

Dermott Special School District
Chicot County, Arkansas

**General Purpose Financial Statements
and Other Reports**
June 30, 2003



DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
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JUNE 30, 2003

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Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
Senate Co-Vice Chair
Rep. David Evans
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Dermott Special School District and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements of the Dermott Special School District (the "District"), as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of district management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2003, and the results of its operations 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 April 14, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents, including the schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
April 14, 2004
EDSD04103

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
Senate Co-Vice Chair
Rep. David Evans
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

COMBINED REPORT(S) ON COMPLIANCE, INTERNAL CONTROLS AND OTHER MATTERS

Dermott Special School District and School Board Members
Legislative Joint Auditing Committee

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of the Dermott Special School District. This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), the United States Office of Management and Budget (OMB), the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. Section I of this letter is designed to satisfy certain requirements for compliance and internal control over financial reporting, whereas, Section II is designed to satisfy certain requirements for compliance requirements applicable to each major federal award program and internal control over compliance in accordance with OMB Circular A-133.

SECTION I: REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general purpose financial statements of the Dermott Special School District (the "District"), as of and for the year ended June 30, 2003, and have issued our report thereon dated April 14, 2004. We conducted our audit in accordance with 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 general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, and federal 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 general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

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 misstatements in amounts that would be material in relation to the general purpose 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding number 1 below to be a material weakness. Other matters involving compliance and/or internal control were reported to School District management in a separate letter.

AUDIT FINDINGS

Reportable Condition(s)

1. The District had inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel.

As a management service, we would like to bring to your attention the following compliance and/or internal control matters that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and achieve adequate internal controls. These matters were discussed previously with district officials during the course of our audit fieldwork and at the exit conference.

2. The examination of fixed assets disclosed the District was not properly maintaining and reconciling the equipment subsidiary ledger. The following are the findings that were noted:
 - a. Purchases in the amount of \$20,475 were not posted to the equipment subsidiary ledger. The items not recorded were ten (10) computers and computer tables and a digital camera.
 - b. The equipment observation sample disclosed that four (4) of twenty-five (25) items could not be located. The total of these items was \$4,395.
 - c. The subsidiary ledger was overstated by \$49,244 as a result of the duplicate posting of 47 computers.
 - d. There were three (3) computers posted to the subsidiary ledger in the amount of \$3,186 that could not be traced to a specific purchase.
 - e. Four (4) items were purchased and incorrectly coded as equipment and posted to the subsidiary ledger in the amount of \$4,908. These items consisted of replacement air conditioner units and vehicle replacement parts. These items should have been given a repair and maintenance expenditure code.
 - f. Twenty-four (24) purchases were for supply items totaling \$9,255 that were incorrectly coded as equipment.

SECTION II: REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Dermott Special School District (the "District") with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs - 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 the District's compliance based on our audit.

We conducted our audit of compliance in accordance with 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 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, 2003.

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 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 requirements 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.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
April 14, 2004

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2003

Exhibit A

	Governmental Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long- Term Debt	
ASSETS						
Cash	\$ 1,383,803	\$ 184,394	\$ 16,982			\$ 1,585,179
Investments	206,223					206,223
Accounts receivable	13,022	2,534				15,556
Due from other funds		315				315
Land				\$ 303,723		303,723
Buildings				4,245,175		4,245,175
Improvements other than buildings				262,341		262,341
Equipment				1,779,008		1,779,008
Amount to be provided for retirement of general long-term debt					\$ 2,769,812	2,769,812
TOTAL ASSETS	\$ 1,603,048	\$ 187,243	\$ 16,982	\$ 6,590,247	\$ 2,769,812	\$ 11,167,332
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 12,779					\$ 12,779
Due student groups			\$ 16,982			16,982
Due to other funds	315					315
Bonds payable					\$ 2,665,000	\$ 2,665,000
Capital leases					104,812	104,812
Total Liabilities	\$ 13,094		\$ 16,982		2,769,812	2,799,888

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2003

Exhibit A

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long- Term Debt</u>	
LIABILITIES AND FUND EQUITY (CONTINUED)						
Fund Equity:						
Investment in general fixed assets				\$ 6,590,247		\$ 6,590,247
Fund balances:						
Reserved:						
Unreserved:						
Undesignated	\$ 1,589,954	\$ 187,243				1,777,197
Total Fund Equity	<u>1,589,954</u>	<u>187,243</u>		<u>6,590,247</u>		<u>8,367,444</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 1,603,048</u>	 <u>\$ 187,243</u>	 <u>\$ 16,982</u>	 <u>\$ 6,590,247</u>	 <u>\$ 2,769,812</u>	 <u>\$ 11,167,332</u>

The accompanying notes are an integral part of these financial statements.

