

**SOUTH CONWAY COUNTY SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS**

**AND SUPPLEMENTARY INFORMATION**

**Year Ended June 30, 2005**

# SOUTH CONWAY COUNTY SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the South Conway County School District (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic 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 an opinion on these basic 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the South Conway County School District, as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2006, on our consideration of the South Conway County School 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.

To the Board of Education  
Page Two

The Management's Discussion and Analysis on pages 4 through 10, and budgetary comparison information on page 31, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Conway County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on pages 37 and 38 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



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Doug Dobbs, CPA, P.A.

Little Rock, Arkansas

July 24, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

In June of 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB Statement No. 34). The purpose of this new financial reporting model is to provide more understandable and useful financial reports to a wider range of users than the previous model. Implementation of this new reporting model depends on the size of the entity, with the first required implementation being for periods beginning after June 15, 2001. Since the total annual revenues of the South Conway County School District (the District) were between 10 million and 100 million in the first fiscal year ending after June 15, 1999, a Phase II (July 1, 2002) conversion was required. Two of the most significant additions to the financial report are 1) Management's Discussion and Analysis (MD&A) and 2) District-wide Financial Statements (DWFS).

MD&A gives an objective and comprehensive analysis of the District's financial activities based on currently known facts, decisions, or conditions. It presents short- and long-term analyses of the District's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. The intent of the MD&A is to look at the District's financial performance as a whole. Readers should also review the financial statements found in the Financial Section starting on page 12, and the related notes thereto, to enhance their understanding of the District's financial performance. The DWFS are prepared on an economic resources measurement focus and a full accrual basis of accounting as explained further in Note A of the "Notes to the Basic Financial Statements." The most apparent change to the old reporting format will be the replacement of the traditional balance sheet with a new "Statement of Net Assets" and a revamped statement of revenues, expenses and changes in net assets entitled "Statement of Activities."

**Financial Highlights**

Key Financial highlights for the fiscal years ended June 30, 2005 and 2004 include the following:

The District's net assets as presented on the DWFS increased (decreased) by \$ 1,271,088 and \$ (454,797) for 2005 and 2004 respectively, while the governmental fund balances as presented in the fund financial statements increased (decreased) by \$ (3,700,592) and \$ (1,484,383) for 2005 and 2004 respectively. The difference between the increase (decrease) in net assets and the increase (decrease) in total government fund balances is attributable to the difference in the accrual basis of accounting versus the modified-accrual basis of accounting, and is reconciled on page 17. Some of the significant differences between these two bases of accounting are property tax revenue recognition; accounting for long-term debt balances, proceeds, and repayment; and capitalization and depreciation of fixed assets.

For the fiscal year ending June 30, 2005 and 2004 program revenues represented approximately 22% and 21% of the total revenue respectively and general revenues comprised the remaining 78% and 79% for 2005 and 2004 respectively. These program revenues covered 24% and 21% of the District's expenditures for 2005 and 2004 respectively, leaving 76% and 79%, or \$ 14,052,322 and \$ 13,737,557 to be covered by general revenues derived from tax collections, state aid and interest earnings.

**Using the Basic Financial Statements**

The District's basic financial statements consist of a series of financial statements and the related notes to those statements. The statements are organized so that the reader can understand the operation of the District as a whole. The basic financial statements include "District-wide Financial Statements," "Fund Financial Statements" and "Notes to the Financial Statements."

The District-wide financial statements, consisting of the Statement of Net Assets and the Statement of Activities (see pages 12 and 13), provide highly consolidated financial information and render a District-wide perspective of the District's

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

financial condition. They present an aggregate view of the District's finances. These statements seek to answer the question, "How did the District do financially during the 2004-2005 fiscal year?" In short, is the District in a better financial position this year than in the prior year, or has the financial position deteriorated since the prior year? These statements include all assets and liabilities measured under the accrual basis of accounting used by most private-sector enterprises. The accrual basis takes into account all of the District's current year revenues and expenses regardless of when paid or received.

By showing the change in net assets for the year, the reader may ascertain whether the District's financial condition has improved or deteriorated. The changes may be financial or non-financial in nature. Non-financial factors that may have an impact on the District's financial condition include increases in, or the erosion of the property tax base within the District's boundaries; the condition of school facilities and equipment; mandated educational programs for which little or no funding is provided; or other external factors.

To provide more in-depth reporting of the District's financial position and changes in financial position, fund basis financial information is presented in the Fund Financial Statements section beginning on page 14. These fund financial statements, which should be familiar to those who have read the District's financial statements in previous years, report governmental activities on a current rather than long-term basis, indicating sources and uses of funding, as well as sources available for spending in the future periods.

Fund financial statements also provide more in-depth data on the District's most significant funds, which include General, Capital Projects, Federal Programs, Food Service, and Debt Service. These funds are considered "major funds" under GASB Statement No. 34. The relationship between June 30, 2005 balances reported in the DWFS and those reported in the fund financial statements are reconciled in the financial statements on page 15.

**District-Wide Financial Analysis**

Net assets of the District at June 30, 2005 and 2004 reflect the excess of assets over liabilities. Net assets of the District at June 30, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Current assets	\$ 14,260,238	\$ 16,788,098
Capital assets	15,010,499	11,153,511
<b>Total assets</b>	<b><u>29,270,737</u></b>	<b><u>27,941,609</u></b>
Current liabilities	3,707,444	3,181,490
Long-term liabilities	16,905,204	17,373,118
<b>Total liabilities</b>	<b><u>20,612,648</u></b>	<b><u>20,554,608</u></b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	2,811,153	3,541,633
Restricted	1,670,520	1,060,686
Unrestricted	4,176,416	2,784,682
<b>Total net assets</b>	<b><u>\$ 8,658,089</u></b>	<b><u>\$ 7,387,001</u></b>

The restricted net assets include \$ 54,713 and \$ 55,205 for payment of principal and interest on general obligation bonds and \$ 1,272,006 and \$ 732,773 to be spent on capital projects for 2005 and 2004 respectively. Special revenue funds make up the balance of \$ 343,801 and \$ 272,708 for 2005 and 2004 respectively.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**District Activities**

