

SOUTH CONWAY COUNTY SCHOOL DISTRICT

REGULATORY BASIS FINANCIAL STATEMENTS

AND OTHER REPORTS

Year Ended June 30, 2008

SOUTH CONWAY COUNTY SCHOOL DISTRICT

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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, 2008, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of 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, 2008, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be 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, 2008, 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 February 6, 2009 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 and Federal Award Programs - Summary of Prior Audit Findings on page 24 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

February 6, 2009

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2008**

| | Governmental Funds | | | |
|--|---------------------------|----------------------------|----------------------------|---------------------------------|
| | Major | | | Fiduciary Fund Types |
| | General | Special Revenue | Other Aggregate | |
| ASSETS | | | | |
| Cash and investments | \$ 2,063,230 | 238,950 | 531,760 | 64,000 |
| Deposit with paying agent | 148,058 | | | |
| Accounts receivable | 15,662 | 31,949 | | |
| TOTAL ASSETS | \$ 2,226,950 | 270,899 | 531,760 | 64,000 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 143,126 | 2,984 | 134,931 | 36,132 |
| Deferred property taxes | 276,180 | | | |
| Due to student groups | | | | 27,868 |
| TOTAL LIABILITIES | 419,306 | 2,984 | 134,931 | 64,000 |
| Fund balances: | | | | |
| Reserved: | | | | |
| Capital projects | | | 396,829 | |
| Debt service | 148,058 | | | |
| Unreserved: | | | | |
| Undesignated | 1,659,586 | 267,915 | | |
| TOTAL FUND BALANCES | 1,807,644 | 267,915 | 396,829 | 0 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 2,226,950 | 270,899 | 531,760 | 64,000 |

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, 2008

| | Major | | |
|--|---------------------|----------------------------|----------------------------|
| | General | Special Revenue | Other Aggregate |
| REVENUES | | | |
| Property taxes (including property tax relief trust distribution) | \$ 5,846,396 | | |
| State assistance | 11,382,673 | | 715,055 |
| Tuition charges | 191,207 | | |
| Federal assistance | | 2,423,510 | |
| Activity revenues | 251,528 | | |
| Meal sales | | 228,764 | |
| Investment income | 61,861 | | 88,751 |
| Refund of prior year's expenses | 3,412 | | |
| Other revenues | 118,048 | | |
| TOTAL REVENUES | 17,855,125 | 2,652,274 | 803,806 |
| EXPENDITURES | | | |
| <i>Current:</i> | | | |
| Regular programs | 7,527,775 | 89,969 | |
| Special education | 938,695 | 312,361 | |
| Workforce education | 816,817 | 45,020 | |
| Compensatory education | 3,949 | 407,257 | |
| Other instructional programs | 739,787 | | |
| Pupil support services | 686,420 | 279,766 | |
| Staff support services | 997,649 | 344,119 | |
| General administration support services | 254,372 | 77,462 | |
| School administration support services | 1,057,341 | | |
| Business support services | 332,516 | | |
| Operation and maintenance of plant | 1,787,272 | 9,760 | |
| Student transportation services | 1,013,024 | 98,601 | |
| Other support services | 57,315 | | |
| Food service operations | 3,262 | 968,631 | |
| Community services | | 24,860 | |
| Facilities acquisition and construction services | 102,178 | 51,225 | 2,496,968 |
| Activity expenditures | 223,993 | | |
| <i>Debt service:</i> | | | |
| Principal | 1,423 | | 580,000 |
| Interest and fiscal charges | 617 | | 731,054 |
| TOTAL EXPENDITURES | 16,544,405 | 2,709,031 | 3,808,022 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 1,310,720 | (56,757) | (3,004,216) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | | 17,574 | 1,322,982 |
| Transfers out | (1,340,556) | | |
| Compensation for loss of use of capital assets | 31,878 | | |
| Sales of fixed assets | 7,630 | | |
| TOTAL OTHER FINANCING SOURCES (USES) | (1,301,048) | 17,574 | 1,322,982 |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 9,672 | (39,183) | (1,681,234) |
| FUND BALANCE--BEGINNING | 1,797,972 | 307,098 | 2,078,063 |
| FUND BALANCE--ENDING | \$ 1,807,644 | 267,915 | 396,829 |

