script that reads "Freeman & Company, Inc".

Jonesboro, Arkansas  
December 9, 2011

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

Members of the School Board  
Earle School District Number One  
Earle, Arkansas

Compliance

We have audited the compliance of Earle School District Number One 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, 2011. Earle School District Number One'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 Earle School District Number One's management. Our responsibility is to express an opinion on Earle School District Number One'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 Earle School District Number One'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 Earle School District Number One's compliance with those requirements.

In our opinion, Earle School District Number One 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, 2011.

Internal Control Over Compliance

The management of Earle School District Number One is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs.

In planning and performing our audit, we considered Earle School District Number One's internal control over compliance with 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 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 Earle School District Number One'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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and 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.

FREEMAN & COMPANY, INC.



Jonesboro, Arkansas  
December 9, 2011

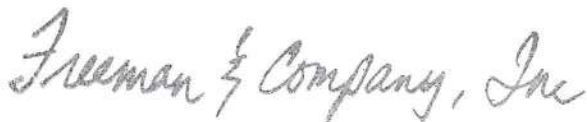
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
ARKANSAS CODE ANNOTATED 6-1-101 (REPL. 1993)  
AND 6-20-311 (SUPP. 1995)

Members of the School Board  
Earle School District Number One  
Earle, Arkansas

We have audited the basic financial statements of Earle School District Number One for the year ended June 30, 2011, and have issued our report thereon dated December 9, 2011. Our audit was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In the course of our audit, nothing came to our attention that caused us to believe there has been any lack of substantial compliance with Arkansas Code Annotated 6-1-101 (Repl. 1993) and 6-20-311 (Supp. 1995).

FREEMAN & COMPANY, INC.

A handwritten signature in cursive script that reads "Freeman & Company, Inc".

December 9, 2011

EARLE SCHOOL DISTRICT NUMBER ONE

SCHEDULE OF CAPITAL ASSETS

For the Year Ended June 30, 2011

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Capital Assets, not being depreciated:				
Land	\$ 355,291			\$ 355,291
Construction in progress	<u>136,951</u>	\$ 1,080,917	\$ 807,692	<u>410,176</u>
Total Capital Assets, not being depreciated	<u>492,242</u>	<u>1,080,917</u>	<u>807,692</u>	<u>765,467</u>
Capital Assets, being depreciated:				
Buildings	7,305,551	823,847		8,129,398
Improvements/infrastructure	1,640,978	368	8,197	1,633,149
Equipment	<u>2,174,730</u>	<u>51,650</u>	<u>199,328</u>	<u>2,027,052</u>
Total Capital Assets, being depreciated	<u>11,121,259</u>	<u>875,865</u>	<u>207,525</u>	<u>11,789,599</u>
Less accumulated depreciation:				
Buildings	2,564,358	136,563		2,700,921
Improvements/infrastructure	60,174	20,558		80,732
Equipment	<u>1,150,297</u>	<u>150,953</u>	<u>378</u>	<u>1,300,872</u>
Total accumulated depreciation	<u>3,774,829</u>	<u>308,074</u>	<u>378</u>	<u>4,082,525</u>
Total Capital Assets, being depreciated, net	<u>7,346,430</u>	<u>567,791</u>	<u>207,147</u>	<u>7,707,074</u>
Capital Assets, Net	\$ <u>7,838,672</u>	\$ <u>1,648,708</u>	\$ <u>1,014,839</u>	\$ <u>8,472,541</u>



<u>Federal Grantor/ Pass Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>
<u>OTHER PROGRAMS (CONTINUED)</u>			
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Program:			
Community-based Abstinence Education	93.010		123,866
Passed Through State Department of Education:			
Medical Assistance Program	93.778		<u>7,744</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>131,610</u>
TOTAL OTHER PROGRAMS			<u>1,763,765</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>3,454,229</u>

Notes to Schedule:

1. Basis of Presentation - This schedule includes the federal grant activity of Earle School District Number One under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
2. Summary of Significant Accounting Policies - Expenditures reported on this schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
3. Medicaid reimbursements are defined as contracts of services and not federal awards; therefore, such reimbursements totaling \$36,006 are not covered by the reporting requirements of OMB Circular A-133.

EARLE SCHOOL DISTRICT NUMBER ONE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: GAAP basis of reporting - adverse  
Regulatory basis opinion units - unqualified

Internal control over financial reporting:

- Material weakness identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  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 Circular A-133?  Yes  No

Identification of major programs:

<u>Program or Cluster</u>	<u>CFDA Number(s)</u>
1. Child Nutrition Cluster	10.555 and 10.559
2. Elementary & Secondary Education Act ESEA Title I and Title I ARRA Cluster	84.010 and 84.389
3. ARRA - SFSF – Education	84.394

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

Auditee qualified as low-risk auditee?  Yes  No



EARLE SCHOOL DISTRICT NUMBER ONE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

**SECTION II – FINANCIAL STATEMENT FINDINGS**

No audit findings relative to the financial statements of Earle School District Number One were disclosed during the audit.

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

No audit findings or questioned costs relative to the federal awards programs for Earle School District Number One were disclosed during the audit.

EARLE SCHOOL DISTRICT NUMBER ONE

SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2011

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no prior audit findings or questioned costs relative to the federal awards programs for Earle School District Number One.