

**SOUTH CONWAY COUNTY SCHOOL DISTRICT**

**REGULATORY BASIS FINANCIAL STATEMENTS**

**AND OTHER REPORTS**

**Year Ended June 30, 2007**

# SOUTH CONWAY COUNTY SCHOOL DISTRICT

## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITOR’S REPORT</b>	<b>1</b>
<b>REGULATORY BASIS FINANCIAL STATEMENTS</b>	
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
<b>OTHER REPORTS AND SUPPLEMENTARY INFORMATION</b>	
<b>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></b>	<b>14</b>
<b>Report on Compliance with Requirements Applicable to Each Major Program and on Internal         Control over Compliance in Accordance with OMB Circular A-133</b>	<b>16</b>
Schedule of Capital Assets (Unaudited)	18
Schedule of Expenditures of Federal Awards	19
Schedule of Findings and Questioned Costs	21
Schedule of Prior Year Audit Findings	22
Independent Auditors’ Report on Compliance with Arkansas State Requirements	23



**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, 2007, 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, 2007, 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, 2007, 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 January 10, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets on page 18, Expenditures of Federal Awards on page 19, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Federal Award Programs - Findings and Questioned Costs on page 21 and Federal Award Programs - Summary of Prior Audit Findings on page 22 are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Expenditures of Federal Awards, Federal Award Programs - Findings and Questioned Costs and Federal Award Programs - Summary of Prior Audit Findings have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.



---

Doug Dobbs, CPA, P.A.

Little Rock, Arkansas

January 10, 2008

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2007**

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash and investments	\$ 1,721,754	\$ 307,098	\$ 2,230,752	\$ 51,052
Restricted cash	118,713			
<b>TOTAL ASSETS</b>	<b>\$ 1,840,467</b>	<b>\$ 307,098</b>	<b>\$ 2,230,752</b>	<b>\$ 51,052</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 42,495	\$	\$ 152,689	\$
Due to student groups				51,052
<b>TOTAL LIABILITIES</b>	<b>42,495</b>	<b>0</b>	<b>152,689</b>	<b>51,052</b>
<b>Fund balances:</b>				
<b>Reserved:</b>				
Capital projects			2,078,063	
<b>Unreserved:</b>				
Undesignated	1,797,972	307,098		
<b>TOTAL FUND BALANCES</b>	<b>1,797,972</b>	<b>307,098</b>	<b>2,078,063</b>	<b>0</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,840,467</b>	<b>\$ 307,098</b>	<b>\$ 2,230,752</b>	<b>\$ 51,052</b>

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, 2007**

	<u>Major</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Other Aggregate</u>
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 5,770,054		\$
State assistance	11,006,387		15,713
Federal assistance		2,422,204	
Activity revenues	244,829		
Meal sales		219,872	
Investment income	107,364		77,199
Other revenues	341,181		
<b>TOTAL REVENUES</b>	<b>17,469,815</b>	<b>2,642,076</b>	<b>92,912</b>
<b>EXPENDITURES</b>			
<i>Current:</i>			
Regular programs	7,234,605	84,090	
Special education	1,056,227	293,623	
Workforce education	797,044	40,290	
Adult education	1,767		
Compensatory education	14,393	532,871	
Other instructional programs	183,636		
Pupil support services	569,791	284,814	
Staff support services	905,857	212,785	
General administration support services	337,490	78,486	
School administration support services	1,071,283		
Business support services	297,572		
Operation and maintenance of plant	2,014,285	1,602	79,384
Student transportation services	764,110	68,216	
Other support services	501,350		
Food service operations	31,349	1,017,700	
Community services		18,842	
Facilities acquisition and construction services			709,541
Activity expenditures	231,205		
<i>Debt service:</i>			
Principal			530,000
Interest			700,234
Paying agent's fees			1,968
<i>Capital lease:</i>			
Principal	3,197		
Interest	43		
<i>Capital outlay</i>	769,804	128,186	2,144,618
<b>TOTAL EXPENDITURES</b>	<b>16,785,008</b>	<b>2,761,505</b>	<b>4,165,745</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>684,807</b>	<b>(119,429)</b>	<b>(4,072,833)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in		139,409	1,232,202
Transfers out	(1,371,610)		
Compensation for loss of capital assets	10,204		
Proceeds of bond issue			1,250,000
Bond issue costs and fees			(31,145)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,361,406)</b>	<b>139,409</b>	<b>2,451,057</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(676,599)</b>	<b>19,980</b>	<b>(1,621,776)</b>
<b>FUND BALANCE--BEGINNING</b>	<b>2,474,571</b>	<b>287,118</b>	<b>3,699,839</b>
<b>FUND BALANCE--ENDING</b>	<b>\$ 1,797,972</b>	<b>\$ 307,098</b>	<b>\$ 2,078,063</b>

