

SOUTH CONWAY COUNTY SCHOOL DISTRICT

REGULATORY BASIS FINANCIAL STATEMENTS

AND OTHER REPORTS

Year Ended June 30, 2009

SOUTH CONWAY COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
REGULATORY BASIS FINANCIAL STATEMENTS	
Balance Sheet – Regulatory Basis	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds -- Regulatory Basis	4
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General and Special Revenue Funds - Regulatory Basis	5
Notes to Financial Statements	6
OTHER REPORTS AND SUPPLEMENTARY 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 <i>Government Auditing Standards</i>	16
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	18
Schedule of Capital Assets (Unaudited)	20
Schedule of Expenditures of Federal Awards	21
Schedule of Findings and Questioned Costs	23
Schedule of Prior Year Audit Findings	24
Independent Auditors’ Report on Compliance with Arkansas State Requirements	25
Schedule of Statutes Required by Arkansas Department of Education to be addressed in independent Auditors’ Report on Compliance	26
Schedule of State Assistance – ABC	27
Supplemental Data Sheet	28



Doug Dobbs, CPA, P.A.

Certified Public Accountants

2123 W. Colonel Glenn Road

Little Rock, AR 72210

(501) 821-2600

FAX (501) 821-2464

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, 2009, which collectively comprise the District's regulatory basis financial statements 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 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 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 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 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, 2009, 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 a part of, the basic financial statements.

To the Board of Education
Page Two

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, 2009, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note A.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2010 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 20, Expenditures of Federal Awards on page 21, 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 23, Federal Award Programs - Summary of Prior Audit Findings on page 24 and Schedule of State Assistance – ABC on page 27 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, Federal Award Programs - Summary of Prior Audit Findings and Schedule of State Assistance – ABC 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 2, 2010

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2009**

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash and investments	\$ 2,083,537	374,056	199,558	73,046
Deposit with paying agent	177,403			
Accounts receivable	46,219	21,756		
TOTAL ASSETS	\$ 2,307,159	395,812	199,558	73,046
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 74,596	7,822	4,864	34,310
Deferred property taxes	151,013			
Due to student groups				38,736
TOTAL LIABILITIES	225,609	7,822	4,864	73,046
Fund balances:				
Reserved:				
Capital projects			194,694	
Debt service	177,403			
Unreserved:				
Undesignated	1,904,147	387,990		
TOTAL FUND BALANCES	2,081,550	387,990	194,694	0
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,307,159	395,812	199,558	73,046

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, 2009**

	Major		
	General	Special Revenue	Other Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 6,030,546		
State assistance	11,602,021		107,601
Tuition charges	267,042		
Federal assistance		2,516,021	
Activity revenues	297,330		
Meal sales		232,996	
Investment income	26,625		45,741
Refund of prior year's expenses	803		
Other revenues	154,570	950	
TOTAL REVENUES	18,378,937	2,749,967	153,342
EXPENDITURES			
<i>Current:</i>			
Regular programs	7,315,866	85,248	
Special education	971,138	250,602	
Workforce education	815,819	39,358	
Compensatory education	145	445,626	
Other instructional programs	884,992		
Pupil support services	624,531	313,489	
Staff support services	1,067,516	309,626	
General administration support services	291,755	78,135	
School administration support services	1,025,923		
Business support services	324,715		
Operation and maintenance of plant	1,925,081	11,666	
Student transportation services	1,019,468	75,483	
Other support services	43,767		
Food service operations	13,384	988,484	
Community services		21,116	
Facilities acquisition and construction services	132,304	46,972	645,477
Activity expenditures	290,985		
<i>Debt service:</i>			
Principal	1,563		600,000
Interest and fiscal charges	477		724,631
TOTAL EXPENDITURES	16,749,429	2,665,805	1,970,108
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,629,508	84,162	(1,816,766)
OTHER FINANCING SOURCES (USES)			
Transfers in		52,696	1,324,631
Transfers out	(1,377,327)		
Indirect costs	16,783	(16,783)	
Compensation for loss of use of capital assets	4,942		
Sales of fixed assets			290,000
TOTAL OTHER FINANCING SOURCES (USES)	(1,355,602)	35,913	1,614,631
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	273,906	120,075	(202,135)
FUND BALANCE--BEGINNING	1,807,644	267,915	396,829
FUND BALANCE--ENDING	\$ 2,081,550	387,990	194,694

