

# **Dermott Special School District**

**Chicot County, Arkansas**

## **Regulatory Basis Financial Statements and Other Reports**

**June 30, 2004**



DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
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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. Sandra Prater  
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 financial statements of each major governmental fund and the aggregate remaining fund information of the Dermott Special School District (the "District"), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described more fully in Note 1, the District has prepared the financial statements using accounting practices prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2004, or the changes in financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Federal Award Programs - Findings and Questioned Costs (Schedule 3) and Federal Award Programs - Summary of Prior Audit Findings (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Expenditures of Federal Awards (Schedule 2), Federal Award Programs - Findings and Questioned Costs (Schedule 3) and Federal Award Programs - Summary of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

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  
September 21, 2005  
EDSD04104

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. Sandra Prater  
House Co-Vice Chair

# Arkansas



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Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Dermott Special School District (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated September 21, 2005. 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. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

#### 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 opinions on the regulatory basis financial statements and not to provide an opinion 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 initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs as item numbers 2004-1 and 2004-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the regulatory basis 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 numbers 2004-1 and 2004-2 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs to be material weaknesses.

Arkansas Code requires we comment on certain matters as follows. These matters are also shown in the accompanying Schedule of Federal Award Programs - Findings and Questioned Costs as item number 2004-2.

State law requires public school funds be used for educational purposes. For the period October 1, 2001 through June 30, 2005, we noted District funds of \$3,487 were improperly disbursed for country club membership dues on behalf of Superintendent Dennis Meins. We recommend these funds be reimbursed to the District.

#### Compliance and Other Matters

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

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
September 21, 2005

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

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

#### Compliance

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

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

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

*William R. Baum*

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
September 21, 2005

Sen. Henry "Hank" Wilkins, IV  
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# Arkansas



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Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### MANAGEMENT LETTER

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

As a management service, we would like to bring to your attention the following other items 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.

1. Our examination of capital assets disclosed the following:

- A. As reported in the previous fiscal year, purchases in the amount of \$17,832 were still not posted to the equipment subsidiary ledger. The items not recorded were ten (10) computers and computer tables.
- B. Forty-seven (47) items totaling \$42,326 were incorrectly added to the equipment subsidiary ledger with a cost of less than \$1,000, which is not in compliance with the Department of Education's *Guide for a Minimum Property Accounting System*. These items consisted of forty-five (45) computers, one (1) printer, and one (1) camera.
- C. Six supply items in the amount of \$2,530 were incorrectly classified as equipment within the general ledger. Four (4) of these items were also improperly added to the equipment subsidiary ledger.
- D. The equipment observation sample disclosed that two (2) of twenty (20) items could not be located. These items were two (2) servers with a total cost of \$7,484.
- E. The sales tax for five (5) computer servers and part of the cost of one (1) computer totaling \$2,313 was improperly classified as supplies within the general ledger.
- F. The District did not provide documentation explaining the disposal of two (2) computers and one (1) server. These assets had a total cost of \$10,656.

2. The District paid undocumented credit card charges totaling \$2,888. Without adequate supporting documentation, we were unable to determine the business purpose of these charges. District management has stated these disbursements were for legitimate District purposes.

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

*William R. Baum*

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
September 21, 2005

DERMOTT SPECIAL SCHOOL DISTRICT  
 CHICOT COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2004

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 1,239,547	\$ 166,713	\$ 3,717	\$ 17,943
Investments	311,092			
Accounts receivable		32,208		
Property taxes receivable	35,090			
<b>TOTAL ASSETS</b>	<b>\$ 1,585,729</b>	<b>\$ 198,921</b>	<b>\$ 3,717</b>	<b>\$ 17,943</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 46,609	\$ 6,245		
Due student groups				\$ 17,943
<b>Total Liabilities</b>	<b>46,609</b>	<b>6,245</b>		<b>17,943</b>
Fund Balances:				
Unreserved:				
Undesignated	1,539,120	192,676	\$ 3,717	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,585,729</b>	<b>\$ 198,921</b>	<b>\$ 3,717</b>	<b>\$ 17,943</b>

