

Dermott Special School District

Chicot County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2005

LEGISLATIVE JOINT AUDITING COMMITTEE



DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
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JUNE 30, 2005

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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



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, 2005, 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, 2005, or the changes in financial position thereof 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, 2005, 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 July 26, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (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

Handwritten signature of Charles L. Robinson in cursive.

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
July 26, 2006
EDSD04105

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



Charles L. Robinson, CPA, CFE
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, 2005, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated July 26, 2006. 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, 2005, 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 2005-1.

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 number 2005-1 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs to be a material weakness.

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*.

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
July 26, 2006

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
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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, 2005. 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, 2005.

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
July 26, 2006

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2005

Exhibit A

	Governmental Funds		
	Major		
	General	Special Revenue	Fiduciary Fund Types
ASSETS			
Cash	\$ 1,419,852	\$ 338,835	\$ 15,133
Investments	316,150		
Accounts receivable	727	68,527	
Property taxes receivable	38,630		
Due from other funds		3,071	
TOTAL ASSETS	\$ 1,775,359	\$ 410,433	\$ 15,133
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 28,500	\$ 9,091	
Due student groups			\$ 15,133
Due to other funds	3,071		
Total Liabilities	31,571	9,091	15,133
Fund Balances:			
Unreserved:			
Undesignated	1,743,788	401,342	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,775,359	\$ 410,433	\$ 15,133

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, 2005

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes	\$ 893,590		
Property tax relief trust distribution	144,414		
State assistance	4,318,429	\$ 3,353	
Federal assistance		1,487,463	
Activity revenues	33,929		
Meal sales		19,297	
Investment income	23,366		
Other revenues	28,683	6,003	
TOTAL REVENUES	5,442,411	1,516,116	
EXPENDITURES			
Regular programs	2,130,810	84,014	
Special education	305,594	190,713	
Workforce education	200,489		
Adult/continuing education program	264,131		
Compensatory education	214,779	227,343	
Other instructional programs	101,852		
Student support services	410,046	18,932	
Instructional staff support services	181,387	222,768	
General administration support services	176,494	70,756	
School administration support services	310,282		
Business support services	63,929		
Operation and maintenance of plant services	400,648	59	
Student transportation services	180,061	12,288	
Central support services	49,146	68,266	
Food services operations		367,400	
Community services		425	
Non-programmed costs		15,923	
Activity expenditures	31,176		
Capital outlay	125,575	28,563	
Debt service:			
Principal retirement	67,721		\$ 65,000
Interest and fiscal charges	3,833		119,672
TOTAL EXPENDITURES	5,217,953	1,307,450	184,672
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	224,458	208,666	(184,672)
OTHER FINANCING SOURCES (USES)			
Transfers in			180,955
Transfers out	(180,955)		
Compensated loss of fixed assets	88,562		
Value of capital lease	72,603		
TOTAL OTHER FINANCING SOURCES (USES)	(19,790)		180,955
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	204,668	208,666	(3,717)
FUND BALANCES - JULY 1	1,539,120	192,676	3,717
FUND BALANCES - JUNE 30	\$ 1,743,788	\$ 401,342	\$ 0

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, 2005

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$ 843,000	\$ 893,590	\$ 50,590			
Property tax relief trust distribution	130,000	144,414	14,414			
State assistance	4,189,955	4,318,429	128,474	\$ 3,000	\$ 3,353	\$ 353
Federal assistance				1,305,465	1,487,463	181,998
Activity revenues		33,929	33,929			
Meal sales				16,000	19,297	3,297
Investment income	19,800	23,366	3,566			
Other revenues	36,150	28,683	(7,467)		6,003	6,003
TOTAL REVENUES	5,218,905	5,442,411	223,506	1,324,465	1,516,116	191,651
EXPENDITURES						
Regular programs	2,040,242	2,130,810	(90,568)	83,021	84,014	(993)
Special education	257,137	305,594	(48,457)	157,318	190,713	(33,395)
Workforce education	175,652	200,489	(24,837)			
Adult/continuing education program	293,919	264,131	29,788			
Compensatory education	194,810	214,779	(19,969)	334,280	227,343	106,937
Other instructional programs	79,440	101,852	(22,412)			
Student support services	407,021	410,046	(3,025)	28,600	18,932	9,668
Instructional staff support services	165,105	181,387	(16,282)	335,371	222,768	112,603
General administration support services	210,012	176,494	33,518	76,980	70,756	6,224
School administration support services	301,815	310,282	(8,467)			
Business support services	61,719	63,929	(2,210)			
Operation and maintenance of plant services	455,719	400,648	55,071		59	(59)
Student transportation services	174,074	180,061	(5,987)	12,300	12,288	12
Central support services	74,586	49,146	25,440	40,950	68,266	(27,316)
Other support services	12,435		12,435	26,300		26,300
Food services operations				339,942	367,400	(27,458)
Community services				1,500	425	1,075
Non-programmed costs					15,923	(15,923)
Activity expenditures		31,176	(31,176)			
Capital outlay	190,703	125,575	65,128		28,563	(28,563)
Debt service:						
Principal retirement	14,266	67,721	(53,455)			
Interest and fiscal charges	5,208	3,833	1,375			
TOTAL EXPENDITURES	5,113,863	5,217,953	(104,090)	1,436,562	1,307,450	129,112

