

SOUTH CONWAY COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2004

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, each major 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, 2004, 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, each major fund and the aggregate remaining fund information of the South Conway County School District, as of June 30, 2004, 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 December 9, 2005, 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.

Doug Dobbs, CPA, P.A.

Doug Dobbs, CPA, P.A.

Little Rock, Arkansas

December 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

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, 2004 and 2003 include the following:

The District's net assets as presented on the DWFS increased (decreased) by \$ (457,756) and \$ 216,878 for 2004 and 2003 respectively, while the governmental fund balances as presented in the fund financial statements increased (decreased) by \$ (1,484,383) and \$ 11,550,842 for 2004 and 2003 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, 2004 and 2003 program revenues represented approximately 21% and 19% of the total revenue respectively and general revenues comprised the remaining 79% and 81% for 2004 and 2003 respectively. These program revenues covered 21% and 20% of the District's expenditures for 2004 and 2003 respectively, leaving 79% and 80%, or \$ 13,737,557 and \$ 12,750,661 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, 2004**

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 2003-2004 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, 2004 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, 2004 and 2003 reflect the excess of assets over liabilities. Net assets of the District at June 30, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Current assets	\$ 16,788,098	\$ 17,271,474
Capital assets	11,153,511	10,657,894
Total assets	<u>27,941,609</u>	<u>27,929,368</u>
Current liabilities	3,181,490	2,663,365
Long-term liabilities	17,373,1218	17,421,246
Total liabilities	<u>20,554,608</u>	<u>20,084,611</u>
Net assets:		
Invested in capital assets, net of related debt	4,796,885	5,034,976
Restricted	1,060,686	851,513
Unrestricted	1,529,430	1,958,268
Total net assets	<u>\$ 7,387,001</u>	<u>\$ 7,844,757</u>

The restricted net assets include \$ 55,205 and \$ 55,282 for payment of principal and interest on general obligation bonds and \$ 732,773 and \$ 616,918 to be spent on capital projects for 2004 and 2003 respectively.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

District Activities

Net assets at June 30, 2004, reflect a decrease of \$ (457,756) from the July 1, 2003 balance of \$ 7,844,757. Key elements of this increase consist of the following:

	2004	2003
Revenue		
<i>Program revenues:</i>		
Charges for services	\$ 348,450	\$ 186,601
Grants and contributions	3,141,173	2,935,495
<i>General revenue:</i>		
Property taxes	4,832,705	4,509,289
Unrestricted state aid	8,330,105	8,383,924
Interest and other	116,991	74,326
	16,769,424	16,089,635
Expenses		
Instructional and instruction related services	9,559,538	9,123,907
Support services	5,803,727	5,626,786
Activity funds	300,164	199,595
Community services	25,830	24,248
Food services	841,848	709,593
Interest expense	696,073	188,628
	17,227,180	15,872,757
Change in net assets	(457,756)	216,878
Net assets, beginning of year	7,844,757	7,627,879
Net assets, end of year	\$ 7,387,001	\$ 7,844,757

As reflected on the following page, the expenses of the District's governmental activities for the year ended June 30, 2004 of \$ 17,227,180 are not all borne by the taxpayers. Of this amount, \$ 348,450 was paid by those who used or benefited from the services rendered (e.g. charges for school lunches) and \$ 3,141,173 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 \$ 13,737,557 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, 2004**

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, 2004 and 2003. 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>2004</u>		<u>2003</u>	
	<u>Total Cost of Program</u>	<u>Net Cost of Program</u>	<u>Total Cost of Program</u>	<u>Net Cost of Program</u>
Instructional and instruction related services	\$ 9,559,538	7,719,936	9,123,907	\$ 7,209,622
Support services	5,803,727	5,287,643	5,626,786	5,409,579
Community services	25,830	13,173	24,248	(2,846)
Activity expenses	300,164	(12,908)	199,595	
Food services	841,848	33,641	709,593	(54,322)
Interest expense	696,073	696,073	188,628	188,628
	<u>\$ 17,227,180</u>	<u>\$ 13,737,558</u>	<u>15,872,757</u>	<u>\$ 12,750,661</u>

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, 2004 with a combined fund balance for the District's governmental funds (as presented in the balance sheet on page 14, of \$ 12,293,192 compared to a combined fund balance of \$ 13,777,575 as of July 1, 2003.