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, 2007**

	General Fund			Special Revenue Fund		
	Budgeted Amounts	Actual	Variance Favorable (Unfavorable)	Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 6,032,884	\$ 5,770,054	\$ (262,830)			
State assistance	10,950,154	11,006,387	56,233			
Federal assistance			0	\$ 2,348,405	\$ 2,422,204	\$ 73,799
Activity revenues	260,000	244,829	(15,171)			
Meal sales			0	251,500	219,872	(31,628)
Investment income	140,000	107,364	(32,636)			0
Other revenues	47,680	341,181	293,501			0
<b>TOTAL REVENUES</b>	<b>17,430,718</b>	<b>17,469,815</b>	<b>39,097</b>	<b>2,599,905</b>	<b>2,642,076</b>	<b>42,171</b>
<b>EXPENDITURES</b>						
<i>Current:</i>						
Regular programs	7,385,178	7,234,605	150,573	89,152	84,090	5,062
Special education	1,080,090	1,056,227	23,863	347,231	293,623	53,608
Workforce education	828,229	797,044	31,185	34,886	40,290	(5,404)
Adult education		1,767	(1,767)			0
Compensatory education	12,391	14,393	(2,002)	588,413	532,871	55,542
Other instructional programs	675,660	183,636	492,024			0
Pupil support services	592,255	569,791	22,464	235,091	284,814	(49,723)
Staff support services	804,028	905,857	(101,829)	306,804	212,785	94,019
General administration support services	375,098	337,490	37,608	90,857	78,486	12,371
School administration support services	1,103,876	1,071,283	32,593			0
Business support services	299,407	297,572	1,835			0
Operation and maintenance of plant	1,721,353	2,014,285	(292,932)	2,000	1,602	398
Student transportation services	1,028,941	764,110	264,831	107,611	68,216	39,395
Other support services	74,346	501,350	(427,004)			0
Food service operations	8,965	31,349	(22,384)	891,065	1,017,700	(126,635)
Community services			0	54,241	18,842	35,399
Activity expenditures		231,205	(231,205)			0
Facilities acquisition and construction services	9,937		9,937			0
Capital lease:						
Principal		3,197	(3,197)			0
Interest		43	(43)			0
Capital outlay	911,641	769,804	141,837	116,739	128,186	(11,447)
<b>TOTAL EXPENDITURES</b>	<b>16,911,395</b>	<b>16,785,008</b>	<b>126,387</b>	<b>2,864,090</b>	<b>2,761,505</b>	<b>102,585</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>519,323</b>	<b>684,807</b>	<b>165,484</b>	<b>(264,185)</b>	<b>(119,429)</b>	<b>144,756</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in			0		139,409	139,409
Transfers out	(1,232,434)	(1,371,610)	(139,176)			0
Compensation for loss of capital assets		10,204	10,204			0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,232,434)</b>	<b>(1,361,406)</b>	<b>(128,972)</b>	<b>0</b>	<b>139,409</b>	<b>139,409</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>\$ (713,111)</b>	<b>\$ (676,599)</b>	<b>\$ 36,512</b>	<b>\$ (264,185)</b>	<b>\$ 19,980</b>	<b>\$ 284,165</b>

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

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

**DESCRIPTION OF FUNDS**

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

**General Fund** – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds.

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

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

**Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

*Fiduciary Fund types include the following:*

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

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an *Other Comprehensive Basis of Accounting* (OCBOA). This basis of accounting is prescribed by the Arkansas Department of Education, a governmental regulatory agency, to whose jurisdiction the District is subject.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources.

**REVENUE RECOGNITION POLICIES**

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

**CAPITAL ASSETS**

Land, buildings and equipment are stated on the basis of historical costs or estimated cost. Assets acquired through gifts or donations are recorded at their estimated or market value at time of acquisition. The District defines capital assets as assets with an initial, individual cost of \$1,000 or greater and an estimated useful life in excess of two years. 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 BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007**

**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 BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007**

**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:

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Insured (FDIC)	\$ 243,519	\$ 243,519
Collateralized with collateral held by the pledging bank or pledging bank's trust department in the District's name	4,185,849	5,055,542
	<b>\$ 4,429,368</b>	<b>\$ 5,299,061</b>

The above total deposits include a certificate of deposit of \$ 1,577,197 reported as investments and is classified as a nonparticipating contract.

Also included is restricted cash of \$ 118,713 represents sinking fund requirements of the QZAB obligation (see Note D).

**NOTE C – RECEIVABLES**

There were no receivables at June 30, 2007.