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, 2009

	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)	\$ 5,944,874	\$ 6,030,546	\$ 85,672			
State assistance	11,272,445	11,602,021	329,576			
Tuition charges	200,000	267,042	67,042			
Federal assistance			0	\$ 2,348,989	\$ 2,516,021	\$ 167,032
Activity revenues		297,330	297,330			0
Meal sales			0	239,726	232,996	(6,730)
Investment income	25,000	26,625	1,625			0
Refund of prior year's expenses	0	803	803			0
Other revenues	135,900	154,570	18,670		950	950
TOTAL REVENUES	17,578,219	18,378,937	800,718	2,588,715	2,749,967	161,252
EXPENDITURES						
<i>Current:</i>						
Regular programs	7,534,356	7,315,866	218,490	90,014	85,248	4,766
Special education	950,597	971,138	(20,541)	307,522	250,602	56,920
Workforce education	793,666	815,819	(22,153)	44,539	39,358	5,181
Compensatory education	4,258	145	4,113	480,549	445,626	34,923
Other instructional programs	878,732	884,992	(6,260)			0
Pupil support services	621,110	624,531	(3,421)	319,274	313,489	5,785
Staff support services	1,101,529	1,067,516	34,013	335,016	309,626	25,390
General administration support services	307,858	291,755	16,103	85,221	78,135	7,086
School administration support services	1,067,673	1,025,923	41,750			0
Business support services	317,043	324,715	(7,672)			0
Operation and maintenance of plant	1,938,126	1,925,081	13,045	12,667	11,666	1,001
Student transportation services	1,081,408	1,019,468	61,940	108,632	75,483	33,149
Other support services	50,000	43,767	6,233			0
Food service operations	13,974	13,384	590	927,726	988,484	(60,758)
Community services			0	21,617	21,116	501
Facilities acquisition and construction services	172,130	132,304	39,826	29,609	46,972	(17,363)
Activity expenditures		290,985	(290,985)			0
Principal	29,346	1,563	27,783			0
Interest and fiscal charges		477	(477)			0
TOTAL EXPENDITURES	16,861,806	16,749,429	112,377	2,762,386	2,665,805	96,581
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	716,413	1,629,508	913,095	(173,671)	84,162	257,833
OTHER FINANCING SOURCES (USES)						
Transfers in			0	20,000	52,696	32,696
Transfers out	(1,344,621)	(1,377,327)	(32,706)			0
Indirect costs	16,783	16,783	0	(16,783)	(16,783)	0
Compensation for loss of use of capital assets	2,318	4,942	2,624			0
TOTAL OTHER FINANCING SOURCES (USES)	(1,325,520)	(1,355,602)	(30,082)	3,217	35,913	32,696
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (609,107)	\$ 273,906	\$ 883,013	\$ (170,454)	\$ 120,075	\$ 290,529

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

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 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).

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

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 historical cost, if actual data is not available. 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. No salvage value is taken into consideration for depreciation purposes.

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 FINANCIAL STATEMENTS
JUNE 30, 2009**

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 DESIGNATIONS

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific future purpose. Designated fund balance represents that portion of the fund balance which indicates tentative plans for finance resource utilization in a future period. 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.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

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)	\$ 570,201	570,201
Collateralized with collateral held by the pledging bank or pledging bank's trust department in the District's name	2,159,996	2,946,755
	\$ 2,730,197	3,516,956

The above total deposits include a certificate of deposit of \$ 1,211,688 reported in cash and investments and is classified as a nonparticipating contract.

NOTE C – RECEIVABLES

The accounts receivable balance of \$ 67,975 at June 30, 2009 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance	\$	\$ 21,756	\$ 21,756
Due from other governments		46,219	46,219
Totals	\$ 46,219	\$ 21,756	\$ 67,975

NOTE D – COMMITMENTS

The District was contractually obligated for the following operating leases (noncapital leases with initial noncancellable lease terms in excess of one year) at June 30, 2009:

Date of Origin	Future minimum lease payments	Payment Dates	Purpose
October 17, 2006	\$ 11,853	First of Month	Copier lease
September 11, 2007	4,746	First of Month	Copier lease

The monthly payments on the operating leases are \$ 2,712 and the lease term for both is 36 months. Lease payments for the above were approximately \$ 32,544 for the year ended June 30, 2009. The District is also assessed a specific cost for each copy.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE D – COMMITMENTS (CONTINUED)

