

SOUTH CONWAY COUNTY SCHOOL DISTRICT

REGULATORY BASIS FINANCIAL STATEMENTS

AND OTHER REPORTS

Year Ended June 30, 2006

SOUTH CONWAY COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
South Conway County School District
Morrilton, Arkansas

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the South Conway County School District (the "District") as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the District'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 A, the District has prepared the financial statements using accounting practices prescribed or permitted by 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.

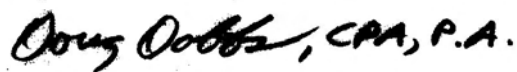
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2006, or the changes in financial position for the year then ended.

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, 2006, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note A.

To the Board of Education
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In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2007 on our consideration of the District's internal control over financial reporting and 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 on page 18, Expenditures of Federal Awards on page 19, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Federal Award Programs - Findings and Questioned Costs on page 21 and Federal Award Programs - Summary of Prior Audit Findings on page 22 are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Expenditures of Federal Awards, Federal Award Programs - Findings and Questioned Costs and Federal Award Programs - Summary of 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.



Doug Dobbs, CPA, P.A.

Little Rock, Arkansas

March 23, 2007

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2006**

	<u>Governmental Funds</u>			
	<u>Major</u>			<u>Fiduciary Fund Types</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Other Aggregate</u>	
ASSETS				
Cash and investments	\$ 2,377,871	\$ 287,196	\$ 3,732,642	\$ 50,421
Restricted cash	89,367			
Property taxes receivable	126,573			
TOTAL ASSETS	\$ 2,593,811	\$ 287,196	\$ 3,732,642	\$ 50,421
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 119,240	\$ 78	\$ 32,803	\$
Due to student groups				50,421
TOTAL LIABILITIES	119,240	78	32,803	50,421
Fund balances:				
Reserved:				
Capital projects			3,699,839	
Unreserved:				
Undesignated	2,474,571	287,118		
TOTAL FUND BALANCES	2,474,571	287,118	3,699,839	0
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,593,811	\$ 287,196	\$ 3,732,642	\$ 50,421

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Major</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Other Aggregate</u>
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 5,517,501	\$	\$
State assistance	10,939,496		455,159
Federal assistance		2,420,286	
Activity revenues	286,985		
Meal sales		206,832	
Investment income	182,806		
Other revenues	302,097		
TOTAL REVENUES	<u>17,228,885</u>	<u>2,627,118</u>	<u>455,159</u>
EXPENDITURES			
<i>Current:</i>			
Regular programs	7,470,021	75,478	
Special education	893,846	426,691	
Workforce education	831,060	35,421	
Compensatory education	9,036	484,736	
Other instructional programs	86,015		
Pupil support services	523,217	256,748	
Staff support services	822,274	200,313	
General administration support services	309,121	78,630	
School administration support services	1,016,075		
Business support services	147,097		
Operation and maintenance of plant	1,710,398	1,730	
Student transportation services	813,410	79,846	
Central support services	200,373		
Other support services	208,412		
Food service operations	8,397	978,603	
Community services		10,324	
Facilities acquisition and construction services			471,218
Activity expenditures	254,388		
<i>Debt service:</i>			
Principal			475,000
Interest			666,922
Paying agent's fees			2,137
<i>Capital lease:</i>			
Principal	12,167		
Interest	789		
<i>Capital outlay</i>	466,433	153,942	3,777,092
TOTAL EXPENDITURES	<u>15,782,529</u>	<u>2,782,462</u>	<u>5,392,369</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,446,356</u>	<u>(155,344)</u>	<u>(4,937,210)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in		98,661	1,144,059
Transfers out	(1,242,720)		
Proceeds of bond issue			1,515,126
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,242,720)</u>	<u>98,661</u>	<u>2,659,185</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>203,636</u>	<u>(56,683)</u>	<u>(2,278,025)</u>
FUND BALANCE--BEGINNING	<u>2,270,935</u>	<u>343,801</u>	<u>5,977,864</u>
FUND BALANCE--ENDING	<u>\$ 2,474,571</u>	<u>\$ 287,118</u>	<u>\$ 3,699,839</u>