Net assets at June 30, 2005, reflect an increase of \$ 1,271,088 from the July 1, 2004 balance of \$ 7,387,001. Key elements of this increase consist of the following:

	<b>2005</b>	<b>2004</b>
<b>Revenue</b>		
<i>Program revenues:</i>		
Charges for services	\$ 479,347	\$ 348,450
Grants and contributions	4,041,527	3,141,173
<i>General revenue:</i>		
Property taxes	5,704,878	4,832,705
Unrestricted state aid	9,469,525	8,330,105
Interest and other	149,007	116,991
<b>Total Revenue</b>	<b>19,844,284</b>	<b>16,769,424</b>
<b>Expenses</b>		
Instructional and instruction related services	10,403,141	9,559,538
Support services	6,179,042	5,803,727
Acivity funds	266,201	300,164
Community services	13,276	25,830
Food services	1,009,088	841,848
Interest expense	702,448	696,073
<b>Total expenses</b>	<b>18,573,196</b>	<b>17,227,180</b>
<b>Change in net assets</b>	<b>1,271,088</b>	<b>(457,756)</b>
<b>Net assets, beginning of year</b>	<b>7,387,001</b>	<b>7,844,757</b>
<b>Net assets, end of year</b>	<b>\$ 8,658,089</b>	<b>\$ 7,387,001</b>

As reflected on the following page, the expenses of the District's governmental activities for the year ended June 30, 2005 of \$ 18,844,284 are not all borne by the taxpayers. Of this amount, \$ 479,347 was paid by those who used or benefited from the services rendered (e.g. charges for school lunches) and \$ 4,041,527 was paid through various federal and state grants. After taking into consideration these fees and grants, the net cost of the District's programs of \$ 14,052,322 was paid from other general revenues, which includes local property taxes, paid by taxpayers of the District and state funding.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

The table below shows the total program cost and the net cost (after deductions for services and grant revenue) of the various categories of expenses for the year ended June 30, 2005 and 2004. The "net cost" presentation reflects portion of total program cost which is ultimately borne by the District's taxpayers. This allows the taxpayer the opportunity to compare the cost of each function to the perceived benefits received.

	<u>2005</u>		<u>2004</u>	
	<b>Total Cost of Program</b>	<b>Net Cost of Program</b>	<b>Total Cost of Program</b>	<b>Net Cost of Program</b>
Instructional and instruction related services	\$ 10,403,141	\$ 7,588,791	\$ 9,559,538	\$ 7,727,279
Support services	6,179,042	5,610,865	5,803,727	5,279,655
Community services	13,276	(310)	25,830	13,192
Activity expenses	266,201	18,820	300,164	(12,908)
Food services	1,009,088	131,708	841,848	34,266
Interest expense	702,448	702,448	696,073	693,114
	<b><u>\$ 18,573,196</u></b>	<b><u>\$ 14,052,322</u></b>	<b><u>\$ 17,227,180</u></b>	<b><u>\$ 13,734,598</u></b>

**District Funds Financial Analysis**

The District uses fund accounting to control and manage money for particular purposes (e.g. dedicated taxes and bond proceeds). The Fund Financial Statements allow the District to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. These statements also allow the reader to obtain additional insight into the financial workings of the District and further assess the District's financial health.

The District completed the fiscal year ended June 30, 2005 with a combined fund balance for the District's governmental funds (as presented in the balance sheet on page 14), of \$ 8,592,600 compared to a combined fund balance of \$ 12,293,192 as of July 1, 2004.

The majority of the \$ (3,700,592) decrease in total governmental fund balances is attributable to the purchase of fixed assets during the year.

Fund balances in the amount of \$ 2,270,935 are unreserved and undesignated for 2005 and \$ 1,529,430 for 2004.

A major source of revenue for operations and debt service is local property taxes, which totaled \$ 5,038,410 for the fiscal year ending June 30, 2005, \$ 4,329,718 for 2004. The amount of property taxes attributable to the District is derived from the District's operating levy of 25.00 mills and the debt service levy of 10.40 mills for a total levy of 35.40 mills applied to the assessed value of taxable property located within the District's boundaries. Another significant source of local revenue is from breakfast and lunch sales in the amount of \$ 233,698 and \$ 219,396 for 2005 and 2004 respectively. State funding represents approximately 56% and 54% of total revenues for 2005 and 2004 respectively.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

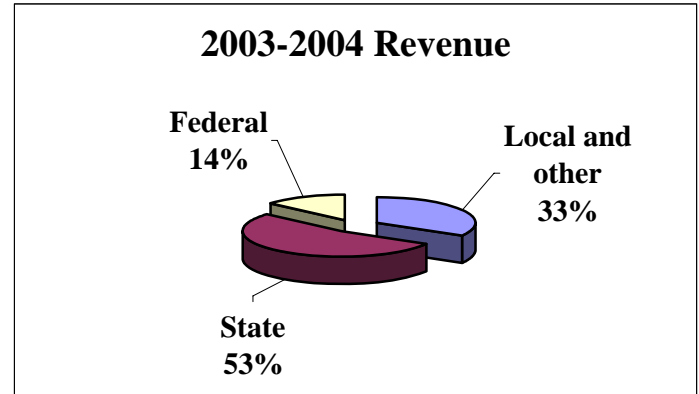
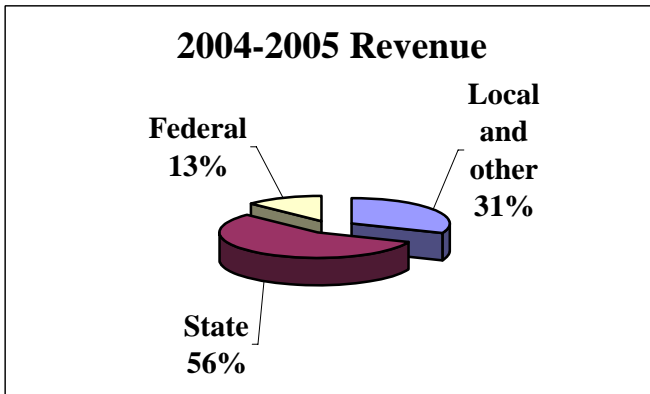
Federal food services reimbursements of \$ 643,682 and \$ 588,811 for 2005 and 2004 respectively are a large source of federal assistance received by the District. The District also received Title I funding of \$ 585,637 and \$ 605,210, and IDEA Title VI-B special education funds of \$ 565,664 and \$ 507,307 for 2005 and 2004 respectively. All other federal revenues are designated for special programs, such as Class Size Reduction, Drug Free Education, and Vocation Education.