**NOTE D – COMMITMENTS**

The District was contractually obligated for the following at June 30, 2007:

**Construction Contracts -**

<b>Project Name</b>	<b>Estimated Completion Date</b>	<b>Contract Balance</b>
Morrilton Primary School	March 15, 2008	\$ <u>2,091,408</u>

**Operating Leases (noncapital lease with initial noncancellable lease terms in excess of one year) –**

On October 17, 2006, the District executed a 36 month lease for a copier. The agreement stipulated monthly payments of \$ 2,372 plus applicable sales tax. Future minimum rental payments (aggregate) at June 30, 2007 are \$ 68,781. The District is assessed a specific cost for each copy. Future minimum rental payments for the succeeding years ended June 30, 2008 - \$ 28,461, June 30, 2009 - \$ 28,461 and June 30, 2010 – \$11,859. Rental payments for the lease described above were approximately \$ 16,602 for the year ended June 30, 2007.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE D – COMMITMENTS (CONTINUED)**

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

<u>Date of issue</u>	<u>Date of Final Maturity</u>	<u>Interest Rate %</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2007</u>	<u>Maturities to June 30, 2007</u>
5/1/07	6/1/28	3.55 – 4.1	\$ 1,250,000	\$ 1,250,000	\$ --
6/01/03	6/01/28	2.0 – 4.5	16,345,000	15,665,000	680,000
10/15/03	10/15/12	0	325,176	325,176	--
3/01/06	6/01/28	3.25 – 4.1	1,560,000	1,515,000	45,000
9/15/01	9/15/06	8	53,250	--	53,250
<b>Totals</b>			<b>\$ 19,533,426</b>	<b>\$ 18,755,176</b>	<b>\$ 778,250</b>

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

Changes in Long-Term Debt:

	<u>Balance July 1, 2006</u>	<u>Issued (Retired)</u>	<u>Balance June 30, 2007</u>
Bonds payable	\$ 18,035,176	\$ 720,000	\$ 18,755,176
Capital leases	3,196	(3,196)	--
<b>Totals</b>	<b>\$ 18,038,372</b>	<b>\$ 716,804</b>	<b>\$ 18,755,176</b>

The annual debt service requirements of all outstanding long-term debt, including capital leases as of June 30, 2007 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 580,000	\$ 745,269
2009	600,000	726,236
2010	620,000	709,181
2011	645,000	689,914
2012	665,000	668,479
2013 - 2017	4,045,176	2,951,981
2018 - 2022	4,575,000	2,146,006
2023 - 2027	5,715,000	1,076,403
2028	1,310,000	58,233
<b>Totals</b>	<b>\$ 18,755,176</b>	<b>\$ 9,771,702</b>

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE D – COMMITMENTS (CONTINUED)**

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

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

**NOTE E – ACCOUNTS PAYABLE**

The payables of \$ 42,495 at June 30, 2007 are as follows:

		<u>General Fund</u>		<u>Other Aggregate</u>		<u>Total</u>
Vendor Payables	\$	<u>42,495</u>	\$	<u>152,689</u>	\$	<u><b>195,184</b></u>

**NOTE F – RETIREMENT PLANS**

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

Those that have chosen to contribute to the plans must contribute 6% of their salary. The District must contribute 14% of eligible payroll for employees covered by ATRS and 4% of eligible payroll for employees covered by APERS. Contributions by or on behalf of the District to the ATRS for the years ended June 30, 2007, 2006 and 2005 were approximately \$ 1,490,717, \$ 1,383,974 and \$ 1,352,505 respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2007, 2006 and 2005 were approximately \$ 5,472, \$ 5,805 and \$ 5,700 respectively, and are equal to the required contributions for each year.

The District also has an IRS code section 125 cafeteria plan offering life and health insurance to current employees. Approximately \$ 766,485 of wages were withheld under the plan.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE G – RISK MANAGEMENT**

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

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

**NOTE H – CONTINGENCIES**

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

**NOTE I – NON-MONETARY TRANSACTIONS**

Non-monetary transactions are reflected in these financial statements at their fair value. During the fiscal year ended June 30, 2007, commodities were received by the District in the amount of \$ 57,279. The commodities were used in the school lunch program.

**NOTE J – INTERFUND TRANSFERS**

The District had the following interfund transfers for the year ended June 30, 2007.

From: General fund to food service fund (for expenses)	\$ 139,409
General fund to debt service fund (for debt payments)	<u>1,232,202</u>
<b>Total Interfund Transfers</b>	<b><u>1,371,611</u></b>

**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, 2007, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated January 10, 2008. 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, 2007, 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 opinion 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 report financial data reliably in accordance with generally accepted accounting principles such that

To the Board of Education  
Page Two

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 laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

January 10, 2008

**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, 2007. 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, 2007.