The majority of the \$ (1,484,383) decrease in total governmental fund balances is attributable to the purchase of fixed assets during the year.

Fund balances in the amount of \$ 1,529,430 are unreserved and undesignated for 2004 and \$ 1,989,373 for 2003.

A major source of revenue for operations and debt service is local property taxes, which totaled \$ 4,329,718 for the fiscal year ending June 30, 2004, \$ 4,695,959 for 2003. 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 \$ 219,396 and \$ 186,601 for 2004 and 2003 respectively. State funding represents approximately 54% and 56% of total revenues for 2004 and 2003 respectively.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

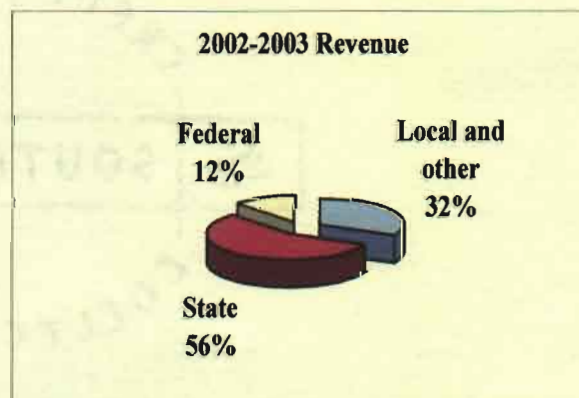
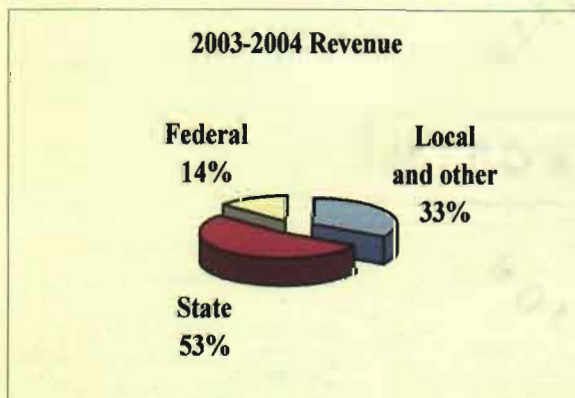
Federal food services reimbursements of \$ 588,811 and \$ 577,316 for 2004 and 2003 respectively are a large source of federal assistance received by the District. The District also received Title I funding of \$ 605,210 and \$ 504,958, and IDEA Title VI-B special education funds of \$ 507,307 and \$ 413,784 for 2004 and 2003 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 \$ 17,750,820 and \$ 17,081,714 for 2004 and 2003 respectively. The Districts "major fund" expenditures and relative percentages are summarized as follows:

	2004	%	2003	%
General	\$ 13,447,841	76	13,502,230	79%
Debt service	711,139	4	676,979	4%
Capital projects	1,168,409	7	893,508	5%
Federal programs	1,616,479	9	1,315,703	8%
Food service	806,952	4	693,294	4%
Total	\$ 17,750,820	100%	17,081,714	100%