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

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes	\$ 841,708		
Property tax relief trust distribution	130,403		
State assistance	3,273,432	\$ 3,703	
Federal assistance		1,328,136	
Activity revenues	25,971		
Meal sales		26,079	
Investment income	23,313	14	\$ 7,265
Other revenues	92,615	13,779	
<b>TOTAL REVENUES</b>	<b>4,387,442</b>	<b>1,371,711</b>	<b>7,265</b>
EXPENDITURES			
Regular programs	1,658,938	187,397	
Special education	257,649	128,102	
Workforce education	89,770		
Adult education	276,772		
Compensatory education		340,835	
Other instructional programs	33,223		
Student support services	351,661	16,670	
Instructional staff support services	192,360	99,172	
General administration support services	207,841	60,376	
School administration support services	277,806		
Business support services	55,038		
Operation and maintenance of plant services	416,738	196	
Student transportation services	161,157	11,727	
Central support services	87,342	31,095	
Other support services	10,691	11,115	
Food services operations		380,264	
Community services		1,153	
Non-programmed costs	2,925	15,621	
Activity expenditures	23,719		
Capital outlay	77,250	82,555	
Debt service:			
Principal retirement	51,357		
Interest and fiscal charges	5,015		127,451
<b>TOTAL EXPENDITURES</b>	<b>4,237,252</b>	<b>1,366,278</b>	<b>127,451</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>150,190</b>	<b>5,433</b>	<b>(120,186)</b>
OTHER FINANCING SOURCES (USES)			
Transfers in			201,024
Transfers out	(201,024)		
Proceeds from refunding bond issue			2,865,000
Payment to refund bond escrow agent			(2,866,736)
Net bond issue cost			(75,385)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(201,024)</b>		<b>123,903</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(50,834)</b>	<b>5,433</b>	<b>3,717</b>
FUND BALANCES - JULY 1	1,589,954	187,243	
FUND BALANCES - JUNE 30	\$ 1,539,120	\$ 192,676	\$ 3,717

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

DERMOTT SPECIAL SCHOOL DISTRICT  
 CHICOT COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$ 649,000	\$ 841,708	\$ 192,708			
Property tax relief trust distribution	125,444	130,403	4,959			
State assistance	3,229,750	3,273,432	43,682		\$ 3,703	\$ 3,703
Federal assistance				\$ 1,289,302	1,328,136	38,834
Activity revenues		25,971	25,971			
Meal sales				22,500	26,079	3,579
Investment income	27,500	23,313	(4,187)		14	14
Other revenues	38,200	92,615	54,415		13,779	13,779
<b>TOTAL REVENUES</b>	<b>4,069,894</b>	<b>4,387,442</b>	<b>317,548</b>	<b>1,311,802</b>	<b>1,371,711</b>	<b>59,909</b>
EXPENDITURES						
Regular programs	1,728,686	1,658,938	69,748	123,737	187,397	(63,660)
Special education	291,117	257,649	33,468	76,250	128,102	(51,852)
Workforce education	89,488	89,770	(282)			
Adult education	286,434	276,772	9,662			
Compensatory education				419,047	340,835	78,212
Other instructional programs	39,711	33,223	6,488			
Student support services	369,845	351,661	18,184	72,120	16,670	55,450
Instructional staff support services	183,409	192,360	(8,951)	224,790	99,172	125,618
General administration support services	203,775	207,841	(4,066)	63,654	60,376	3,278
School administration support services	276,835	277,806	(971)			
Business support services	56,249	55,038	1,211			
Operation and maintenance of plant services	487,647	416,738	70,909	700	196	504
Student transportation services	217,554	161,157	56,397	7,300	11,727	(4,427)
Central supplies services	75,110	87,342	(12,232)	33,500	31,095	2,405
Other support services	14,700	10,691	4,009	31,400	11,115	20,285
Food services operations				335,000	380,264	(45,264)
Community services				1,500	1,153	347
Non-programmed costs	56,373	2,925	53,448	13,130	15,621	(2,491)
Activity expenditures		23,719	(23,719)			
Capital outlay	50,446	77,250	(26,804)	22,100	82,555	(60,455)
Debt service:						
Principal retirement		51,357	(51,357)			
Interest and fiscal charges		5,015	(5,015)			
<b>TOTAL EXPENDITURES</b>	<b>4,427,379</b>	<b>4,237,252</b>	<b>190,127</b>	<b>1,424,228</b>	<b>1,366,278</b>	<b>57,950</b>