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, 2005

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 105,042	\$ 224,458	\$ 119,416	\$ (112,097)	\$ 208,666	\$ 320,763
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers out	(180,912)	(180,955)	(43)			
Compensated loss of fixed assets		88,562	88,562			
Value of capital lease		72,603	72,603			
TOTAL OTHER FINANCING SOURCES (USES)	(180,912)	(19,790)	161,122			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(75,870)	204,668	280,538	(112,097)	208,666	320,763
FUND BALANCES - JULY 1	1,503,214	1,539,120	35,906	176,077	192,676	16,599
FUND BALANCES - JUNE 30	\$ 1,427,344	\$ 1,743,788	\$ 316,444	\$ 63,980	\$ 401,342	\$ 337,362

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

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

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). 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). This basis of accounting is prescribed by Arkansas Code Annotated §10-4-413(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, 2005

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:

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

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.

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Interfund Receivables and Payables

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

H. Fund Balance

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

I. 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)	\$ 200,000	\$ 200,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	1,776,156	2,105,642
Uninsured, Uncollateralized	113,714	113,714
Total Deposits	\$ 2,089,870	\$ 2,419,356

The above total deposits do not include cash on hand in the amount of \$100. The above total deposits include certificates of deposits of \$316,150 reported as investments and classified as nonparticipating contracts.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

3: RECEIVABLES

The receivables of \$107,884 at June 30, 2005, are as follows:

<u>Class of Receivable</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Taxes:			
Local	\$ 38,630		\$ 38,630
Accounts	727	\$ 68,527	69,254
	<u>\$ 39,357</u>	<u>\$ 68,527</u>	<u>\$ 107,884</u>

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2005:

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, 2005</u>	<u>Maturities To June 30, 2005</u>
12/1/2003	6/1/2028	2.55 - 4.75%	\$ 2,865,000	\$ 2,800,000	\$ 65,000
7/13/2004	12/1/2008	5.567%	72,603	58,337	14,266
			<u>\$ 2,937,603</u>	<u>\$ 2,858,337</u>	<u>\$ 79,266</u>

Changes in Long-term Debt

	<u>Balance July 1, 2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2005</u>
Bonds payable	\$ 2,865,000		\$ 65,000	\$ 2,800,000
Capital leases	53,455	\$ 72,603	67,721	58,337
	<u>\$ 2,918,455</u>	<u>\$ 72,603</u>	<u>\$ 132,721</u>	<u>\$ 2,858,337</u>

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

4: COMMITMENTS (Continued)

Long-term Debt Issued and Outstanding (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2006	\$ 88,421	\$ 120,468	\$ 208,889
2007	94,169	117,808	211,977
2008	94,957	114,539	209,496
2009	100,790	111,227	212,017
2010	85,000	107,117	192,117
2011-2015	495,000	483,338	978,338
2016-2020	600,000	378,700	978,700
2021-2025	760,000	234,467	994,467
2026-2028	540,000	51,600	591,600
Totals	<u>\$ 2,858,337</u>	<u>\$ 1,719,264</u>	<u>\$ 4,577,601</u>

Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2005
Four (4) copiers and three (3) duplicators	<u>\$ 72,603</u>
	<u>June 30, 2005</u>
Total Minimum Lease Payments	\$ 66,676
Less: Amount Representing Interest	<u>8,339</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 58,337</u>

5: ACCOUNTS PAYABLE

The payables of \$37,591 at June 30, 2005, are as follows:

	General Fund	Special Revenue Fund	Total
Accounts	<u>\$ 28,500</u>	<u>\$ 9,091</u>	<u>\$ 37,591</u>

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

6: INTERFUND TRANSFERS

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds – Regulatory Basis (Exhibit B) reflects a transfer of \$180,955 from General Fund to Debt Service Revenue Fund for debt related payments.