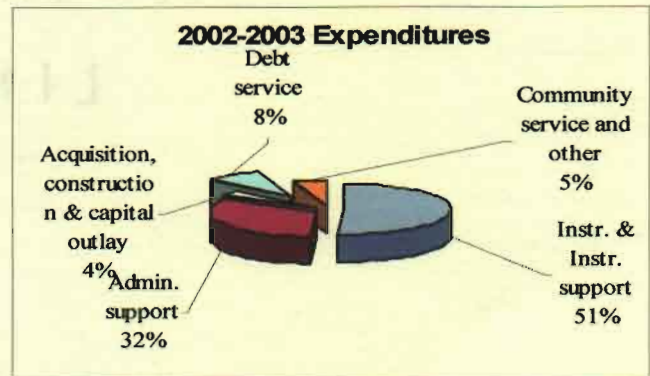
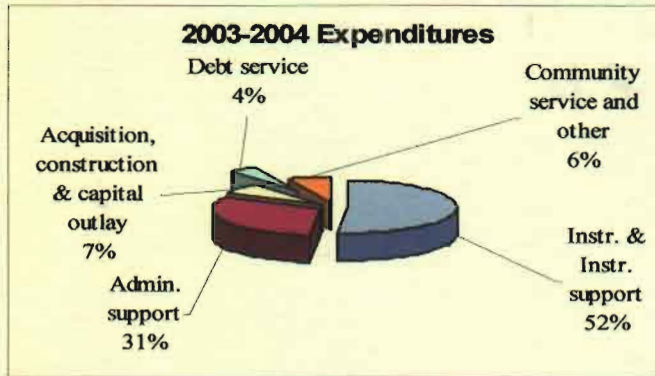
The following table summarizes the District fund revenues and expenditures for 2004 and 2003.

	2004	2003
REVENUES		
Local and other	\$ 5,421,000	5,199,347
State	8,638,853	9,112,692
Federal	2,206,584	1,964,266
Total Revenue	16,266,437	16,276,305
EXPENDITURES		
Instruction and instructional support	9,163,284	8,750,142
Support services	5,563,156	5,413,534
Acquisitions, construction and capital outlay	1,168,409	610,523
Debt service	711,139	1,402,501
Community service, food service and others	1,144,832	905,014
Total Expenditures	\$ 17,750,820	17,081,714



See Independent Auditor's Report

**THE SOUTH CONWAY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**



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 original budget compared with actual operating results (on a budgetary basis) is provided in this report on page 31.

For the 2003-2004 fiscal year, the General Fund's actual revenues were less than the budgeted revenues (budgetary basis) by \$ 132,949. However, a favorable variance of \$ 154,661 occurred in the expenditure portion of the budget.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2004, the District had \$ 11,153,511 (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 \$ 1,168,409 of assets were capitalized. Depreciation expense for the year ended June 30, 2004 amounted to \$ 672,792.

Long-Term Debt

At June 30, 2004, the District had outstanding general obligation bonded indebtedness of \$ 17,373,118 compared to \$ 17,421,246 at June 30, 2003. Payments made during the year resulted in this net \$ 48,128 decrease. The issuance of bonds is in anticipation of funding for several new construction projects.

**THE SOUTH CONWAY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

State statutes limit the amount of general obligation debt a school district may issue to 27% of the assessed valuation. The debt limitation of \$ 42,937,539 at June 30, 2004 is an increase of \$ 1,536,213 over the June 30, 2003 debt limitation of \$ 41,401,326.

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 Special Master's Report dated October 3, 2005. 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, 2004**

ASSETS

Cash and cash equivalents	\$	11,739,376
Restricted cash		29,675
Property taxes receivable (net)		4,337,360
Bond issuance costs, net of accumulated amortization		681,687
Capital assets - net		<u>11,153,511</u>
TOTAL ASSETS		<u>27,941,609</u>

LIABILITIES

Accounts payable and other current liabilities		326,939
Accrued interest		55,205
Deferred revenues		2,799,346
Long-term obligations:		
<i>Due within one year</i>		
Bonds and capital leases		476,235
<i>Due beyond one year:</i>		
Bonds and capital leases		<u>16,896,883</u>
TOTAL LIABILITIES		<u>20,554,608</u>

NET ASSETS

Invested in capital assets, net of related debt		4,796,885
<i>Restricted for:</i>		
Debt service		55,205
Capital projects		732,773
Other		272,708
Unrestricted		<u>1,529,430</u>
TOTAL NET ASSETS	\$	<u>7,387,001</u>