**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

January 10, 2008

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
SCHEDULE OF CAPITAL ASSETS  
JUNE 30, 2007**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements/ Reclassifications</b>	<b>Ending Balance</b>
<b>GOVERNMENTAL ACTIVITIES:</b>				
<i>Nondepreciable assets:</i>				
Land	\$ 712,911	\$	\$	\$ 712,911
Construction in progress	2,587,268	752,262	2,587,268	752,262
<b>Total nondepreciable cost</b>	<b>3,300,179</b>	<b>752,262</b>	<b>2,587,268</b>	<b>1,465,173</b>
<i>Capital assets that are depreciated:</i>				
Building and improvements	20,807,053	1,483,062	(2,587,268)	24,877,383
Furniture and equipment	3,820,205	807,282	504,797	4,122,690
<b>Total depreciable historical cost</b>	<b>24,627,258</b>	<b>2,290,344</b>	<b>(2,082,471)</b>	<b>29,000,073</b>
<i>Less accumulated depreciation for:</i>				
Building and improvements	7,099,836	466,888		7,566,724
Furniture and equipment	2,149,015	458,020	470,136	2,136,899
<b>Total accumulated depreciation</b>	<b>9,248,851</b>	<b>924,908</b>	<b>470,136</b>	<b>9,703,623</b>
<b>Total depreciable cost, net</b>	<b>15,378,407</b>	<b>1,365,436</b>	<b>(2,552,607)</b>	<b>19,296,450</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET</b>	<b>\$ 18,678,586</b>	<b>\$ 2,117,698</b>	<b>\$ 34,661</b>	<b>\$ 20,761,623</b>

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

<b>FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</b>	<b>FEDERAL CFDA NUMBER</b>	<b>FEDERAL EXPENDITURES</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>		
21 <sup>st</sup> Century Learning Grant	84.287A	\$ 50,691
<b><u>Passed Through Arkansas Department of Education</u></b>		
Title 1 - Part A - Grants to Local Education Agencies	84.010	676,882
Special Education – Grants to States	84.027	465,044
Title V – Part A	84.151	3,996
Safe and Drug Free Schools and Communities	84.186A	16,953
Improving Teacher Quality State Grant	84.367	152,057
Carl Perkins – Special Needs	84.048	47,498
Title VI	84.358B	63,270
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>		<b>\$ <u>1,476,391</u></b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<b><u>CHILD NUTRITION CLUSTER</u></b>		
<b><u>Passed Through Arkansas Department of Education</u></b>		
School Breakfast Program (106,018 units served) and	10.553	140,441
National School Lunch Program (283,110 units served)	10.555	486,142
<b>TOTAL CHILD NUTRITION CLUSTER</b>		<b><u>626,583</u></b>
<b><u>Passed Through Arkansas Department of Human Services</u></b>		
National School Lunch Program – Commodities (Note 3)	10.550	57,279

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

<b>FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</b>	<b>FEDERAL CFDA NUMBER</b>	<b>FEDERAL EXPENDITURES</b>
<b>U.S. DEPARTMENT OF AGRICULTURE (CONTINUED)</b>		
<b><u>Passed Through Arkansas Department of Human Services</u></b>		
Child and Adult Care Food Program (1,487 snacks served)	10.558	\$ <u>967</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b>\$ <u>2,161,220</u></b>

**Notes to Schedule:**

1. This schedule includes the federal awards activity of the District and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

2. Medicaid reimbursements are defined as contracts for services and not federal awards, therefore such reimbursements totaling \$ 148,370 are not covered by the reporting requirements of OMB Circular A-133.

3. Nonmonetary assistance is reported at the approximate value as provided by the State Department of Health and Human Services.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007**

**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 material weaknesses in internal control over financial reporting were disclosed during the audit of the financial statements.
3. No significant deficiencies identified that are not considered to be material weaknesses were disclosed during the audit. There was no noncompliance material to the financial statements noted.
4. There were no material weaknesses identified in the internal control over major programs.
5. No significant deficiencies identified that are not considered to be material weaknesses were disclosed in the internal control over major programs.
6. Our report on compliance for the major federal awards programs for South Conway County School District expresses an unqualified opinion.
7. 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.
8. The programs tested as major programs included: Special Education – Grants to States – CFDA No. 84.027 and Title 1 – Part A – Grants to LEA's – CFDA No. 84.010.
9. The threshold for distinguishing types A and B programs was \$ 300,000.
10. 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, 2007**

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 January 10, 2008, 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, 2007. 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, 2007, 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  
January 10, 2008