The accompanying notes are an integral part of these financial statements

SOUTH CONWAY COUNTY SCHOOL DISTRICT
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, 2006

	General Fund			Special Revenue Fund		
	Budgeted Amounts	Actual	Variance Favorable (Unfavorable)	Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 5,532,462	\$ 5,517,501	\$ (14,961)			
State assistance	10,449,327	10,939,496	490,169			
Federal assistance			0	\$ 2,232,360	\$ 2,420,286	\$ 187,926
Activity revenues		286,985	286,985			
Meal sales			0		206,832	206,832
Investment income	100,000	182,806	82,806			0
Other revenues	293,500	302,097	8,597			0
TOTAL REVENUES	16,375,289	17,228,885	853,596	2,232,360	2,627,118	394,758
EXPENDITURES						
<i>Current:</i>						
Regular programs	7,581,853	7,470,021	111,832	133,977	75,478	58,499
Special education	870,745	893,846	(23,101)	471,338	426,691	44,647
Workforce education	802,264	831,060	(28,796)	36,340	35,421	919
Compensatory education		9,036	(9,036)	618,405	484,736	133,669
Other instructional programs	223,365	86,015	137,350			0
Pupil support services	486,035	523,217	(37,182)	249,310	256,748	(7,438)
Staff support services	799,267	822,274	(23,007)	143,114	200,313	(57,199)
General administration support services	361,981	309,121	52,860	84,563	78,630	5,933
School administration support services	971,293	1,016,075	(44,782)			0
Business support services	156,915	147,097	9,818			0
Operation and maintenance of plant	1,661,921	1,710,398	(48,477)	2,237	1,730	507
Student transportation services	912,628	813,410	99,218	71,623	79,846	(8,223)
Central support services	202,295	200,373	1,922			0
Other support services	64,346	208,412	(144,066)			0
Food service operations	4,275	8,397	(4,122)	485,107	978,603	(493,496)
Community services			0	32,920	10,324	22,596
Activity expenditures		254,388	(254,388)			0
Capital lease:						
Principal		12,167	(12,167)			0
Interest		789	(789)			0
Capital outlay	683,367	466,433	216,934	39,990	153,942	(113,952)
TOTAL EXPENDITURES	15,782,550	15,782,529	21	2,368,924	2,782,462	(413,538)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	592,739	1,446,356	853,617	(136,564)	(155,344)	(18,780)
OTHER FINANCING SOURCES (USES)						
Transfers in			0		98,661	98,661
Transfers out	(1,129,232)	(1,242,720)	(113,488)			0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (536,493)	\$ 203,636	\$ 740,129	\$ (136,564)	\$ (56,683)	\$ 79,881

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The South Conway County School District Board is the basic level of Government which has oversight responsibility and control over all activities related to the Public School Education in the District. The District receives funding from local, state and federal governmental sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined by the GASB in its Statement No. 14 “*The Reporting Entity*” since Board members are elected by the public and have decision making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. There are no component units included within the reporting entity.

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 of the District and accounts for all revenues and expenditures of the District not encompassed within other funds.

Special Revenue Fund – The Special Revenue Fund is used to account for federal funding received by the District that is restricted 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.

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).

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE A – 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), which is an *Other Comprehensive Basis of Accounting* (OCBOA). This basis of accounting is prescribed by the Arkansas Department of Education, a governmental regulatory agency, to whose jurisdiction the District is subject.

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.

REVENUE RECOGNITION POLICIES

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes.

CAPITAL ASSETS

Land, buildings and equipment are stated on the basis of historical costs or estimated cost. Assets acquired through gifts or donations are recorded at their estimated or market value at time of acquisition. The District defines capital assets as assets with an initial, individual cost of \$1,000 or greater and an estimated useful life in excess of two years.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed. Depreciable capital assets are depreciated using the straight-line method over useful lives of 25–50 years for buildings and improvements and 5-20 years for furniture and equipment.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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 forty percent (40%) of the proceeds of local taxes which are not pledged to secure bonded indebtedness or forty percent (40%) of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

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

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

INTERFUND RECEIVABLES AND PAYABLES

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

FUND BALANCE DESIGNATION

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Undesignated fund balance represents that portion of the fund balance not reserved or designated.