DERMOTT SPECIAL SCHOOL DISTRICT  
 CHICOT COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (357,485)	\$ 150,190	\$ 507,675	\$ (112,426)	\$ 5,433	\$ 117,859
OTHER FINANCING SOURCES (USES)						
Transfers in	1,984,623		(1,984,623)			
Transfers out	(2,120,063)	(201,024)	1,919,039			
TOTAL OTHER FINANCING SOURCES (USES)	(135,440)	(201,024)	(65,584)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(492,925)	(50,834)	442,091	(112,426)	5,433	117,859
FUND BALANCES - JULY 1	1,580,326	1,589,954	9,628	134,555	187,243	52,688
FUND BALANCES - JUNE 30	\$ 1,087,401	\$ 1,539,120	\$ 451,719	\$ 22,129	\$ 192,676	\$ 170,547

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

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**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. There are no component units.

B. Description of Funds

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

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

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Other governmental funds consist of the following:

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

Fiduciary Fund types include the following:

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

Private-purpose Trust Funds - Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an *Other Comprehensive Basis of Accounting* (OCBOA). This basis of accounting is prescribed by Arkansas Code Annotated §10-4-412(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

DERMOTT SPECIAL SCHOOL DISTRICT  
 CHICOT COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2004

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes that are due at the end of the fiscal year and collected within 60 days are accrued. Deferred property taxes are not recognized.

G. Fund Balance Designations

Undesignated fund balance indicates that portion of the fund balance not reserved or designated.

H. 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 District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Regulatory Basis.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 135,666	\$ 135,666
Uninsured, Collateralized	1,292,186	1,568,529
Total Deposits	\$ 1,427,852	\$ 1,704,195

The above total deposits do not include cash on hand in the amount of \$68.

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**3: INVESTMENTS**

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

<u>Type of Investment</u>	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of deposit	<u>\$ 311,092</u>	<u>\$ 311,092</u>	<u>\$ 311,092</u>

**4: RECEIVABLES**

The receivables of \$67,298 at June 30, 2004, are as follows:

<u>Class of Receivable</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Taxes:			
Local	\$ 35,090		\$ 35,090
Accounts		<u>\$ 32,208</u>	<u>32,208</u>
Totals	<u>\$ 35,090</u>	<u>\$ 32,208</u>	<u>\$ 67,298</u>

**5: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2004:

Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2004</u>	<u>Maturities To June 30, 2004</u>
12/1/2003	6/1/2028	2.55-4.75%	\$ 2,865,000	\$ 2,865,000	
7/29/1999	7/29/2004	7.04%	142,306	2,804	\$ 139,502
11/30/2001	11/30/2006	5.85%	97,451	50,651	46,800
Totals			<u>\$ 3,104,757</u>	<u>\$ 2,918,455</u>	<u>\$ 186,302</u>

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**5: COMMITMENTS (Continued)**

Changes in Long-term Debt

	Balance July 1, 2003	Issued	Retired	Balance June 30, 2004
Bonds payable	\$ 2,665,000	\$ 2,865,000	\$ 2,665,000 *	\$ 2,865,000
Capital lease	104,812		51,357	53,455
<b>Totals</b>	<b>\$ 2,769,812</b>	<b>\$ 2,865,000</b>	<b>\$ 2,716,357</b>	<b>\$ 2,918,455</b>

\* Includes \$2,665,000 early retirement of debt - See Note 7.