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, 2008

| | 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) | \$ 5,895,636 | \$ 5,846,396 | \$ (49,240) | | | |
| State assistance | 11,471,933 | 11,382,673 | (89,260) | | | |
| Tuition charges | 208,000 | 191,207 | (16,793) | | | |
| Federal assistance | | | 0 | \$ 2,466,006 | \$ 2,423,510 | \$ (42,496) |
| Activity revenues | | 251,528 | 251,528 | | | 0 |
| Meal sales | | | 0 | 263,731 | 228,764 | (34,967) |
| Investment income | 75,000 | 61,861 | (13,139) | | | 0 |
| Refund of prior year's expenses | 3,330 | 3,412 | 82 | | | 0 |
| Other revenues | 149,600 | 118,048 | (31,552) | | | 0 |
| TOTAL REVENUES | 17,803,499 | 17,855,125 | 51,626 | 2,729,737 | 2,652,274 | (77,463) |
| EXPENDITURES | | | | | | |
| <i>Current:</i> | | | | | | |
| Regular programs | 7,649,433 | 7,527,775 | 121,658 | 94,283 | 89,969 | 4,314 |
| Special education | 962,949 | 938,695 | 24,254 | 405,326 | 312,361 | 92,965 |
| Workforce education | 902,081 | 816,817 | 85,264 | 47,090 | 45,020 | 2,070 |
| Compensatory education | 16,573 | 3,949 | 12,624 | 485,356 | 407,257 | 78,099 |
| Other instructional programs | 775,440 | 739,787 | 35,653 | | | 0 |
| Pupil support services | 714,600 | 686,420 | 28,180 | 351,513 | 279,766 | 71,747 |
| Staff support services | 1,098,235 | 997,649 | 100,586 | 366,844 | 344,119 | 22,725 |
| General administration support services | 272,819 | 254,372 | 18,447 | 88,675 | 77,462 | 11,213 |
| School administration support services | 1,068,957 | 1,057,341 | 11,616 | | | 0 |
| Business support services | 364,583 | 332,516 | 32,067 | | | 0 |
| Operation and maintenance of plant | 2,041,976 | 1,787,272 | 254,704 | 14,500 | 9,760 | 4,740 |
| Student transportation services | 1,141,958 | 1,013,024 | 128,934 | 102,972 | 98,601 | 4,371 |
| Other support services | 40,000 | 57,315 | (17,315) | | | 0 |
| Food service operations | 8,036 | 3,262 | 4,774 | 903,731 | 968,631 | (64,900) |
| Community services | | | 0 | 26,556 | 24,860 | 1,696 |
| Facilities acquisition and construction services | 72,220 | 102,178 | (29,958) | 51,225 | 51,225 | 0 |
| Activity expenditures | | 223,993 | (223,993) | | | 0 |
| Principal | | 1,423 | (1,423) | | | 0 |
| Interest and fiscal charges | | 617 | (617) | | | 0 |
| TOTAL EXPENDITURES | 17,129,860 | 16,544,405 | 585,455 | 2,938,071 | 2,709,031 | 229,040 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 673,639 | 1,310,720 | 637,081 | (208,334) | (56,757) | 151,577 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | | | 0 | | 17,574 | 17,574 |
| Transfers out | (1,287,684) | (1,340,556) | (52,872) | | | 0 |
| Compensation for loss of use of capital assets | | 31,878 | 31,878 | | | 0 |
| Sales of fixed assets | 4,000 | 7,630 | 3,630 | | | 0 |
| TOTAL OTHER FINANCING SOURCES (USES) | (1,283,684) | (1,301,048) | (17,364) | 0 | 17,574 | 17,574 |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | \$ (610,045) | \$ 9,672 | \$ 619,717 | \$ (208,334) | \$ (39,183) | \$ 169,151 |

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

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, 2008**

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, 2008**

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, 2008**

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) | \$ 250,482 | 250,482 |
| Collateralized with collateral held by the pledging bank or pledging bank's trust department in the District's name | 2,647,458 | 3,351,544 |
| | \$ 2,897,940 | 3,602,026 |

The above total deposits include a certificate of deposit of \$ 1,665,947 reported as investments and is classified as a nonparticipating contract.

NOTE C – RECEIVABLES

The accounts receivable balance of \$ 47,611 at June 30, 2008 was comprised of the following:

| Description | Governmental Funds | | Total |
|--------------------|---------------------------|----------------------------|------------------|
| | Major | | |
| | General | Special Revenue | |
| Federal assistance | \$ | \$ 31,949 | \$ 31,949 |
| Other | 15,662 | | 15,662 |
| Totals | \$ 15,662 | \$ 31,949 | \$ 47,611 |

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, 2008:

| Date of Origin | Future minimum lease payments | Payment Dates | Purpose |
|-----------------------|--|----------------------|----------------|
| October 17, 2006 | \$ 40,317 | First of Month | Copier lease |
| September 11, 2007 | 8,826 | 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 \$ 31,864 for the year ended June 30, 2008. The District is also assessed a specific cost for each copy.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE D – COMMITMENTS (CONTINUED)