ANNUAL BUDGET

The District is required to prepare an annual budget that is filed with the Arkansas Department of Education. The budget is required to be approved by the District's Board and submitted no later than September 15 each year. Budget amendments, if any, are not required to be submitted for approval. The District's budget, although legally required, is not an appropriated budget and thus not legally restrictive.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE B – 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)	\$ 100,000	\$ 100,000
Collateralized with collateral held by the pledging bank or pledging bank's trust department in the District's name	6,437,497	7,291,904
	6,537,497	\$ 7,391,904

The above deposits include a certificate of deposit of \$ 1,500,000 and is classified as a nonparticipating contract.

Also included is restricted cash of \$ 89,367 represents sinking fund requirements of the QZAB obligation (see Note D).

NOTE C – RECEIVABLES

The receivables of \$ 126,573 at June 30, 2006 are as follows:

Property taxes receivable – 40% pullback \$ **126,573**

NOTE D – COMMITMENTS

The District was contractually obligated for the following at June 30, 2006:

Construction Contracts -

Project Name	Estimated Completion Date	Contract Balance
Morrilton Elementary School	September 30, 2006	\$ <u><u>1,660,166</u></u>

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE D – COMMITMENTS (CONTINUED)

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

<u>Date of issue</u>	<u>Date of Final Maturity</u>	<u>Interest Rate %</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2006</u>	<u>Maturities to June 30, 2006</u>
6/01/03	6/01/06	2.0 – 2.4	\$ 791,075	\$ --	\$ 791,075
6/01/03	6/01/28	2.0 – 4.5	16,345,000	16,150,000	195,000
10/15/03	10/15/12	0	325,176	325,176	--
3/01/06	6/01/28	3.25 – 4.1	1,560,000	1,560,000	--
9/15/01	9/15/06	8	53,250	3,196	50,054
Totals			\$ 19,074,501	\$ 18,038,372	\$ 1,036,129

The District has issued Qualified Zone Academy Bonds with a total face amount of \$ 325,176 to a financial institution to finance certain improvements.

Changes in Long-Term Debt:

	<u>Balance July 1, 2005</u>	<u>Issued (Retired)</u>	<u>Balance June 30, 2006</u>
Bonds payable	\$ 16,950,176	\$ 1,085,000	\$ 18,035,176
Capital leases	\$ 15,363	\$ (12,167)	\$ 3,196
Totals	16,965,539	1,072,833	18,038,372

The annual debt service requirements of all outstanding long-term debt, including capital leases as of June 30, 2006 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 533,196	\$ 700,277
2008	545,000	689,071
2009	560,000	675,813
2010	580,000	660,418
2011	600,000	642,813
2012 - 2016	3,665,176	2,881,814
2017 - 2021	4,075,000	2,172,743
2022 - 2026	5,085,000	1,233,988
2027 - 2028	2,395,000	161,660
Totals	\$ 18,038,372	\$ 9,818,597

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE D – COMMITMENTS (CONTINUED)

The District is required under a separate agreement issued concurrently with the QZABs to make ten annual mandatory sinking fund payments into a deposit account maintained at the financial institution which holds the QZABs. The District is to receive a guaranteed rate of interest on these deposits, which is designed to be sufficient to repay the entire face amount of the bonds at maturity. The first deposit was due on October 15, 2003. The balance in this account is reflected as restricted assets in the District's financial statements.

One capital lease of the District was incurred on September 15, 2001 to purchase equipment for the District with an interest rate of 8%. The original purchase price of the equipment was \$ 53,250. The lease payments are being paid from the general fund.