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

Year Ended June 30,	Principal	Interest	Total
2005	\$ 87,901	\$ 121,234	\$ 209,135
2006	96,304	118,442	214,746
2007	89,250	115,443	204,693
2008	80,000	112,828	192,828
2009	85,000	110,348	195,348
2010-2014	475,000	501,388	976,388
2015-2019	575,000	404,113	979,113
2020-2024	725,000	266,975	991,975
2025-2028	705,000	84,748	789,748
<b>Totals</b>	<b>\$ 2,918,455</b>	<b>\$ 1,835,519</b>	<b>\$ 4,753,974</b>

Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2004
Technology Equipment and Telephone System	\$ 142,307
Four (4) copiers and two (2) duplicators	97,451
<b>Total</b>	<b>\$ 239,758</b>

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**5: COMMITMENTS (Continued)**

Capital Leases (Continued)

	June 30, 2004
Total Minimum Lease Payments	\$ 57,259
Less: Amount Representing Interest	3,804
Total Present Value of Net Minimum Lease Payments	\$ 53,455

**6: ACCOUNTS PAYABLE**

The payables of \$52,854 at June 30, 2004, are as follows:

	General Fund	Special Revenue Fund	Total
Accounts	\$ 46,609	\$ 6,245	\$ 52,854

**7: DEBT REFUNDING**

On December 1, 2003, the District issued \$2,865,000 in refunding bonds with interest rates from 2.55 to 4.75 percent to advance refund \$2,665,000 of outstanding bonds dated September 1, 2001, with interest rates from 4.45 to 5.30 percent. The net proceeds of \$2,866,736 were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the September 1, 2001 bonds. As a result, the September 1, 2001 bonds are considered to be defeased and the liability for these bonds has been removed from the general long-term debt account group. The debt refunding resulted in a debt restructuring and did not result in an economic gain.

**8: INTERFUND TRANSFERS**

A transfer of \$201,024 was made from the General Fund to the Debt Service Fund for debt related payments.

**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.

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**9: RETIREMENT PLANS (Continued)**

Arkansas Teacher Retirement System (Continued)

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 13%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$287,923, \$256,183 and \$268,327, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$51,879, \$48,101 and \$41,276, respectively, equal to the required contributions for each year.

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, 2004, 2003 and 2002 were \$987, \$996 and \$929, respectively, equal to the required contributions for each year.

**10: PENDING LITIGATION**

There is a complaint filed against the District involving alleged violations of wage and hour law under the Fair Labor Standards Act wherein the plaintiff is claiming that he has not been properly compensated for overtime work with the District. The case is scheduled for trial on January 30, 2006.

**11: PRIOR YEAR RESTATEMENT**

A prior year restatement in the amount of \$2,492 was made to the Capital Asset Equipment Balance at June 30, 2003. The restatement reflects an increase to the initial cost of thirteen (13) equipment items that were previously unrecorded.

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**12: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS**

ADDITIONS	
Donations	\$ 1,000
DEDUCTIONS	
Scholarships	<u>1,000</u>
CHANGE IN FUND BALANCE	0
FUND BALANCE - JULY 1	<u>0</u>
FUND BALANCE - JUNE 30	<u><u>\$ 0</u></u>

DERMOTT SPECIAL SCHOOL DISTRICT  
 CHICOT COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Balance July 1, 2003	Additions	Deletions	Prior Period Adjustment	Balance June 30, 2004
<i>Nondepreciable capital assets:</i>					
Land	\$ 303,723				\$ 303,723
<i>Depreciable capital assets:</i>					
Buildings	4,245,175				4,245,175
Improvements/infrastructure	262,341	\$ 9,328			271,669
Equipment	1,779,008	225,915	\$ 531,001	\$ 2,492	1,476,415
Total depreciable capital assets	<u>6,286,524</u>	<u>235,243</u>	<u>531,001</u>	<u>2,492</u>	<u>5,993,258</u>
Less accumulated depreciation for:					
Buildings	2,113,542	83,399			2,196,941
Improvements/infrastructure	84,142	13,051			97,193
Equipment	1,124,992	152,849	373,070		904,771
Total accumulated depreciation	<u>3,322,676</u>	<u>249,299</u>	<u>373,070</u>		<u>3,198,905</u>
Total depreciable capital assets, net	<u>2,963,847</u>	<u>(14,056)</u>	<u>157,931</u>	2,492	<u>2,794,353</u>
Capital assets, net	<u>\$ 3,267,570</u>	<u>\$ (14,056)</u>	<u>\$ 157,931</u>	<u>\$ 2,492</u>	<u>\$ 3,098,076</u>