Total governmental funds expenditures were \$ 22,994,528 and \$ 17,750,820 for 2005 and 2004 respectively. The Districts "major fund" expenditures and relative percentages are summarized as follows:

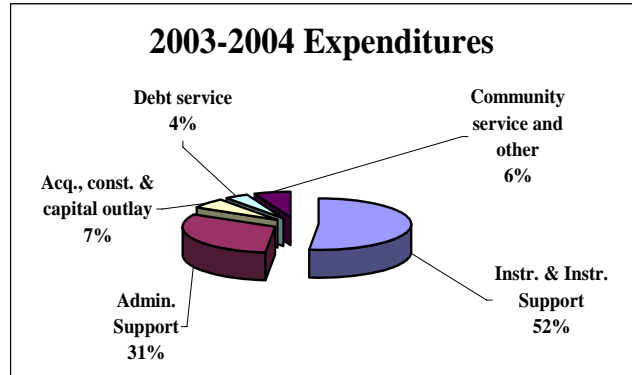
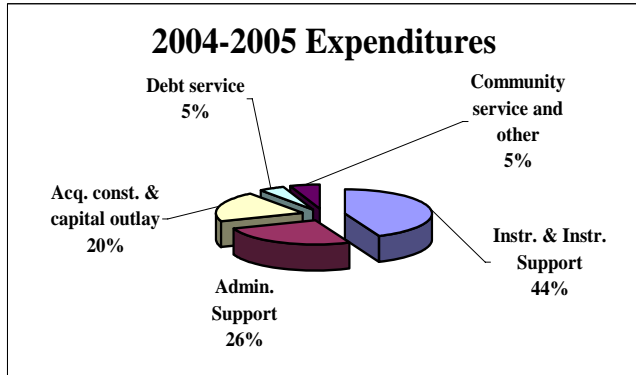
		<u>2005</u>	<u>%</u>	<u>2004</u>	<u>%</u>
General	\$	14,830,364	65%	13,447,841	76%
Debt service		1,129,394	4%	711,139	4%
Capital projects		4,513,190	20%	1,168,409	7%
Federal programs		1,539,972	7%	1,616,479	9%
Food service		981,608	4%	806,952	4%
<b>Total</b>	<b>\$</b>	<b><u>22,994,528</u></b>	<b><u>100%</u></b>	<b><u>17,750,820</u></b>	<b><u>100%</u></b>

The following table summarizes the District fund revenues and expenditures for 2005 and 2004.

	<u>2005</u>	<u>2004</u>
<b>REVENUES</b>		
Local and other	\$ 5,984,880	\$ 5,421,000
State	10,820,803	8,638,853
Federal	2,488,253	2,206,584
<b>Total Revenue</b>	<b><u>19,293,936</u></b>	<b><u>16,266,437</u></b>
<b>EXPENDITURES</b>		
Instruction and instructional support	10,010,631	9,163,284
Support services	5,945,907	5,563,156
Acquisitions, construction and capital outlay	4,645,648	1,168,409
Debt service	1,129,394	711,139
Community service, food service and others	1,262,948	1,144,832
<b>Total Expenditures</b>	<b><u>\$ 22,994,528</u></b>	<b><u>\$ 17,750,820</u></b>



**THE SOUTH CONWAY COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**



**General Fund Budgetary Highlights**

Arkansas Code Annotated §6-17-914 states that each school district of the state shall prepare annually a budget of expenditures and receipts, which shall be filed with the Arkansas Department of Education (ADE) in an electronic format. Although no provision currently exists for revisions to be submitted to the ADE, management and the District's Board of Directors, over the course of the year, review the District's budget taking into consideration unexpected changes in revenue and expenditures. The District's Board approved the original budget in a legally held meeting.

A schedule showing the General Fund's and Special Revenue Fund's original budget compared with actual operating results (on a budgetary basis) is provided in this report on page 31.

For the 2004-2005 fiscal year, the General Fund's actual revenues were more than the budgeted revenues (budgetary basis) by \$ 704,367. An unfavorable variance of \$ (189,330) occurred in the expenditure and \$ (104,552) in the transfer portions of the budget.

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2005, the District had \$ 15,010,499 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, furniture, buses and vehicles, computers, and other equipment. Increases during the year represent addition to those categories, while decreases represent retirement of assets and depreciation for the year.

During the current fiscal year \$ 4,645,648 of assets were capitalized. Depreciation expense for the year ended June 30, 2005 amounted to \$ 664,219.

**Long-Term Debt**

At June 30, 2005, the District had outstanding general obligation bonded indebtedness of \$ 16,905,204 compared to \$ 17,373,118 at June 30, 2004. Payments made during the year resulted in this net \$ 467,904 decrease.

**THE SOUTH CONWAY COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

State statutes limit the amount of general obligation debt a school district may issue to 27% of the assessed valuation. The debt limitation of \$ 44,223,802 at June 30, 2005 is an increase of \$ 1,286,263 over the June 30, 2004 debt limitation of \$ 42,937,539.

Additional information regarding the District's long-term debt can be found in Notes E on pages 26 and 27 of this report.