NOTE E – ACCOUNTS PAYABLE

The payables of \$ 152,121 at June 30, 2006 are as follows:

	General Fund	Special Revenue Fund	Other Aggregate	Total
Accounts Payable	\$ <u>119,240</u>	\$ <u>78</u>	\$ <u>32,803</u>	\$ <u>152,121</u>

NOTE F – RETIREMENT PLANS

The District contributes to the Arkansas Teacher Retirement System (ATRS) and the Arkansas Public Employees Retirement System (APERS). Effective July 1, 1989, all new employees of the District, including part-time employees, must be members of ATRS. Thus, most District employees are required by law to be covered by ATRS except for certain bus drivers, cafeteria workers, and janitors, who are covered by APERS. Both systems are cost-sharing, multiple employer, defined benefit pension plans. Benefits and contribution provisions for both systems are established by State law and can be amended only by the Arkansas General Assembly. Both ATRS and APERS issue a publicly available financial report that includes financial statements and required supplementary information. The ATRS report may be obtained by contacting the Arkansas Teacher Retirement System, and the APERS report may be obtained by contacting the Arkansas Public Employees Retirement System.

Those that have chosen to contribute to the plans must contribute 6% of their salary. The District must contribute 14% of eligible payroll for employees covered by ATRS and 4% of eligible payroll for employees covered by APERS. Contributions by or on behalf of the District to the ATRS for the years ended June 30, 2006, 2005 and 2004 were approximately \$ 1,383,974, \$ 1,352,505 and \$ 1,197,543 respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2006, 2005 and 2004 were approximately \$ 5,805, \$ 5,700 and \$ 6,156 respectively, and are equal to the required contributions for each year.

The District also has an IRS code section 125 cafeteria plan offering life and health insurance to current employees.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE G – RISK MANAGEMENT

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the district carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is a member of the Arkansas School Board Association self-insurance program, a public entity risk pool currently operating as a common risk management and insurance program for its members. The fund was created by members to formulate, develop and administer a program of self-funding for the fund's membership, obtain lower costs for Workmen's Compensation coverage and develop a comprehensive loss control program. The District pays an annual premium to the fund for its Workmen's Compensation Coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.

NOTE H – CONTINGENCIES

The school district participates in federally assisted grant programs. The school district is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

NOTE I – NON-MONETARY TRANSACTIONS

Non-monetary transactions are reflected in these financial statements at their fair value. During the fiscal year ended June 30, 2006, commodities were received by the District in the amount of \$ 53,763. The commodities were used in the school lunch program.

NOTE J– INTERFUND TRANSFERS

The District had the following interfund transfers for the year ended June 30, 2006.

From: General fund to food service fund (for expenses)	\$ 98,661
General fund to debt service fund (for debt payments)	<u>1,144,059</u>
Total Interfund Transfers	<u>1,242,720</u>

OTHER REPORTS AND SUPPLEMENTARY INFORMATION



Doug Dobbs, CPA, P.A.

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

To the Board of Education
South Conway County School District
Morrilton, Arkansas

We have audited the financial statements of each major governmental fund of the South Conway County School District (the "District"), as of and for the year ended June 30, 2006, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 23, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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, 2006, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note A.

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 laws, regulations, contracts and grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on

the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily
To the Board of Education

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disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the local governing 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 are 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.

Doug Dobbs, CPA, P.A.

Doug Dobbs, CPA, P.A.

Little Rock, Arkansas

March 23, 2007



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

To the Board of Education
South Conway County School District
Morrilton, Arkansas

Compliance

We have audited the compliance of the South Conway County School District (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 the major federal programs for the year ended June 30, 2006. 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 District’s compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 on the District’s compliance with those requirements.

In our opinion, the South Conway County School 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, 2006.

Internal Control Over Compliance

The management of the District 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 the District’s internal control over compliance with requirements that could have a direct and material effect on a major federal

To the Board of Education

Page Two

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirement of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the local governing 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 are 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.

Doug Dobbs, CPA, P.A.

Doug Dobbs, CPA, P.A.