Operating lease service requirements at June 30, 2009 are:

Year Ending June 30	
2010	15,933
2011	666
Total	\$ 16,599

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

Date of issue	Date of Final Maturity	Interest Rate %	Amount Authorized and Issued	Debt Outstanding June 30, 2009	Maturities to June 30, 2009
5/1/07	6/1/28	3.55 – 4.1	\$ 1,250,000	\$ 1,175,000	\$ 75,000
6/01/03	6/01/28	2.0 – 4.5	16,345,000	14,660,000	1,685,000
10/15/03	10/15/12	0	325,176	325,176	--
3/01/06	6/01/28	3.25 – 4.1	1,560,000	1,415,000	145,000
4/06/06	6/6/11	9.782	3,500	1,527	1,973
1/24/07	12/24/11	9.916	4,800	2,662	2,138
Totals			\$ 19,488,476	\$ 17,579,365	\$ 1,909,111

Changes in Long-Term Debt:

	Balance July 1, 2008	Issued (Retired)	Balance June 30, 2009
Bonds payable	\$ 17,850,000	\$ (600,000)	\$ 17,250,000
QZAB payable	325,176		325,176
Capital leases	5,751	(1,562)	4,189
Totals	\$ 18,180,927	\$ (601,562)	\$ 17,579,365

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE D – COMMITMENTS (CONTINUED)

The long-term debt principal and interest payments, including capital leases are as follows:

Year Ending June 30	Principal	Interest	Total
2010	\$ 621,718	\$ 709,503	\$ 1,331,221
2011	646,886	690,067	1,336,953
2012	665,584	668,495	1,334,079
2013	1,015,177	644,940	1,660,117
2014	715,000	620,526	1,335,526
2015 - 2019	4,025,000	2,652,763	6,677,763
2020 - 2024	4,995,000	1,757,539	6,752,539
2025 - 2029	4,895,000	556,853	5,451,853
Totals	\$ 17,579,365	\$ 8,300,686	\$ 25,880,051

The District has issued Qualified Zone Academy Bonds with a total face amount of \$ 325,176 to a financial institution to finance certain improvements. 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 deposits to this account of \$ 177,403 are reflected as a deposit with a paying agent in the District's financial statements.

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2009
Postage Meter	\$ 3,500
Copier	4,800
Total	\$ 8,300
	June 30, 2009
Total Minimum Lease Payments	\$ 4,680
Less: Amount representing interest	(491)
Total present value of minimum lease payments	\$ 4,189

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE E – CONSTRUCTION CONTRACTS –

The District was contractually obligated for the following construction project at June 30, 2009:

<u>Project Name</u>	<u>Completion Date</u>	<u>Contract Balance</u>
Fire Alarm System	August 2009	\$ <u>106,000</u>

NOTE F – ACCOUNTS PAYABLE

The accounts payable balance of \$ 121,292 was comprised of the following:

<u>Description</u>	<u>Governmental Funds</u>			<u>Fiduciary Fund Types</u>	<u>Total</u>
	<u>Major</u>		<u>Other Aggregate</u>		
	<u>General</u>	<u>Special Revenue</u>			
Vendor payables	\$ <u>74,296</u>	\$ <u>7,822</u>	\$ <u>4,864</u>	\$ <u>34,310</u>	\$ <u>121,292</u>

NOTE G – 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 who 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, 2009, 2008 and 2007 were approximately \$ 1,521,897, \$ 1,537,899 and \$ 1,490,717 respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2009, 2008 and 2007 were approximately \$ 5,763, \$ 5,572 and \$ 5,472 respectively, and are equal to the required contributions for each year.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE H – EMPLOYEE FRINGE BENEFITS

The District has an IRS code section 125 cafeteria plan offering health, dental and vision insurance and medical and child care reimbursement to current employees. Approximately \$ 862,965 of wages was withheld under the plan.

NOTE I – 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, property, fleet and liability 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 J – 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 K – NON-MONETARY TRANSACTIONS

Non-monetary transactions are reflected in these financial statements at their fair value. During the fiscal year ended June 30, 2009, commodities were received by the District in the amount of \$ 65,750. The commodities were used in the school lunch program.

NOTE L – INTERFUND TRANSFERS

The District had the following interfund transfers for the year ended June 30, 2009.