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2003

Exhibit B

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Expendable Trust	
REVENUES					
Property taxes	\$ 774,846				\$ 774,846
State assistance	3,662,440	\$ 3,918			3,666,358
Federal assistance		1,167,625			1,167,625
Activity revenues	33,180				33,180
Meal sales		24,915			24,915
Interest on investments	31,306	303			31,609
Other revenues	80,922	23,995		\$ 1,000	105,917
TOTAL REVENUES	4,582,694	1,220,756		1,000	5,804,450
EXPENDITURES					
Regular programs	1,563,533	128,965			1,692,498
Special education	287,162	36,698			323,860
Workforce education	85,937				85,937
Adult education	263,370				263,370
Compensatory education		397,790			397,790
Other instructional programs	38,814				38,814
Support services	1,785,853	709,044			2,494,897
Community services		2,602			2,602
Non-programmed costs	18,876	6,469			25,345
Activity expenditures	33,298				33,298
Debt service:					
Principal retirement	48,087		\$ 70,180		118,267
Interest and fiscal charges	8,286		138,186		146,472
Scholarships awarded				2,000	2,000
TOTAL EXPENDITURES	4,133,216	1,281,568	208,366	2,000	5,625,150
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	449,478	(60,812)	(208,366)	(1,000)	179,300

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2003

Exhibit B

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Expendable Trust	
OTHER FINANCING SOURCES (USES)					
Transfers in			\$ 208,366		\$ 208,366
Transfers out	\$ (208,366)				(208,366)
TOTAL OTHER FINANCING SOURCES (USES)	(208,366)		208,366		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	241,112	\$ (60,812)		\$ (1,000)	179,300
FUND BALANCES - JULY 1	1,348,842	248,055		1,000	1,597,897
FUND BALANCES - JUNE 30	\$ 1,589,954	\$ 187,243	\$ 0	\$ 0	\$ 1,777,197

The accompanying notes are an integral part of these financial statements.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

Exhibit C

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Property taxes	\$ 694,000	\$ 774,846	\$ 80,846				\$ 694,000	\$ 774,846	\$ 80,846
State assistance	3,686,418	3,662,440	(23,978)		\$ 3,918	\$ 3,918	3,686,418	3,666,358	(20,060)
Federal assistance				\$ 1,171,531	1,167,625	(3,906)	1,171,531	1,167,625	(3,906)
Activity revenues		33,180	33,180					33,180	33,180
Meal sales					24,915	24,915		24,915	24,915
Interest on investments	34,800	31,306	(3,494)		303	303	34,800	31,609	(3,191)
Other revenues	38,455	80,922	42,467		23,995	23,995	38,455	104,917	66,462
TOTAL REVENUES	4,453,673	4,582,694	129,021	1,171,531	1,220,756	49,225	5,625,204	5,803,450	178,246
EXPENDITURES									
Regular programs	1,662,878	1,563,533	99,345	228,123	128,965	99,158	1,891,001	1,692,498	198,503
Special education	253,432	287,162	(33,730)	40,000	36,698	3,302	293,432	323,860	(30,428)
Workforce education	91,310	85,937	5,373				91,310	85,937	5,373
Adult education	295,129	263,370	31,759				295,129	263,370	31,759
Compensatory education				427,335	397,790	29,545	427,335	397,790	29,545
Other instructional programs	96,779	38,814	57,965	2,414		2,414	99,193	38,814	60,379
Support services	1,830,823	1,785,853	44,970	576,852	709,044	(132,192)	2,407,675	2,494,897	(87,222)
Community services				1,500	2,602	(1,102)	1,500		(1,102)
Non-programmed costs	13,500	18,876	(5,376)	1,735	6,469	(4,734)	15,235	25,345	(10,110)
Activity expenditures		33,298	(33,298)					33,298	(33,298)
Debt service:									
Principal retirement	49,325	48,087	1,238				49,325	48,087	1,238
Interest and fiscal charges	7,048	8,286	(1,238)				7,048	8,286	(1,238)
TOTAL EXPENDITURES	4,300,224	4,133,216	167,008	1,277,959	1,281,568	(3,609)	5,578,183	5,414,784	163,399
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	153,449	449,478	296,029	(106,428)	(60,812)	45,616	47,021	388,666	341,645
OTHER FINANCING SOURCES (USES)									
Transfers out	(2,183,588)	(208,366)	1,975,222				(2,183,588)	(208,366)	1,975,222
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(2,030,139)	241,112	2,271,251	(106,428)	(60,812)	45,616	(2,136,567)	180,300	2,316,867
FUND BALANCES - JULY 1	1,339,470	1,348,842	9,372	160,529	248,055	87,526	1,499,999	1,596,897	96,898
FUND BALANCES - JUNE 30	\$ (690,669)	\$ 1,589,954	\$ 2,280,623	\$ 54,101	\$ 187,243	\$ 133,142	\$ (636,568)	\$ 1,777,197	\$ 2,413,765