Operating lease service requirements at June 30, 2008 are:

| Year Ending June 30 | |
|--------------------------------|------------------|
| 2009 | \$ 32,544 |
| 2010 | 15,933 |
| 2011 | 666 |
| Total | \$ 49,143 |

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, 2008 | Maturities to June 30, 2008 |
|----------------------|---------------------------------------|----------------------------|---|---|--|
| 5/1/07 | 6/1/28 | 3.55 – 4.1 | \$ 1,250,000 | \$ 1,215,000 | \$ 35,000 |
| 6/01/03 | 6/01/28 | 2.0 – 4.5 | 16,345,000 | 15,170,000 | 1,175,000 |
| 10/15/03 | 10/15/12 | 0 | 325,176 | 325,176 | -- |
| 3/01/06 | 6/01/28 | 3.25 – 4.1 | 1,560,000 | 1,465,000 | 95,000 |
| 4/06/06 | 6/6/11 | 9.782 | * 3,500 | 2,189 | 1,311 |
| 1/24/07 | 12/24/11 | 9.916 | * 4,800 | 3,562 | 1,238 |
| Totals | | | \$ 19,488,476 | \$ 18,180,927 | \$ 1,307,549 |

Changes in Long-Term Debt:

| | Balance July 1, 2007 | Issued (Retired) | Balance June 30, 2008 |
|----------------|---------------------------------|-------------------------|----------------------------------|
| Bonds payable | \$ 18,430,000 | \$ (580,000) | \$ 17,850,000 |
| QZAB payable | 325,176 | | 325,176 |
| Capital leases | 7,174 | * (1,423) | 5,751 |
| Totals | \$ 18,762,350 | \$ (581,423) | \$ 18,180,927 |

* Beginning balance is a result of a prior period adjustment.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE D – COMMITMENTS (CONTINUED)

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

| Year Ending June 30 | Principal | Interest | Total |
|--------------------------------|----------------------|---------------------|----------------------|
| 2009 | \$ 601,563 | \$ 726,713 | \$ 1,328,276 |
| 2010 | 621,718 | 709,503 | 1,331,221 |
| 2011 | 646,886 | 690,092 | 1,336,978 |
| 2012 | 665,584 | 668,495 | 1,334,079 |
| 2013 | 1,015,176 | 644,940 | 1,660,116 |
| 2014 - 2018 | 3,870,000 | 2,806,923 | 6,676,923 |
| 2019 - 2023 | 4,775,000 | 1,958,080 | 6,733,080 |
| 2024 - 2028 | 5,985,000 | 822,680 | 6,807,680 |
| Totals | \$ 18,180,927 | \$ 9,027,426 | \$ 27,208,353 |

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 \$ 148,058 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, 2008 |
|---|--|
| Postage Meter | \$ 3,500 |
| Copier | 4,800 |
| Total | \$ 8,300 |
| June 30, 2008 | |
| Total Minimum Lease Payments | \$ 6,744 |
| Less: Amount representing interest | 993 |
| Total present value of minimum lease payments | \$ 5,751 |

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE E – CONSTRUCTION CONTRACTS –

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

| <u>Project Name</u> | <u>Completion Date</u> | <u>Contract Balance</u> |
|----------------------------|------------------------|-------------------------|
| * Morrilton Primary School | June 2008 | \$ <u>134,931</u> |

* The retainage is being withheld by the District until the project is accepted by the architect. The balance owed is included below in accounts payable “Other Aggregate”.

NOTE F – ACCOUNTS PAYABLE

The accounts payable balance of \$ 317,173 was comprised of the following:

| <u>Description</u> | <u>Governmental Funds</u> | | | | <u>Fiduciary Fund Types</u> | <u>Total</u> |
|--------------------|---------------------------|----------------------------|----------------------------|------------------|-------------------------------------|--------------|
| | <u>Major</u> | | | | | |
| | <u>General</u> | <u>Special Revenue</u> | <u>Other Aggregate</u> | | | |
| Vendor payables | \$ 143,126 | \$ 2,984 | \$ | \$ 36,132 | \$ 182,242 | |
| Retainage | | | 134,931 | | 134,931 | |
| Totals | \$ 143,126 | \$ 2,984 | \$ 134,931 | \$ 36,132 | \$ 317,173 | |

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, 2008, 2007 and 2006 were approximately \$ 1,537,899, \$ 1,490,717 and \$ 1,383,974 respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2008, 2007 and 2006 were approximately \$ 5,572, \$ 5,472 and \$ 5,805 respectively, and are equal to the required contributions for each year.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

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 \$ 784,669 of wages were 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 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, 2008, commodities were received by the District in the amount of \$ 64,153. 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, 2008.