Little Rock, Arkansas

March 23, 2007

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF CAPITAL ASSETS
JUNE 30, 2006**

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
GOVERNMENTAL ACTIVITIES:				
<i>Nondepreciable assets:</i>				
Land	\$ 712,911	\$	\$	\$ 712,911
Construction in progress	2,658,752	2,587,268	2,658,752	2,587,268
Total nondepreciable cost	3,371,663	2,587,268	2,658,752	3,300,179
<i>Capital assets that are depreciated:</i>				
Building and improvements	16,943,249	1,205,052	(2,658,752)	20,807,053
Furniture and equipment	3,763,310	605,147	548,252	3,820,205
Total depreciable historical cost	20,706,559	1,810,199	(2,110,500)	24,627,258
<i>Less accumulated depreciation for:</i>				
Building and improvements	6,721,638	378,198		7,099,836
Furniture and equipment	2,346,085	351,182	548,252	2,149,015
Total accumulated depreciation	9,067,723	729,380	548,252	9,248,851
Total depreciable cost, net	11,638,836	1,080,819	(2,658,752)	15,378,407
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 15,010,499	\$ 3,668,087	\$ 0	\$ 18,678,586

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF EDUCATION		
21 st Century Learning Grant	84.287A	66,783
<u>Passed Through Arkansas Department of Education</u>		
Title 1 - Part A - Grants to Local Education Agencies	84.010	661,642
Special Education – Grants to States	84.027	596,832
Title V	84.151	11,027
Safe and Drug Free Schools and Communities	84.186A	32,797
Education Technology State Grant	84.318	12,145
Improving Teacher Quality State Grant	84.367	158,352
Carl Perkins – Special Needs (Note 4)	84.000	45,092
Title VI	84.000	71,295
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>1,655,965</u>
U.S. DEPARTMENT OF AGRICULTURE		
<u>Passed Through Arkansas Department of Education</u>		
School Breakfast Program (109,737 units served) and	10.553	142,356
National School Lunch Program (285,886 units served)	10.555	468,033
<u>Passed Through Arkansas Department of Human Services</u>		
National School Lunch Program – Commodities (Note 3)	10.555	53,763

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE (CONTINUED)		
<u>Passed Through Arkansas Department of Human Services</u>		
Child and Adult Care Food Program (3,515 snacks served)	10.558	\$ <u>2,214</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u>2,322,331</u>

Notes to Schedule:

1. This schedule includes the federal awards activity of the District 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, *Audits of States, Local Governments, and Non-Profit Organizations*.

Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. Medicaid reimbursements are defined as contracts for services and not federal awards, therefore such reimbursements totaling \$ 157,418 are not covered by the reporting requirements of OMB Circular A-133.

3. This is the market value of commodities received during the fiscal year.

4. The Federal CFDA number or other identifying number was not available.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

A. SUMMARY OF AUDITOR'S RESULTS

1. Our report expresses an unqualified opinion on the regulatory basis opinion units and an adverse opinion on the GAAP financial basis reporting of the South Conway County School District.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of non-compliance material to the financial statements of the South Conway County School District were disclosed during the audit.
4. There were no reportable conditions during the audit of the major federal award programs.
5. Our report on compliance for the major federal awards programs for South Conway County School District expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs.
7. The programs tested as major programs included: Special Education – Grants to States – CFDA No. 84.027, Title 1 – Part A – Grants to LEA's – CFDA No. 84.010, and Child Nutrition Cluster – CFDA No. 10.553, 10.555 and 10.558.
8. The threshold for distinguishing types A and B programs was \$ 300,000.
9. The South Conway County School District was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

No reportable conditions

C. FINDINGS – FEDERAL AWARDS AUDIT

No reportable conditions.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

There were no findings in the prior audit.

Doug Dobbs, CPA, P.A.

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS**

To the Board of Education
South Conway County School District
Morrilton, Arkansas

We have examined management's assertions, included in its representation letter dated March 23, 2007, that South Conway County School District substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and the applicable laws and regulations listed on Arkansas Department of Education form OCI 95-96 during the year ended June 30, 2006. As discussed in that representation letter, management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the District's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, management's assertions that South Conway County School District complied with the aforementioned requirements for the year ended June 30, 2006, are fairly stated, in all material respects.

This report is intended solely for the information and use of the School Board, management, and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Doug Dobbs, CPA, P.A.

Doug Dobbs, CPA, P.A.
Little Rock, Arkansas
March 23, 2007