**Economic Factors and Next Year's Budget**

The District's administration continues to monitor developments regarding the Lakeview School funding decision and revenue projections. The District suffers budgetary concerns as expressed in the most recent Supreme Court decision and reflected in the General Assembly's response. The unfunded mandates and significant rise in fuel and utility costs have a negative impact from an expense perspective. The District has also experienced a reduction in State Foundation Aid due to legislative and demographic changes.

**Contacting the District's Financial Management**

While this Management's Discussion and Analysis is designed to provide a general overview of the financial condition and operations of the District, citizen groups, taxpayers, parents, students, investors or creditors may want further details. To obtain such details, please contact Douglas Adams, Superintendent at the Administration Building Business Office, by calling (501) 354-9400 during regular office hours, Monday through Friday, 8:00 a.m. to 4:00 p.m., Central Time.

## **BASIC FINANCIAL STATEMENTS**

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

**ASSETS**

Cash	\$	8,918,832
Restricted cash		60,022
Property taxes receivable (net)		4,628,200
Bond issuance costs, net of accumulated amortization		653,184
Capital assets - net		<u>15,010,499</u>
<b>TOTAL ASSETS</b>		<b><u>29,270,737</u></b>

**LIABILITIES**

Accounts payable and other current liabilities		808,109
Accrued interest		54,713
Deferred revenues		2,844,622
Long-term obligations:		
<i>Due within one year</i>		
Bonds and capital leases		487,167
<i>Due beyond one year:</i>		
Bonds and capital leases		<u>16,418,037</u>
<b>TOTAL LIABILITIES</b>		<b><u>20,612,648</u></b>

**NET ASSETS**

Invested in capital assets, net of related debt		2,811,153
<i>Restricted for:</i>		
Debt service		54,713
Capital projects		1,272,006
Other		343,801
Unrestricted		<u>4,176,416</u>
<b>TOTAL NET ASSETS</b>		<b>\$ <u><u>8,658,089</u></u></b>

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
JUNE 30, 2005**

<b>GOVERNMENTAL ACTIVITIES</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Changes in Net Assets</b>
		<b>Charges for Services</b>	<b>Grants and Contributions</b>	
Instructional	\$ 10,403,141	\$ 245,649	\$ 2,568,701	\$ (7,588,791)
Support services	6,179,042		568,177	(5,610,865)
Community services	13,276		13,586	310
Activity expenditures	266,201		247,381	(18,820)
Food services	1,009,088	233,698	643,682	(131,708)
Interest expense	702,448			(702,448)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 18,573,196</b>	<b>\$ 479,347</b>	<b>\$ 4,041,527</b>	<b>\$ (14,052,322)</b>
<b>GENERAL REVENUES</b>				
				\$ 5,704,878
Property taxes				9,469,525
Unrestricted state aid				(124,441)
Loss on disposal of fixed assets				8,321
Miscellaneous				265,127
Interest earned on investments				15,323,410
				<b>TOTAL GENERAL REVENUES</b>
				<b>15,323,410</b>
				<b>CHANGE IN NET ASSETS</b>
				<b>1,271,088</b>
				<b>NET ASSETS - BEGINNING OF YEAR</b>
				7,387,001
				<b>NET ASSETS--END OF YEAR</b>
				\$ 8,658,089

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	<b>General Fund</b>	<b>Capital Projects Funds</b>	<b>Federal Programs</b>	<b>Food Service</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash	\$ 1,925,990	\$ 6,649,041	\$ 343,801	\$	\$	\$ 8,918,832
Restricted cash	60,022					60,022
Property taxes receivable, net	4,628,200					4,628,200
<b>TOTAL ASSETS</b>	<b>\$ 6,614,212</b>	<b>\$ 6,649,041</b>	<b>\$ 343,801</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 13,607,054</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 136,932	\$ 671,177	\$	\$	\$	\$ 808,109
Deferred revenue	4,206,345					4,206,345
<b>TOTAL LIABILITIES</b>	<b>4,343,277</b>	<b>671,177</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,014,454</b>
<b>Fund balances:</b>						
<b>Reserved for:</b>						
Capital projects		5,977,864				5,977,864
<b>Unreserved:</b>						
Designated			343,801	0	0	343,801
<b>Undesignated, reported in:</b>						
General fund	2,270,935					2,270,935
<b>TOTAL FUND BALANCES</b>	<b>2,270,935</b>	<b>5,977,864</b>	<b>343,801</b>	<b>0</b>	<b>0</b>	<b>8,592,600</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,614,212</b>	<b>\$ 6,649,041</b>	<b>\$ 343,801</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 13,607,054</b>