The accompanying notes are an integral part of these financial statements.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Board of Education, a six (6) member group, is the level of government which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Dermott Special School District (District). The District's financial statements reflect all funds and accounts directly under the control of the District. There are no component units.

B. Basis of Presentation - Fund Accounting

The accounts are maintained in accordance with the principles of fund accounting. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The following types of funds and account groups are recognized in the accompanying financial statements.

Governmental Funds

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the entity in a trustee capacity or as an agent for individuals, other governmental units, and other funds. These include Expendable Trust Funds and Agency Funds.

Account Groups

General Fixed Assets - to account for all fixed assets of the entity.

General Long-term Debt - to account for all long-term debt of the entity.

C. Basis of Accounting

All governmental funds, expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are generally recognized when the related fund liability is incurred. Exceptions include: (1) unmatured principal and interest on general long-term debt which is recognized when due; and (2) prepaid expenses, which are not recorded.

D. General Fixed Assets

General fixed assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Such assets are reported at cost or estimated historical cost, if actual data is not available, in the general fixed assets account group. Donated fixed assets are reported at fair market value when received in the general fixed assets account group. Library holdings and textbooks are not capitalized. In accordance with generally accepted accounting principles applicable to governmental entities, no provision for depreciation is reported.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year.

F. Investments

Investments consist of certificates of deposit classified as nonparticipating contracts and are reported at cost.

G. Inventories

Inventories are considered expenditures when purchased.

H. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

I. Liability for Compensated Absences

The accompanying financial statements do not include a liability for compensated absences as the amount is not material.

J. Fund Equity

Fund Balance - Undesignated fund balance indicates that portion of fund equity not reserved or designated.

K. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of school districts employ the cash basis method.

L. Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods or services. The District does not record encumbrances in its accounting system and none are reported in the accompanying financial statements.

NOTE 2: Budget Versus Actual

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Governmental Fund Types (Exhibit C) includes revenues and expenditures of the activity funds, which are not budgeted by the District.

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2003

NOTE 3: Public Fund Deposits

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 136,036	\$ 142,919
Uninsured, Collateralized	1,448,328	1,627,602
Total Deposits	\$ 1,584,364	\$ 1,770,521

The above total deposits do not include cash in the amount of \$742 which was held in the County Treasury and cash on hand in the amount of \$73.

NOTE 4: Public Fund Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of deposit	\$ 206,223	\$ 0	\$ 0	\$ 206,223	\$ 206,223

NOTE 5: Changes in General Fixed Assets

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land	\$ 303,723			\$ 303,723
Buildings	4,193,533	\$ 51,642		4,245,175
Improvements other than buildings	262,341			262,341
Equipment	1,678,776	170,866	\$ 70,634	1,779,008
Totals	\$ 6,438,373	\$ 222,508	\$ 70,634	\$ 6,590,247

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6: Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2003	Maturities To June 30, 2003
09/01/01	06/01/23	4.45 to 5.3%	\$ 2,735,180	\$ 2,665,000	\$ 70,180
07/29/99	07/29/04	7.04%	142,306	35,204	107,103
11/30/01	11/30/06	5.85%	97,451	69,608	27,842
Totals			<u>\$ 2,974,937</u>	<u>\$ 2,769,812</u>	<u>\$ 205,125</u>