From: General fund to food service fund (for expenses)	\$ 52,696	
General fund to debt service fund (for debt payments)	<u>1,324,631</u>	
Total Interfund Transfers		<u>1,377,327</u>

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE M – SOUTH CONWAY COUNTY PUBLIC SCHOOL FOUNDATION

The South Conway County Public Education Foundation (the Foundation) was established as a non-profit organization under the laws of the state of Arkansas to conduct fundraising activities exclusively for the educational benefit of the District’s students and staff. Management believes that the activities and balances of the Foundation are not material to the District’s financial statements taken as a whole. Such amounts are not reflected therein. Condensed financial information (unaudited) for the Foundation as of, and for the year ended June 30, 2009, is as follows:

Support and Revenues	\$ <u>82,449</u>
Expenses	
Grants to the District	40,000
Other expenses	47,298
	<u>87,298</u>
Decrease in Net Assets	(4,849)
Net Assets, Beginning of Year	<u>76,952</u>
Net Assets, End of Year	<u><u>\$ 72,103</u></u>

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

Doug Dobbs, CPA, P.A.

Certified Public Accountants

2123 W. Colonel Glenn Road

Little Rock, AR 72210

(501) 821-2600

FAX (501) 821-2464



**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***

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

We have audited the 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, 2009, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 2, 2010. 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 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, 2009, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note A. 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.

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

To the Board of Education
Page Two

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.

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 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 internal control that might be 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 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*.

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 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.

Little Rock, Arkansas

March 2, 2010

Doug Dobbs, CPA, P.A.

Certified Public Accountants

2123 W. Colonel Glenn Road

Little Rock, AR 72210

(501) 821-2600

FAX (501) 821-2464



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, 2009. 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 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 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, 2009.

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, but not for the purpose of expressing an opinion on effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A 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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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 2, 2010

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF CAPITAL ASSETS
JUNE 30, 2009**

(Unaudited)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES:					
<i>Nondepreciable assets:</i>					
Land	\$ 712,911	\$	\$ (10,000)	\$	\$ 702,911
Construction in progress	3,021,864			(3,021,864)	0
Total nondepreciable cost	3,734,775	0	(10,000)	(3,021,864)	702,911
<i>Capital assets that are depreciated:</i>					
Building and improvements	24,900,680		(392,114)	3,021,864	27,530,430
Furniture and equipment	4,603,621	713,515	(111,296)		5,205,840
Total depreciable historical cost	29,504,301	713,515	(503,410)	3,021,864	32,736,270
<i>Less accumulated depreciation for:</i>					
Building and improvements	8,034,915	553,257	(302,908)		8,285,264
Furniture and equipment	2,495,821	477,092	(99,743)		2,873,170
Total accumulated depreciation	10,530,736	1,030,349	(402,651)		11,158,434
Total depreciable cost, net	18,973,565	(316,834)	(100,759)	3,021,864	21,577,836
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 22,708,340	\$ (316,834)	\$ (110,759)	\$ 0	\$ 22,280,747

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF EDUCATION		
<u>Passed Through Arkansas Department of Education</u>		
Title I - Part A - Grants to Local Education Agencies	84.010	\$ 729,751
Title I - Part A - Grants to Local Education Agencies – Recovery Act	84.389	1,979
Special Education – Grants to States	84.027	473,007
Title V – Part A	84.151	166
Safe and Drug Free Schools and Communities	84.186A	12,235
Improving Teacher Quality State Grant	84.367	150,131
Community Based Health Grant (Note 5)	84.000	4,012
Rural Education	84.358B	58,348
Total State Department of Education		<u>1,429,629</u>
<u>Passed Through Arkansas Department of Workforce Education</u>		
Career and Technical Education – Basic Grants to States	84.048	39,358
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>1,468,987</u>
CHILD NUTRITION CLUSTER		
U.S. DEPARTMENT OF AGRICULTURE		
Food donation – Fresh Fruit & Vegetable Program (Note 2)	10.582	2,465
<u>Passed Through Arkansas Department of Education</u>		
School Breakfast Program (110,409 units served)	10.553	166,046
National School Lunch Program (273,154 units served)	10.555	537,291
Total State Department of Education		<u>703,337</u>