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO  
DISTRICT-WIDE GOVERNMENTAL ACTIVITIES NET ASSETS  
JUNE 30, 2005**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>		<b>\$ 8,592,600</b>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 24,078,222 and the accumulated depreciation is \$ 9,067,723.		15,010,499
Property taxes and other amounts will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		1,361,723
Other assets used in governmental activities that are not financial resources and therefore are not reported in the governmental funds.		
	Bond issuance costs	712,565
	Amortization	<u>(59,381)</u>
		653,184
Long-term liabilities, including bonds and capital leases, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
	Bonds and capital leases payable	(16,905,204)
	Accrued interest on the bonds	<u>(54,713)</u>
		<u>(16,959,917)</u>
<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</b>		<b>\$ <u><u>8,658,089</u></u></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  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Federal Programs</u>	<u>Food Service</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Property taxes	\$ 5,038,410					\$ 5,038,410
Tuition charges	245,649					245,649
Interest	265,127					265,127
State revenues	10,820,803					10,820,803
Federal revenues			1,610,873	643,682		2,254,555
Food services				233,698		233,698
Activity receipts	247,381					247,381
Other	188,313					188,313
<b>TOTAL REVENUES</b>	<b><u>16,805,683</u></b>	<b><u>0</u></b>	<b><u>1,610,873</u></b>	<b><u>877,380</u></b>	<b><u>0</u></b>	<b><u>19,293,936</u></b>
<b>EXPENDITURES</b>						
<i>Current:</i>						
Regular programs	6,453,921		79,447			6,533,368
Special education	863,840		279,006			1,142,846
Workforce education	824,135		35,782			859,917
Compensatory education	596,404		573,472			1,169,876
Other instructional programs	304,624					304,624
Support services	5,031,053	380,578	534,276			5,945,907
Community services			12,775			12,775
Activity expenditures	266,201					266,201
Food services	3,015			968,000		971,015
<i>Debt service:</i>						
Principal					465,000	465,000
Interest					662,461	662,461
Paying agent's fees					1,933	1,933
<i>Capital lease:</i>						
Principal	11,235					11,235
Interest	1,722					1,722
<i>Capital outlay</i>	474,214	4,132,612	25,214	13,608		4,645,648
<b>TOTAL EXPENDITURES</b>	<b><u>14,830,364</u></b>	<b><u>4,513,190</u></b>	<b><u>1,539,972</u></b>	<b><u>981,608</u></b>	<b><u>1,129,394</u></b>	<b><u>22,994,528</u></b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b><u>1,975,319</u></b>	<b><u>(4,513,190)</u></b>	<b><u>70,901</u></b>	<b><u>(104,228)</u></b>	<b><u>(1,129,394)</u></b>	<b><u>(3,700,592)</u></b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in				104,420	1,129,394	1,233,814
Transfers out	(1,233,814)					(1,233,814)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>(1,233,814)</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>104,420</u></b>	<b><u>1,129,394</u></b>	<b><u>0</u></b>
<b>NET CHANGE IN FUND BALANCES</b>	<b><u>741,505</u></b>	<b><u>(4,513,190)</u></b>	<b><u>70,901</u></b>	<b><u>192</u></b>	<b><u>0</u></b>	<b><u>(3,700,592)</u></b>
<b>FUND BALANCE--BEGINNING</b>	<b><u>1,529,430</u></b>	<b><u>10,491,054</u></b>	<b><u>272,900</u></b>	<b><u>(192)</u></b>	<b><u>0</u></b>	<b><u>12,293,192</u></b>
<b>FUND BALANCE--ENDING</b>	<b><u>\$ 2,270,935</u></b>	<b><u>\$ 5,977,864</u></b>	<b><u>\$ 343,801</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 8,592,600</u></b>

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE  
STATEMENT OF ACTIVITIES  
JUNE 30, 2005**

**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** **\$ (3,700,592)**

*Amounts reported for governmental activities in the statement of activities are different because:*

Capital outlays to purchase capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	(664,219)	
Capital outlays	<u>4,645,648</u>	3,981,429

The statement of activities reports a loss on disposal of fixed assets which was due to writing-off the net book value of assets that were sold and obsolete assets of the District.

Cost of assets disposed	(1,129,798)	
Accumulated depreciation of assets disposed	<u>1,005,357</u>	(124,441)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead, counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities.

666,468

Repayment of bond, notes payable and capital lease principal are expenditures in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

476,235

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus required the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The accrued interest decreased \$ 492 during the year.

492

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. Amortization of bond issuance costs.

(28,503)

**CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES** **\$ 1,271,088**

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS  
JUNE 30, 2005**

**ASSETS**

Cash in bank		\$ <u>36,726</u>
	<b>TOTAL ASSETS</b>	<b>\$ <u><u>36,726</u></u></b>

**LIABILITIES**

Due to student groups		\$ <u>36,726</u>
	<b>TOTAL LIABILITIES</b>	<b>\$ <u><u>36,726</u></u></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, 2005**

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

The accompanying financial statements of the The South Conway County School District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**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.

**BASIS OF PRESENTATION**

**District-Wide Financial Statements**

The District-wide financial statements, which display financial information about the District as a whole, include the Statement of Net Assets and the Statement of Activities. These statements include all funds, account balances, and financial activities of the District, except for those related to the student activity funds, which the District holds as agent for various student and parent organizations. Eliminations of inter-fund transactions have been made to avoid “double-counting” of internal balances and activities. The District has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. “Direct expenses” are those that are clearly identifiable with a specific function. “Program revenues” include charges or fees collected from students as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes and other revenues not properly included among program revenues are reported as “general revenues.”

**Fund Accounting**

Separate fund financial statements are provided for the District’s governmental and fiduciary fund types. These financial statements include the Balance Sheet – Governmental Funds; the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds; and the Statement of Net Assets – Fiduciary Funds.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

**BASIS OF PRESENTATION (CONTINUED)**

The reporting focus of the governmental fund financial statements is on each of the District's major funds, rather than reporting aggregate totals of funds by type. Each major fund is presented in a separate column. The District reports the following major governmental funds in the fund statements:

**General Fund** – The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

**Federal Programs Fund** – The Federal Programs Fund is used to account for federal funding received by the District that is restricted for specified purposes, with the exception of federal funding related to the District's food service program, which is accounted for in the Food Service Fund described below.

**Food Service Fund** – The Food Service Fund is used to account for all financial transactions, including federal funding, related to the District's food service program.

**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.

**Capital Projects Fund** – The Capital Project Fund is used to account for all resources for the acquisition of capital facilities by the District.

**Fiduciary Fund Type - Student Activity Fund** – The Student Activity Fund, an agency fund, accounts for the receipt and disbursement of monies from student activity organizations. This accounting reflects the District's agency relationship with the student activity organizations.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

**District-Wide Financial Statements**

The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, entitlements, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

Revenues from grants, entitlements, and donations are recognized in the fiscal year when all eligibility requirements, including restrictions on the availability or use of funds, have been satisfied. Other accounts receivable are recorded when available and measurable.

**Fund Financial Statements**

The activities and balances of the District’s governmental and agency funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recorded when they are measurable and available. Revenues are considered to be “available” when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all property taxes to be available if the revenues are collected within 60 days after the end of the fiscal year. Property taxes, investment interest, grants, entitlements and contributions associated with the current fiscal period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures are recorded when a liability is incurred, as under accrual accounting, except for principal and interest on long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent that they have matured or payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as “other financing sources”.