| | |
|--|-------------------------|
| From: General fund to food service fund (for expenses) | \$ 17,574 |
| General fund to debt service fund (for debt payments) | <u>1,322,982</u> |
| Total Interfund Transfers | <u>1,340,556</u> |

NOTE M – SUBSEQUENT EVENT

The District has entered into a contract, after year end, for the re-roofing of a school in the amount of \$ 461,606.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE N – 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, 2008, is as follows:

| | |
|--------------------------------|--------------------------------|
| Support and Revenues | \$ <u>106,586</u> |
| Expenses | |
| Grants to the District | 42,000 |
| Other expenses | 44,585 |
| | <u>86,585</u> |
| Increase in Net Assets | 20,001 |
| Net Assets, Beginning of Year | <u>56,951</u> |
| Net Assets, End of Year | <u><u>\$ 76,952</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, 2008, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 6, 2009. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The 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, 2008, 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

February 6, 2009

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, 2008. The District’s major federal programs are identified in the Summary of Auditor’s Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District’s management. Our responsibility is to express an opinion on 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, 2008.

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

February 6, 2009

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF CAPITAL ASSETS
JUNE 30, 2008**

| | <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 | \$ | \$ | \$ | \$ 712,911 |
| Construction in progress | 752,262 | 2,269,602 | | | 3,021,864 |
| Total nondepreciable cost | 1,465,173 | 2,269,602 | 0 | 0 | 3,734,775 |
| <i>Capital assets that are depreciated:</i> | | | | | |
| Building and improvements | 24,877,383 | 49,545 | (26,248) | | 24,900,680 |
| Furniture and equipment | * 4,133,125 | 573,730 | (103,234) | | 4,603,621 |
| Total depreciable historical cost | 29,010,508 | 623,275 | (129,482) | 0 | 29,504,301 |
| <i>Less accumulated depreciation for:</i> | | | | | |
| Building and improvements | 7,566,724 | 492,516 | (24,325) | | 8,034,915 |
| Furniture and equipment | * 2,138,254 | 435,698 | (78,131) | | 2,495,821 |
| Total accumulated depreciation | 9,704,978 | 928,214 | (102,456) | | 10,530,736 |
| Total depreciable cost, net | 19,305,530 | (304,939) | (27,026) | 0 | 18,973,565 |
| GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET | \$ 20,770,703 | \$ 1,964,663 | \$ (27,026) | \$ 0 | \$ 22,708,340 |

* Beginning balance adjusted for a prior period adjustment

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | FEDERAL EXPENDITURES |
|---|------------------------------------|---------------------------------|
| U.S. DEPARTMENT OF EDUCATION | | |
| 21 st Century Learning Grant | 84.287A | \$ 42,352 |
| <u>Passed Through Arkansas Department of Education</u> | | |
| Title I - Part A - Grants to Local Education Agencies | 84.010 | 666,537 |
| Special Education – Grants to States | 84.027 | 539,291 |
| Title V – Part A | 84.151 | 4,401 |
| Safe and Drug Free Schools and Communities | 84.186A | 12,966 |
| Education Technology State Grant | 84.318 | 131 |
| Improving Teacher Quality State Grant | 84.367 | 153,569 |
| Rural Education | 84.358B | 71,391 |
| <u>Passed Through Arkansas Department of Workforce Education</u> | | |
| Career and Technical Education – Basic Grants to States | 84.048 | 45,020 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | <u>1,535,658</u> |
| U.S. DEPARTMENT OF AGRICULTURE | | |
| Food donation (Note 2) | 10.550 | 2,144 |
| <u>Passed Through Arkansas Department of Education</u> | | |
| CHILD NUTRITION CLUSTER | | |
| School Breakfast Program (103,163 units served) | 10.553 | 146,816 |
| National School Lunch Program (272,732 units served) | 10.555 | 499,953 |
| <u>Passed Through Arkansas Department of Human Services</u> | | |
| Food donation (Note 3) | 10.550 | 62,009 |
| Child and Adult Care Food Program (2,961 snacks served) | 10.558 | 2,961 |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | <u>713,883</u> |

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

| FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE | FEDERAL CFDA NUMBER | FEDERAL EXPENDITURES |
|---|------------------------------------|---------------------------------|
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | |
| <u>Passed Through Arkansas Department of Education</u> | | |
| Medical assistance program | 93.778 | <u>64,073</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | \$ <u>2,313,614</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, 2008, the District received Medicaid funding of \$ 157,126 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended and therefore are not included in the above schedule.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

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: Child Nutrition Cluster – School Breakfast Program, CFDA # 10.553 and National School Lunch Program, CFDA # 10.555.
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, 2008**

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 February 6, 2009, 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, 2008. 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, 2008, 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
February 6, 2009