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	09-01	\$ 91,973
National School Lunch Program	10.555	09-01-000	211,713
Total State Department of Education			<u>303,686</u>
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	09-01	19,844
Summer Food Service Program for Children	10.559	09-01	4,132
Total State Department of Human Services			<u>23,976</u>
TOTAL CHILD NUTRITION CLUSTER			<u>327,662</u>
<b>OTHER PROGRAMS</b>			
<u>U.S. Department of Agriculture</u>			
Passed Through Barton-Lexa School District:			
Distance Learning and Telemedicine Loans and Grants	10.855	09-01	<u>22,844</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	09-01	484,995
Title I School Improvement	84.013	09-01	8,524
Special Education - Grants to States	84.027	09-01	198,998
Safe and Drug-Free Schools and Communities - State Grants	84.186	09-01	2,705
Innovative Education Program Strategies	84.298	09-01	5,404
Even Start - Statewide Family Literacy Program	84.314	09-01	103,824
Education Technology State Grants	84.318	09-01	34,742
Rural Education	84.358	09-01	15,604
Improving Teacher Quality State Grants	84.367	09-01	97,999
Passed Through University of Arkansas at Little Rock:			
TRIO - Talent Search	84.044	(Note 3)	1,250
Total U. S. Department of Education			<u>954,045</u>
<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	<u>2,000</u>
TOTAL OTHER PROGRAMS			<u>978,889</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,306,551</u>

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 2

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 Dermott Special School District and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the 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, 2004

Schedule 3

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

FINANCIAL STATEMENTS

Type of auditor's report issued: GAAP presentation - Adverse  
 Regulatory OCBOA presentation (opinion units) - 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
10.553,10.555,10.559	Child Nutrition Cluster
84.010	Title I Grants - Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee?  yes  no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

2004-1. 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.

Context - Our review of internal control revealed deficiencies in segregation of duties.

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS (CONT.)**

2004-1. Segregation of Duties (Continued)

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.

Views of responsible officials and planned corrective actions - We concur with the recommendation.

2004-2. Unallowable Disbursements

Criteria - State law requires public school funds be used for educational purposes.

Condition - For the period October 1, 2001 through June 30, 2005, we noted District funds of \$3,487 were improperly disbursed for country club membership dues on behalf of Superintendent Dennis Meins.

Context - Vouching of Disbursements.

Effect - Unallowable disbursements of \$3,487 were made on behalf of Superintendent Dennis Meins.

Cause - The District did not maintain adequate internal control over all disbursements resulting in payments made for unallowable expenditures.

Recommendation - We recommend these funds be reimbursed to the District.

Response from Dennis Meins, former Superintendent: I am sending a copy of the Dermott Special School District Board of Education meeting dated September 11, 2001. In these minutes a motion was made and passed stating "the superintendent is to be a member of civic organizations to improve public relations for the Dermott School District". The motion passed 5-0. In the discussion about this motion the country club membership was an organization the board wish for the superintendent to be a member.

In the December 13, 2004 taped minutes, there was a question from Mr. William Rowe (a new board member) about the check register in reference to the country club dues. It was explained to Mr. Rowe by Mrs. Pat Mangum (board member) and Mr. John Ellington (board president) about the membership being to improve public relations for the District.

The 2001-2002 school year was my first year as Superintendent of the Dermott School District. In the interview process, I was told that the board wanted a superintendent that would take part in the community and help promote better public relations between the school district and people in the area. I was told in the interview the school would take care of the membership dues if I was selected to be the superintendent. I came out of that interview believing that I was to become a member of these organizations and clubs to get the position.

I am also sending a copy of statements from Mrs. Pat Mangum (board member) and Mrs. Beverly Morales (District Treasurer) to help support my statement.

I hope this information will clear up this misunderstanding. If I can be of further help or if more information is needed, I will be more than happy to help.

**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, 2004

Schedule 4

There were no findings in the prior audit.