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
<u>Passed Through Arkansas Department of Human Services</u>		
Food donation (Note 3)	10.555	63,285
Child and Adult Care Food Program (1,261 snacks served)	10.558	895
Total State Department of Human Services		<u>64,180</u>
TOTAL CHILD NUTRITION CLUSTER		<u>769,982</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<u>Passed Through Arkansas Department of Education</u>		
Medical assistance program	93.778	<u>53,930</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,292,899</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. This schedule includes the federal grant 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 regulatory basis financial statements.
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.
3. Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
4. During the year ended June 30, 2009, the District received Medicaid funding of \$ 189,004 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended and therefore are not included in the above schedule.
5. CFDA number is unknown.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

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 significant deficiencies were disclosed during the audit of the basic financial statements.
3. There was no noncompliance material to the financial statements noted.
4. No significant deficiencies were disclosed during the audit of the major federal award programs.
5. Our report on compliance for the major federal award programs for South Conway County School District expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included: Title I – Part A – Grants to Local Education Agencies, CFDA # 84.010, # 84.389 (Recovery Act) and Special Education – Grants to States, CFDA # 84.027.
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 findings.

C. FINDINGS – FEDERAL AWARDS AUDIT

No findings.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

There were no findings in the prior audit.

Doug Dobbs, CPA, P.A.

Certified Public Accountants

2123 W. Colonel Glenn Road

Little Rock, AR 72210

(501) 821-2600

FAX (501) 821-2464

**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 2, 2010, 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, 2009. 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, 2009, 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 2, 2010

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2009**

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding & Purchasing Commodities	
School Officials Prohibited from Sales	6-21-301 – 6-21-305; 6-13-628
Collateralization & Investments	6-20-222; 19-1-504
Deposit of Funds	19-8-104; 19-8-106
District Finances	
• Bonded & Non-bonded Debt, District School Bonds	6-20-401; 6-20-402; 6-20-1201 et seq.
• Petty Cash	6-20-409
Investment of Funds	19-1-504
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-615 – 6-13-620; 6-13-1406; 6-24-101; 6-24-105
• District Treasurer	6-13-701
○ Warrants	6-17-918; 6-17-919; 6-20-403
Management Letter for Audit	14-75-101 – 14-75-104
Nonrecurring Salary Payments	6-20-412
Revolving Loan Fund	6-19-114; 6-20-801 et seq.
Salary Laws	6-17-2201 et seq.; 6-17-2301 et seq.
School Elections	6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6- 14-118; 6-13-1412; 6-13-1413
Teachers and Employees	
• Personnel Policies	6-17-201 et seq.
• Employment and Assignment	6-17-301 et seq.
• Teacher's License Requirement	6-17-401 et seq.
• Contracts	6-17-801 et seq.
• Certification Requirements	6-17-309; 6-17-401
• Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
• Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
Teacher Salaries, the Minimum Foundation	6-17-803; 6-17-907; 6-17-908; 6-17-911 - 6-17-914; 6-17-918;
Program Aid Act	6-17-919
Teacher Salary Fund	6-17-908
Trust Funds	6-5-307
Use of Contractors, Improvement Contracts	22-9-201 – 22-9-205
Use of DM&O Millage	26-80-110

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF STATE ASSISTANCE - ABC
FOR THE YEAR ENDED JUNE 30, 2009**

PROGRAM GRANTOR/PROGRAM TITLE	STATE REVENUES	STATE EXPENDITURES
ARKANSAS DEPARTMENT OF EDUCATION		
Arkansas Better Chance (ABC)	\$ <u>375,805</u>	\$ <u>360,338</u>
TOTAL STATE ASSISTANCE - ABC	\$ <u>375,805</u>	\$ <u>360,338</u>

NOTES TO THE SCHEDULE OF STATE ASSISTANCE - ABC

1. This schedule is presented on the modified accrual basis of accounting. This is not intended to be an all inclusive presentation of state awards and expenditures. See Statement of Revenues, Expenditures and Changes in Fund Balance for total state assistance received.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SUPPLEMENTAL DATA SHEET
FOR THE YEAR ENDED JUNE 30, 2009**

The following information is being provided to satisfy the requirements of Arkansas Department of Health and Human Services Audit Guidelines, Section IX. C – Special Requirements:

- | | |
|-------------------------------|---|
| 1. Entity's Full Name: | South Conway County School District |
| 2. Entity's Address: | 704 E. Church Street
Morrilton, AR 72110 |
| 3. Entity's FEIN: | 71-0536414 |
| 4. Entity's Telephone Number: | (501) 354-9400 |
| 5. Name of Director: | Douglas S. Adams, Superintendent |
| 6. Name of Contact Person: | Douglas S. Adams, Superintendent |