The accompanying notes are an integral part of these financial statements

SOUTH CONWAY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2004

	Program Revenues			
	Expenses	Charges for Services	Grants and Contributions	Changes in Net Assets
GOVERNMENTAL ACTIVITIES				
Instructional	\$ 9,559,538	\$ 129,054	\$ 1,710,549	\$ (7,719,936)
Support services	5,803,727		516,085	(5,287,643)
Community services	25,830		12,657	(13,173)
Activity expenditures	300,164		313,072	12,908
Food services	841,848	219,396	588,811	(33,641)
Interest expense	696,073			(696,073)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 17,227,180	\$ 348,450	\$ 3,141,173	(13,737,557)

GENERAL REVENUES

Property taxes	4,832,705
Unrestricted state aid	8,330,105
Interest earned on investments	116,991
TOTAL GENERAL REVENUES	13,279,801

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR *	7,844,757
NET ASSETS--END OF YEAR	\$ 7,387,001

* As re-stated, see note H

The accompanying notes are an integral part of these financial statements

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004**

	General Fund	Capital Projects Funds	Federal Programs	Food Service	Debt Service Fund	Total Governmental Funds
ASSETS						
Cash and investments	\$ 781,695	\$ 10,684,781	\$ 272,900	\$	\$	\$ 11,739,376
Restricted cash	29,675					29,675
Property taxes receivable, net	4,337,360					4,337,360
Due from other funds						0
	5,148,730	10,684,781	272,900	0	0	16,106,411
	\$ 5,148,730	\$ 10,684,781	\$ 272,900	\$ 0	\$ 0	\$ 16,106,411
TOTAL ASSETS						
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 133,020	\$ 193,727	\$	\$ 192	\$	\$ 326,939
Due to other funds						0
Deferred revenue	3,486,280					3,486,280
	3,619,300	193,727	0	192	0	3,813,219
	\$ 3,619,300	\$ 193,727	\$ 0	\$ 192	\$ 0	\$ 3,813,219
TOTAL LIABILITIES						
Fund balances:						
Reserved for:						
Capital projects		10,491,054				10,491,054
Unreserved:						
Designated			272,900	(192)	0	272,708
Undesignated, reported in:						
General fund	1,529,430					1,529,430
	1,529,430	10,491,054	272,900	(192)	0	12,293,192
	\$ 1,529,430	\$ 10,491,054	\$ 272,900	\$ (192)	\$ 0	\$ 12,293,192
TOTAL FUND BALANCES						
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,148,730	\$ 10,684,781	\$ 272,900	\$ 0	\$ 0	\$ 16,106,411
	\$ 5,148,730	\$ 10,684,781	\$ 272,900	\$ 0	\$ 0	\$ 16,106,411

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, 2004**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 12,293,192**

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

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 \$ 20,562,372 and the accumulated depreciation is \$ 9,408,861. 11,153,511

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. 686,934

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>(30,878)</u>	681,687

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	(17,373,118)	
	Accrued interest on the bonds	<u>(55,205)</u>	<u>(17,428,323)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 7,387,001**