The School District’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CASH AND INVESTMENTS**

The District’s cash consists of demand deposits maintained at financial institutions. Investments are recorded at cost, which approximates market value. The District’s funds are required to be deposited and invested under the terms of a depository contract pursuant to the Arkansas School Depository Act. The depository bank deposits for safekeeping and trust with the District’s agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation insurance. Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, Arkansas municipal securities, bank certificates of deposit and repurchase agreements. The District maintains a cash pool that is available for use by all funds. Positive book cash balances are displayed as investments on the Balance Sheet. Negative cash balances are included in “Due to Other Funds” on the Balance Sheet.

**INVENTORIES**

Quantities of materials, supplies and food commodities are considered immaterial and thus no inventories are recorded.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

**CAPITAL ASSETS**

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

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

**COMPENSATED ABSENCES**

Vacation is earned according to employee service time. Vacations earned must be used before year end or it is lost. A liability for earned vacation pay is not accrued in the District-wide financial statements due to the immaterial amounts. Sick pay is not accrued.

**LONG-TERM OBLIGATIONS**

In the Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities. Bond premiums or discounts, as well as the costs associated with the bonds are recognized over the life of the bond. As permitted by GASB Statement 34 the amortization of the costs of bonds will be amortized prospectively from the date of adoption of GASB Statement 34. Bonds payable are reported net of the applicable bond premium or discount.

For fund financial reporting, bond premiums and discounts, as well as bond issuance costs, are recognized in the period the bonds are issued. The face amount of bonds issued and premiums are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, even if withheld from the actual proceeds received, are reported as debt service expenditures.

**DEFERRED REVENUE**

The District reported deferred revenue to the extent that resources have been accrued or received before the applicable revenue recognition criteria have been met.

**INTERFUND BALANCES AND TRANSACTIONS**

In the governmental fund financial statements, interfund loans are classified as “due to” or “due from” other funds. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is being reimbursed. All other interfund transactions

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**INTERFUND BALANCES AND TRANSACTIONS (CONTINUED)**

are reported as transfers. Interfund balances and transfers are eliminated for purposes of financial statement presentation in the District-wide financial statements.

**FUND EQUITY**

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**ANNUAL BUDGET**

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

**NOTE B – PROPERTY TAXES**

Property taxes are levied each November, based on the assessed value of real and personal property located within the District as of January 1 of that year and millage rates adopted through public elections. The tax bills are sent out each March of the year following the levy by the the Treasurer of Conway County, who serves as the intermediary collection agent and remits the collections to the District, net of a collection fee. Taxes not received by October 10<sup>th</sup> of the year following the levy are considered delinquent and are subject to penalties.

Although an enforceable lien attaches to the property on the date of assessment, the District does not record a receivable until the levy date, since that is the date when the amount of tax is known. The receivable is recorded in the general fund, except for taxes necessary to meet debt service requirements, which are recorded in the Debt Service Fund, as allowed by Arkansas statues. The millage rate for operations and maintenance was 25.00 mills and 10.40 mills for debt service.

Property taxes are recognized as revenue in the Statement of Activities in the period that the taxes are intended to finance. The same is true for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds, but only to the extent that they are both measurable and available.

The District recognizes as current revenue 40% of the operations and maintenance tax levy that occurs during the fiscal year, as provided for by Arkansas statues. The debt service tax levied during the year is intended to finance the District's debt service requirements for the fiscal year beginning on July 1 of the year following the levy.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE B – PROPERTY TAXES (CONTINUED)**

In the Statement of Net Assets and in the Balance Sheet – Governmental Funds, property taxes are presented as deferred revenues to the extent that they have been accrued or received prior to the fiscal year they are intended to finance. In the Balance Sheet – Governmental Funds additional deferred property taxes are recorded for those taxes accrued but not collected within 60 days after year-end, and thus are not considered “available”.

At June 30, 2005 and 2004, deferred revenues in the Balance Sheet – Governmental Funds are recorded as \$ 4,206,345 and \$ 3,486,280 for 2005 and 2004 respectively, which relate to property taxes that have been accrued or received, but are not considered available to finance operations of the District for the year ended June 30, 2005 and 2004. Property tax revenue also includes proceeds from the Property Tax Relief Fund established under State law to replace property tax revenues lost by school districts due to the passage of Amendment 79.

Property taxes receivable were \$ 5,142,445 and \$ 4,791,964 net of an allowance for uncollectible accounts of \$ 514,245 and \$ 471,902, for a net receivable of \$ 4,628,200 and \$ 4,320,062 as of June 30, 2005 and 2004 respectively.

**NOTE C – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

Restricted cash of \$ 60,022 represents sinking fund requirements of the QZAB obligation (see Note E). Cash balances consist of restricted activity fund balances of \$ 36,726 and unrestricted governmental fund balances of \$ 8,918,832. Cash deposits are carried at cost (carrying value).

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Insured (FDIC)	\$ 100,000	\$ 100,000
Collateralized with collateral held by the pledging bank or pledging bank’s trust department in the District’s name	8,855,558	9,587,258
	<b>8,955,558</b>	<b>\$ 9,687,258</b>

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE D – CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2005 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<i>Nondepreciable assets:</i>				
Land	\$ 704,000	\$ 8,911	\$	\$ 712,911
Construction in progress	784,708	2,343,121	469,077	2,658,752
<b>Total nondepreciable cost</b>	<b><u>1,488,708</u></b>	<b><u>2,352,032</u></b>	<b><u>469,077</u></b>	<b><u>3,371,663</u></b>
<i>Capital assets that are depreciated:</i>				
Buildings and improvements	15,550,948	1,793,316	401,015	16,943,249
Furniture and equipment	3,522,716	500,300	259,706	3,763,310
<b>Total depreciable cost</b>	<b><u>19,073,664</u></b>	<b><u>2,293,616</u></b>	<b><u>660,721</u></b>	<b><u>20,706,559</u></b>
<i>Less accumulated depreciation:</i>				
Buildings and improvements	7,226,345	317,890	822,597	6,721,638
Furniture and equipment	2,182,516	346,329	182,760	2,346,085
<b>Total accumulated depreciation</b>	<b><u>9,408,861</u></b>	<b><u>664,219</u></b>	<b><u>1,005,357</u></b>	<b><u>9,067,723</u></b>
<b>Total depreciable cost, net</b>	<b><u>9,664,803</u></b>	<b><u>1,629,397</u></b>	<b><u>(344,636)</u></b>	<b><u>11,638,836</u></b>
<b>CAPITAL ASSETS, NET</b>	<b><u>\$ 11,153,511</u></b>	<b><u>\$ 3,981,429</u></b>	<b><u>\$ 124,441</u></b>	<b><u>\$ 15,010,499</u></b>