7: 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 14%. The District's contributions to ATRS for the years ended June 30, 2005, 2004 and 2003 were \$466,526, \$339,802 and \$304,284, 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, 2005, 2004 and 2003 were \$1,041, \$987 and \$996, respectively, equal to the required contributions for each year.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

8: PRIVATE-PURPOSE TRUST FUNDS

A. 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>

B. Expendable Trust Fund

As part of the exclusive soft drink agreement with Coca-Cola Bottling of Arkansas, the District is to receive a \$1,000 scholarship to be awarded to graduating seniors annually.

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2005

Schedule 1

	Balance July 1, 2004	Additions	Deletions	Prior Year Restatement *	Balance June 30, 2005
<i>Nondepreciable capital assets:</i>					
Land	\$ 303,723				\$ 303,723
<i>Depreciable capital assets:</i>					
Buildings	4,245,175				4,245,175
Improvements/infrastructure	271,669	\$ 4,787			276,456
Equipment	1,476,414	125,230	\$ 52,579	\$ 3,418	1,552,483
Total depreciable capital assets	<u>5,993,258</u>	<u>130,017</u>	<u>52,579</u>	<u>3,418</u>	<u>6,074,114</u>
Less accumulated depreciation for:					
Buildings	2,196,941	83,399			2,280,340
Improvements/infrastructure	97,193	14,861			112,054
Equipment	904,771	150,650	10,452	(9,437)	1,035,532
Total accumulated depreciation	<u>3,198,905</u>	<u>248,910</u>	<u>10,452</u>	<u>(9,437)</u>	<u>3,427,926</u>
Total depreciable capital assets, net	<u>2,794,353</u>	<u>(118,893)</u>	<u>42,127</u>	<u>12,855</u>	<u>2,646,188</u>
Capital assets, net	<u>\$ 3,098,076</u>	<u>\$ (118,893)</u>	<u>\$ 42,127</u>	<u>\$ 12,855</u>	<u>\$ 2,949,911</u>

* The prior year restatement reflects the changes in equipment and accumulated depreciation as a result of recommendations made in the prior year audit.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Schedule 2

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	\$ 88,972
National School Lunch Program	10.555	09-01-000	210,322
Summer Food Service Program for Children	10.559	09-01	19,757
Total State Department of Education			319,051
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	09-01	20,925
TOTAL CHILD NUTRITION CLUSTER			339,976
 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	480,103
Special Education - Grants to States	84.027	09-01	259,021
Safe and Drug-Free Schools and Communities - State Grants	84.186	09-01	936
Even Start - State Educational Agencies	84.213	09-01	120,407
State Grants For Innovative Programs	84.298	09-01	3,799
Education Technology State Grants	84.318	09-01	2,120
Rural Education	84.358	09-01	12,339
Improving Teacher Quality State Grants	84.367	09-01	31,461
Total U. S. Department of Education			910,186
 <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 Development Fund	93.596	09-01	2,013
TOTAL OTHER PROGRAMS			912,199
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,252,175

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.

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 FEDERAL AWARD PROGRAMS -
 FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2005

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Types of auditor's reports issued: GAAP basis of reporting - adverse
 Regulatory basis 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 OMB Circular A-133? yes no

Identification of major programs:

CFDA Numbers	Name of Federal Programs or Cluster
10.553, 10.555, 10559	Child Nutrition Cluster
84.010	Title I Grants To 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

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITIONS

2005-1. Segregation of Duties

Criteria: Financial accounting duties should be distributed among appropriate employees to ensure the proper safeguarding of assets.

Condition: The District does not have adequate staff to segregate financial accounting duties among appropriate employees.

Context: Completion of internal control questionnaire.

Effect: Financial accounting duties are not distributed among the District's employees to sufficiently reduce the risks of fraud or error and to properly safeguard the District's assets.

Cause: Limited financial resources hinder the District's ability to adequately segregate financial accounting duties among employees.

Recommendation: To ensure the proper safeguarding of the District's assets, financial accounting duties should be distributed among appropriate employees.

Views of responsible officials and planned corrective actions: 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, 2005

Schedule 4

There were no findings in the prior audit.