NOTE 7: Changes in Long-term Debt

	Balance July 1, 2002	Issued	Retired	Balance June 30, 2003
Bonds payable	\$ 2,735,180		\$ 70,180	\$ 2,665,000
Capital leases	152,899		48,087	104,812
Totals	<u>\$ 2,888,079</u>	<u>\$ 0</u>	<u>\$ 118,267</u>	<u>\$ 2,769,812</u>

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

Year Ended June 30,	Principal	Interest	Total
2004	\$ 131,357	\$ 139,628	\$ 270,985
2005	112,901	133,458	246,359
2006	121,304	128,185	249,489
2007	109,250	122,598	231,848
2008	100,000	117,863	217,863
To Maturity	<u>2,195,000</u>	<u>1,037,098</u>	<u>3,232,098</u>
Totals	<u>\$ 2,769,812</u>	<u>\$ 1,678,830</u>	<u>\$ 4,448,642</u>

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2003

NOTE 8: Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2003
Definity G3 system	\$ 142,307
Four (4) copiers and two (2) duplicators	97,451
Total	\$ 239,758
	June 30, 2003
Total Minimum Lease Payments	\$ 113,632
Less: Amount Representing Interest	8,820
Total Present Value of Net Minimum Lease Payments	\$ 104,812

NOTE 9: Retirement Plans

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 12%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$256,183, \$268,327 and \$347,840, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$48,101, \$41,276 and \$14,918, respectively, equal to the required contributions for each year.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 9: Retirement Plans (Continued)

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteaching Arkansas public school employees hired before July 1, 1989. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2003, 2002 and 2001 were \$996, \$929 and \$1,796, respectively, equal to the required contributions for each year.

NOTE 10: Subsequent Events

On December 1, 2003, \$2,865,000 in refunding bonds were issued.

NOTE 11: Pending Litigation

A former employee filed a complaint involving alleged violations of wage and hour law under the Fair Labor Standards Act claiming that he has not been properly compensated for overtime work with the District. The trial is set for October 12, 2004.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 1

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	09-01	\$ 95,407
National School Lunch Program	10.555	09-01-000	219,606
Total State Department of Education			315,013
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	09-01	19,574
TOTAL CHILD NUTRITION CLUSTER			334,587
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	09-01	624,980
Special Education - Grants to States	84.027	09-01	59,559
Safe and Drug-Free Schools and Communities - State Grants	84.186	09-01	22,576
Innovative Education Program Strategies	84.298	09-01	5,496
Even Start-Statewide Family Literacy	84.314	09-01	73,366
Education Technology State Grants	84.318	09-01	24,295
Class Size Reduction	84.340	09-01	4,740
Improving Teacher Quality State Grants	84.367	09-01	49,656
Total U. S. Department of Education			864,668
<u>National Science Foundation</u>			
Passed Through University of Arkansas at Pine Bluff			
Education and Human Resources	47.076	(Note 3)	8,658
<u>U.S. Department of Health and Human Services</u>			
Passed through State Department of Human Services:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	09-01	200
TOTAL OTHER PROGRAMS			873,526
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,208,113

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Dermott Special School 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 presentation of, the basic financial statements.

Note 2: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.

Note 3: An agency or pass-through number was not available.

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 FEDERAL AWARD PROGRAMS -
 FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2003

Schedule 2

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Numbers	Name of Federal Programs or Cluster
10.553 / 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000

Auditee qualified as low-risk auditee? yes no

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 2

SECTION II - FINANCIAL STATEMENT FINDINGS

2003-1. Segregation of Duties

Specific Requirement - Duties pertaining to cash transactions should be adequately segregated to reduce the opportunities for any individual in the normal course of his/her duties to both perpetuate and conceal errors or irregularities.

Condition - Duties pertaining to cash transactions were not adequately segregated. This condition could be applicable to the District's federal programs.

Effect - The District had inadequate control over cash transactions.

Cause - Duties pertaining to cash transactions were not adequately segregated due to a limited number of personnel.

Recommendation - Segregation of duties relating to cash transactions should be established to the extent possible.

Response - We concur with the recommendation.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings and questioned costs noted.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 3

There were no findings in the prior audit.