**DEPRECIATION IS CHARGED TO FUNCTIONS AS FOLLOWS:**

Regular programs	\$ 256,169
Special education	44,810
Workforce education	33,717
Compensatory education	45,870
Other instructional programs	11,944
Support services	233,135
Community services	501
Food services	38,073
<b>TOTAL</b>	<b><u>\$ 664,219</u></b>

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE E – LONG-TERM LIABILITIES**

A summary of long-term liabilities is as follows:

<u>Description</u>	<u>Balance at 7/1/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Due Within One Year</u>
<i>Construction and Refunding Bonds:</i>					
Series A – 6/1/06, 2.0%-2.4%	745,000	--	(465,000)	280,000	280,000
Series B – 6/1/28, 2.0%-4.5%	16,345,000	--	--	16,345,000	195,000
	<u>17,090,000</u>	<u>--</u>	<u>(465,000)</u>	<u>16,625,000</u>	<u>475,000</u>
<i>Qualified Zone Academy Bonds:</i>					
QZAB payable 10/15/12, interest imputed at 3.0%	325,176	--	--	325,176	--
Less: unamortized discount	(68,656)	8,321	--	(60,335)	--
	<u>256,520</u>	<u>8,321</u>	<u>--</u>	<u>264,841</u>	<u>--</u>
<i>Other Long-term debt:</i>					
Capital leases	26,598	--	(11,235)	15,363	12,167
<b>Total Long-Term Liabilities</b>	<b>\$ <u>17,373,118</u></b>	<b>\$ <u>8,321</u></b>	<b><u>(476,235)</u></b>	<b><u>16,905,204</u></b>	<b><u>487,167</u></b>

A summary of each bond is as follows:

	<u>Date of issue</u>	<u>Amount of Orig. Issue</u>	<u>Interest Rate %</u>	<u>Payment Dates</u>	<u>Range of Annual Maturities</u>
Series A	6/1/03	\$ 791,075	2.0 – 2.4	6/01-12/01	\$ 46,075/ 465,000
Series B	6/1/03	\$ 16,345,000	2.0 – 4.5	6/01-12/01	\$ 195,000/ 1,120,000

Payments on the bonds are paid from the debt service fund. The District has issued Qualified Zone Academy Bonds with a total face amount of \$ 325,176 to a financial institution to finance certain improvements. For District-wide financial statement purposes, the face amount has been discounted and reflected at the estimated net present value of \$ 264,841 at June 30, 2005. The resulting discount is amortized and reflected as interest expense over the life of the QZAB. The District also recorded the excess of proceeds over the discounted principal balance of the bonds as a deferred gain which will be recognized as income over the life of the bonds. For the governmental fund financial statements, the excess of proceeds over the discounted principal balance will be recorded as interest expense at the maturity of the QZABs.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE E – LONG-TERM LIABILITIES (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.

The annual debt service requirements of all outstanding long-term debt, including capital leases as of June 30, 2005 are as follows:

<b>Year Ended</b>		<b>Principal</b>		<b>Interest</b>
<u>June 30</u>	\$	<u>          </u>	\$	<u>          </u>
2006		487,167		653,021
2007		488,196		641,514
2008		495,000		631,771
2009		510,000		620,138
2010		525,000		606,368
2011 - 2015		3,255,176		2,757,768
2016 - 2020		3,560,000		2,143,480
2021 - 2025		4,435,000		1,332,725
2026 - 2028		<u>3,210,000</u>		<u>243,000</u>
		<b>16,965,539</b>		<b>9,629,785</b>
Unamortized discount on QZABs		<u>(60,335)</u>		<u>60,335</u>
	<b>\$</b>	<b><u>16,905,204</u></b>	<b>\$</b>	<b><u>9,690,120</u></b>

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**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 13% 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, 2005, 2004 and 2003 were approximately \$ 1,352,505, \$ 1,197,543 and \$ 1,020,101 respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2005, 2004 and 2003 were approximately \$ 5,700, \$ 6,156 and \$ 6,059 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.

**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.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

**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, 2005, commodities were received by the District in the amount of \$ 56,037. 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, 2005.

From: General fund to food service fund (for expenses)	\$ 104,420
General fund to debt service fund (for debt payments)	<u>1,129,394</u>
<b>Total Interfund Transfers</b>	<b><u>\$ 1,233,814</u></b>

**NOTE K – CONSTRUCTION COMMITMENTS**

At June 30, 2005, the District had several construction projects in various stages of completion. Unfulfilled contract commitments of \$ 1,272,006 remained open on the projects still in progress at June 30, 2005.

**NOTE L – SUBSEQUENT EVENTS**

The District has awarded a bid for the construction of the elementary school addition in the amount of \$ 4,176,339, including change orders, in July of 2005. The District has issued bonds in the amount of \$ 1,560,000 in 2006 for the renovation and remodeling of a school building.