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, 2004

	General Fund	Capital Projects Fund	Federal Programs	Food Service	Debt Service Fund	Total Governmental Funds
REVENUES						
Property taxes	\$ 4,329,718					\$ 4,329,718
Tuition charges	129,054					129,054
Interest	116,991					116,991
State revenues	8,638,853					8,638,853
Federal revenues			1,617,773	588,811		2,206,584
Food services				219,396		219,396
Activity receipts	313,072					313,072
Other	312,769					312,769
TOTAL REVENUES	13,840,457	0	1,617,773	808,207	0	16,266,437
EXPENDITURES						
<i>Current:</i>						
Regular programs	6,196,461		125,550			6,322,011
Special education	742,748		341,282			1,084,030
Workforce education	730,880		32,247			763,127
Compensatory education	130,244		556,690			686,934
Other instructional programs	307,182					307,182
Support services	4,777,757	285,077	500,322			5,563,156
Community services	12,489		12,270			24,759
Activity expenditures	300,164					300,164
Food services	82,747			724,205		806,952
<i>Debt service:</i>						
Principal					46,075	46,075
Interest					663,383	663,383
Paying agent's fees					1,681	1,681
<i>Capital lease:</i>						
Principal	10,374					10,374
Interest	2,583					2,583
<i>Capital outlay</i>	280,368					1,168,409
TOTAL EXPENDITURES	13,573,997	1,117,835	1,616,479	731,370	711,139	17,750,820
Excess (deficiency) of revenues over expenditures	266,460	(1,117,835)	1,294	76,837	(711,139)	(1,484,383)
OTHER FINANCING SOURCES (USES)						
Transfers in						726,403
Transfers out	(726,403)					(726,403)
TOTAL OTHER FINANCING SOURCES (USES)	(726,403)	0	716	14,548	711,139	0
NET CHANGE IN FUND BALANCES	(459,943)	(1,117,835)	2,010	91,385	0	(1,484,383)
FUND BALANCE—BEGINNING	1,989,373	11,608,889	270,890	(91,577)	0	13,777,575
FUND BALANCE—ENDING	\$ 1,529,430	\$ 10,491,054	\$ 272,900	\$ (192)	\$ 0	\$ 12,293,192

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, 2004**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (1,484,383)**

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	(672,792)	
Capital outlays	<u>1,168,409</u>	495,617

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. 502,987

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. 56,449

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 \$ 77 during the year. 77

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 **\$ (457,756)**

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, 2004**

ASSETS

Cash in bank	\$ <u>42,174</u>
TOTAL ASSETS	\$ <u>42,174</u>

LIABILITIES

Due to student groups	\$ <u>42,174</u>
TOTAL LIABILITIES	\$ <u>42,174</u>

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

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, 2004**

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. There were no individual federal program funds that were considered to be major funds.

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 and Capital Outlay Funds – The Capital Projects and Capital Outlay Funds are 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, 2004**

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.

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, 2004**

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 \$500 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, 2004**

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

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 10th 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, 2004**

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, 2004, deferred revenues in the Balance Sheet – Governmental Funds are recorded as \$ 3,486,280 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, 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 \$ 4,809,262 and \$ 3,784,959 net of an allowance for uncollectible accounts of \$ 471,902 and \$ 388,556, for a net receivable of \$ 4,337,360 and \$ 3,396,403 as of June 30, 2004 and 2003 respectively.

NOTE C – CASH AND INVESTMENTS

Restricted cash represents sinking fund requirements of the QZAB obligation (see Note E). The District’s investments as of June 30, 2004, are classified in the following categories of custodial credit risk:

Category 1 - Insured, registered, or collateralized, with securities or collateral held by the District or its agent in the District’s name.

Category 2 - Uninsured and unregistered, with securities or collateral held by the counter party’s trust department or agent in the District’s name.

Category 3 - Uninsured, unregistered, or uncollateralized, with securities or collateral held by the counter party, or by its trust department or agent, but not in the District’s name.

	Category			Total Carrying Amount
	1	2	3	
Repurchase agreements	\$	\$	\$ 11,739,376	\$ 11,739,376
TOTAL	\$	\$	\$ 11,739,376	\$ 11,739,376

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE D – CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2004 were as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<i>Nondepreciable assets:</i>				
Land	\$ 704,000	\$	\$	\$ 704,000
Construction in progress		784,708		784,708
Total nondepreciable cost	704,000	784,708		1,488,708
<i>Capital assets that are depreciated:</i>				
Buildings and improvements	15,502,898	48,050		15,550,948
Furniture and equipment	3,698,420	335,651	511,355	3,522,716
Total depreciable cost	19,201,318	383,701	511,355	19,073,664
<i>Less accumulated depreciation:</i>				
Buildings and improvements	6,926,566	299,779		7,226,345
Furniture and equipment	2,022,227	373,013	212,724	2,182,516
Total accumulated depreciation	8,948,793	672,792	212,724	9,408,861
Total depreciable cost, net	10,252,525	(289,091)	298,631	9,664,803
CAPITAL ASSETS, NET	\$ 10,956,525	\$ 495,617	\$ 298,631	\$ 11,153,511