**NOTE M – DEFERRED REVENUE**

The District had deferred property tax revenues of \$ 2,784,287 and deferred revenue from the QZAB's, as mentioned in Note E, in the amount of \$ 60,335 for a total deferred revenue balance of \$ 2,844,622 at June 30, 2005 as reported in the Statement of Net Assets.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH CONWAY COUNTY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND AND SPECIAL REVENUE FUNDS - BUDGETARY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budgeted Amounts *	Actual	Variance Favorable (Unfavorable)	Budgeted Amounts *	Actual	Variance Favorable (Unfavorable)
Property taxes	\$ 5,948,408	\$ 5,704,878	\$ (243,530)	\$	\$	\$ -
Tuition charges	150,000	245,649	95,649			-
Interest	100,000	265,127	165,127			-
State revenues	10,285,698	10,820,803	535,105			-
Federal revenues and meal sales			-	2,531,559	2,488,253	(43,306)
Activity receipts		247,381	247,381			-
Other	159,237	188,313	29,076			-
<b>TOTAL REVENUES</b>	<b>16,643,343</b>	<b>17,472,151</b>	<b>828,808</b>	<b>2,531,559</b>	<b>2,488,253</b>	<b>(43,306)</b>
<b>EXPENDITURES</b>						
Current:						
Regular programs	6,363,935	6,453,921	(89,986)	84,654	79,447	5,207
Special education	882,908	863,840	19,068	305,746	279,006	26,740
Workforce education	755,250	824,135	(68,885)	43,230	35,782	7,448
Compensatory education	580,142	596,404	(16,262)	668,576	573,472	95,104
Other instructional programs	338,801	304,624	34,177			-
Support services	5,096,294	5,031,053	65,241	606,906	534,276	72,630
Community services	0	0	0	17,023	12,775	4,248
Activity expenditures	0	266,201	(266,201)			-
Food services	20,549	3,015	17,534	826,159	968,000	(141,841)
Capital outlay and leases	603,155	487,171	115,984	39,296	38,822	474
<b>TOTAL EXPENDITURES</b>	<b>14,641,034</b>	<b>14,830,364</b>	<b>(189,330)</b>	<b>2,591,590</b>	<b>2,521,580</b>	<b>70,010</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>2,002,309</b>	<b>2,641,787</b>	<b>639,478</b>	<b>(60,031)</b>	<b>(33,327)</b>	<b>26,704</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers	(1,129,262)	(1,233,814)	(104,552)		104,420	104,420
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 873,047</b>	<b>\$ 1,407,973</b>	<b>\$ 534,926</b>	<b>\$ (60,031)</b>	<b>\$ 71,093</b>	<b>\$ 131,124</b>

**Reconciliation of budgetary basis and GAAP:**

Excess (deficiency) of revenues and other sources over (under) expenditures and other uses (budgetary basis)	1,407,973
Adjustment for revenues for property tax deferrals	(666,468)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses (GAAP basis)	<u>741,505</u>

\* Note: the original budget was not amended during the year.

**OTHER REPORTS AND SUPPLEMENTARY INFORMATION**

**Doug Dobbs, CPA, P.A.**

*Certified Public Accountants*

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

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

We have audited the basic financial statements of the South Conway County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated July 24, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance and Other Matters**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Education  
Page Two

This report is intended solely for the information and use of the School Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Doug Dobbs, CPA, P.A.*

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Doug Dobbs, CPA, P.A.

Little Rock, Arkansas

July 24, 2006

**Doug Dobbs, CPA, P.A.**

*Certified Public Accountants*

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

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

**Compliance**

We have audited the compliance of the South Conway County School District 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, 2005. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the South Conway County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal

To the Board of Education  
Page Two

program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the School Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited

*Doug Dobbs, CPA, P.A.*

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Doug Dobbs, CPA, P.A.

Little Rock, Arkansas

July 24, 2006

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005**

<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	89,738
<b><u>Passed Through Arkansas Department of Education</u></b>		
Title 1 - Part A - Grants to Local Education Agencies	84.010	635,639
Special Education – Grants to States	84.027	508,158
Title V	84.151	24,673
Safe and Drug Free Schools and Communities	84.186A	986
Education Technology State Grant	84.318	15,081
Improving Teacher Quality State Grant	84.367	97,972
Carl Perkins – Special Needs (Note 4)	84.000	45,744
IDEA Resource Grant (Note 4)	84.000	54
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>		<b><u>1,418,045</u></b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<b><u>Passed Through Arkansas Department of Education</u></b>		
School Breakfast Program (101,527 units served) and	10.553	128,256
National School Lunch Program (276,922 units served)	10.555	452,362
<b><u>Passed Through Arkansas Department of Human Services</u></b>		
National School Lunch Program – Commodities (Note 3)	10.555	56,037

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

<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 (11,520 snacks served)	10.558	\$ <u>7,027</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b>\$ <u>2,061,727</u></b>

**Notes to Schedule:**

1. This schedule includes the federal awards activity of the District and is presented on the modified-accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
2. Medicaid reimbursements are defined as contracts for services and not federal awards, therefore such reimbursements totaling \$ 61,007 are not covered by the reporting requirements of OMB Circular A-133.
3. This is the market value of commodities received during the fiscal year.
4. The Federal CFDA number or other identifying number was not available.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2005**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. Our report expresses an unqualified opinion on the basic financial statements of the South Conway County School District.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of non-compliance material to the financial statements of the South Conway County School District were disclosed during the audit.
4. There were no reportable conditions during the audit of the major federal award programs.
5. Our report on compliance for the major federal awards programs for South Conway County School District expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs.
7. The programs tested as major programs included: Special Education – Grants to States – CFDA No. 84.027, Title 1 – Part A – Grants to LEA's – CFDA No. 84.010, School Breakfast Program – CFDA No. 10.553 and National School Lunch Program – CFDA No. 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 reportable conditions

**C. FINDINGS – FEDERAL AWARDS AUDIT**

No reportable conditions.

**PRIOR YEAR FINDINGS AND QUESTIONED COST**

There were no findings or questioned costs that were required to be reported for the year ended June 30, 2004.

**Doug Dobbs, CPA, P.A.**

*Certified Public Accountants*

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

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

We have examined management's assertions, included in its representation letter dated July 24, 2006, 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, 2005. 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, 2005, 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  
July 24, 2006