*

DEPRECIATION IS CHARGED TO FUNCTIONS AS FOLLOWS:

Regular programs	\$ 278,228	* See Note H
Special education	47,717	
Workforce education	33,893	
Compensatory education	30,238	
Other instructional programs	13,522	
Support services	232,584	
Community services	1,090	
Food services	35,520	
TOTAL	\$ 672,792	

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE E – LONG-TERM LIABILITIES

A summary of long-term liabilities is as follows:

<u>Description</u>	<u>Balance at 7/1/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>	<u>Due Within One Year</u>
<i>Construction and Refunding Bonds:</i>					
Series A – 6/1/03, 2.0%-2.4%	791,075	--	(46,075)	745,000	465,000
Series B – 6/1/03, 2.0%-4.5%	16,345,000	--	--	16,345,000	--
	<u>17,136,075</u>	<u>--</u>	<u>(46,075)</u>	<u>17,090,000</u>	<u>465,000</u>
<i>Qualified Zone Academy Bonds:</i>					
QZAB payable 10/15/12, interest imputed at 3.0%	325,176	--	--	325,176	--
Less: unamortized discount	<u>(76,977)</u>	<u>8,321</u>	<u>--</u>	<u>(68,656)</u>	<u>--</u>
	<u>248,199</u>	<u>8,321</u>	<u>--</u>	<u>256,520</u>	<u>--</u>
<i>Other Long-term debt:</i>					
Capital leases	<u>36,972</u>	<u>--</u>	<u>(10,374)</u>	<u>26,598</u>	<u>11,235</u>
Total Long-Term Liabilities	\$ <u>17,421,246</u>	\$ <u>8,321</u>	\$ <u>(56,449)</u>	\$ <u>17,373,118</u>	\$ <u>476,235</u>

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

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 \$ 256,520 at June 30, 2004. 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, 2004**

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, 2004 are as follows:

Year Ended	Principal	Interest
<u>June 30</u>		
2005	\$ 476,235	\$ 664,183
2006	487,167	653,021
2007	488,196	641,514
2008	495,000	631,771
2009	510,000	620,138
2010 - 2014	3,150,176	2,855,680
2015 - 2019	3,415,000	2,280,080
2020 - 2024	4,240,000	1,516,481
2025 - 2028	4,180,000	481,500
	<u>17,441,774</u>	<u>10,344,368</u>
Unamortized discount on QZABs	(68,656)	68,656
	<u>\$ 17,373,118</u>	<u>\$ 10,413,024</u>

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

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 12% 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, 2004, 2003 and 2002 were approximately \$ 333,509, \$ 388,600 and \$ 370,636 respectively, and are equal to the required contributions for each year. Contributions by the District to the APERS for the years ended June 30, 2004, 2003 and 2002 were approximately \$ 6,156, \$ 6,059 and \$ 5,641 respectively, and are equal to the required contributions for each year.

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 – PRIOR PERIOD ADJUSTMENT

The State of Arkansas mandated that the threshold for capitalizing fixed assets be changed from \$ 500 to \$ 1,000 for uniformity in reporting effective July 1, 2003. Accordingly, those fixed assets between \$ 500 and \$ 999 were removed from the books as of that date. They had a cost of \$ 511,355 and accumulated depreciation of \$ 212,724 for a net difference of \$ 298,631. Beginning total net assets were therefore reduced from \$ 8,143,388 to \$ 7,844,757.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE I – 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 J – CONSTRUCTION COMMITMENTS

At June 30, 2004, the District had several construction projects in various stages of completion. Unfulfilled contract commitments of \$ 732,773 remained open on the projects still in progress at June 30, 2004.


REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts	Actual (GAAP)	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 4,863,330	4,329,718	\$ (533,612)
Tuition charges	230,000	129,054	(100,946)
Interest	78,000	116,991	38,991
State revenues	8,572,368	8,638,853	66,485
Activity receipts	0	313,072	313,072
Other	229,708	312,769	83,061
TOTAL REVENUES	13,973,406	13,840,457	(132,949)
EXPENDITURES			
Current:			
Regular programs	6,426,324	6,196,461	229,863
Special education	781,872	742,748	39,124
Workforce education	704,051	730,880	(26,829)
Compensatory education	137,293	130,244	7,049
Other instructional programs	293,770	307,182	(13,412)
Support services	4,897,821	4,777,757	120,064
Community services	3,281	12,489	(9,208)
Activity expenditures	0	300,164	(300,164)
Food services	90,815	82,747	8,068
Capital outlay and leases	393,431	293,325	100,106
TOTAL EXPENDITURES	13,728,658	13,573,997	154,661
Excess (deficiency) of revenues over expenditures	244,748	266,460	21,712
OTHER FINANCING SOURCES (USES)			
Transfers	(646,772)	(726,403)	(79,631)
NET CHANGE IN FUND BALANCE	\$ (402,024)	\$ (459,943)	\$ (57,919)

See Independent Auditor's Report

OTHER REPORTS AND SUPPLEMENTARY INFORMATION



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**REPORT ON COMPLIANCE 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, 2004, and have issued our report thereon dated December 9, 2005. 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

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 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 over financial reporting that might be a material weakness. A

To the Board of Education
Page Two

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 misstatements 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.

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.

Doug Dobbs, CPA, P.A.

Doug Dobbs, CPA, P.A.

Little Rock, Arkansas

December 9, 2005



Doug Dobbs, CPA, P.A.

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND 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, 2004. 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, 2004.

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
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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 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.

Doug Dobbs, CPA, P.A.

Doug Dobbs, CPA, P.A.

Little Rock, Arkansas

December 9, 2005

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF EDUCATION		
21 st Century Learning Grant	84.287A	131,792
REAP Small Rural School Achievement Program	84.000	2,332
<u>Passed Through Arkansas Department of Education</u>		
Title I - Part A - Grants to Local Education Agencies	84.010	557,721
Special Education – Grants to States	84.027	544,994
Title V	84.151	23,871
Safe and Drug Free Schools and Communities	84.186A	8,105
Education Technology State Grant	84.318	15,756
Improving Teacher Quality	84.000	159,129
Sliver Grant	84.000	24,967
Carl Perkins – Special Needs	84.000	49,029
IDEA Resource Grant	84.000	886
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>1,518,582</u>
U.S. DEPARTMENT OF AGRICULTURE		
<u>Passed Through Arkansas Department of Education</u>		
School Breakfast Program (100,406 units served) and	10.553	120,175
National School Lunch Program (266,184 units served)	10.555	403,437
<u>Passed Through Arkansas Department of Human Services</u>		
National School Lunch Program – Commodities	10.555	48,985

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE (CONTINUED)		
<u>Passed Through Arkansas Department of Human Services</u>		
Child and Adult Care Food Program (12,605 snacks served)	10.558	\$ <u>7,563</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u>2,098,742</u>

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 \$ 64,591 are not covered by the reporting requirements of OMB Circular A-133.

**SOUTH CONWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

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

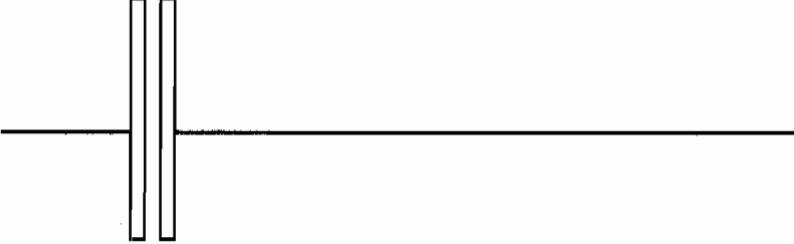
No reportable conditions

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, 2003.



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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 December 9, 2005, 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, 2004. 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, 2004, 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
December 9, 2005