

Dermott Special School District

Chicot County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2006



DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
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JUNE 30, 2006

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Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



Roger A. Norman, JD, 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, 2006, 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 these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect 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 determinable, 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, 2006, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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, 2006, 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 May 7, 2007 on our consideration of the District's internal control over financial reporting and on 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

A handwritten signature in cursive script that reads "Roger A. Norman".

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
May 7, 2007
EDSD04106

Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



Roger A. Norman, JD, 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, 2006, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated May 7, 2007. 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. 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. The effect 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 determinable, 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, 2006, 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 opinion 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 2006-1.

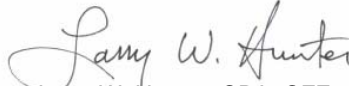
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the regulatory basis financial 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 item 2006-1 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, 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

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
May 7, 2007

Sen. Randy Laverty
Senate Co-Chair
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Roger A. Norman, JD, 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, 2006. 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 of 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, 2006.

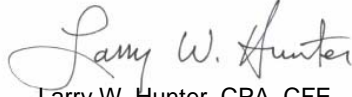
Internal Control Over Compliance

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 the 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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
May 7, 2007

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2006

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 1,254,758	\$ 280,772	\$ 100	\$ 19,582
Investments	326,562			
Accounts receivable		75,922		
Property taxes receivable	14,439			
Due from other funds		19,575		
TOTAL ASSETS	\$ 1,595,759	\$ 376,269	\$ 100	\$ 19,582
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 787			
Due student groups				\$ 19,582
Due to other funds	19,575			
Total Liabilities	20,362			19,582
Fund Balances:				
Unreserved:				
Designated:				
Debt service			\$ 100	
Undesignated	1,575,397	\$ 376,269		
Total Fund Balances	1,575,397	376,269	100	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,595,759	\$ 376,269	\$ 100	\$ 19,582

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, 2006

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,050,115		
State assistance	4,327,235	\$ 3,205	
Federal assistance		1,313,977	
Activity revenues	41,821		
Meal sales		24,591	
Investment income	27,042		
Other revenues	71,008	47,529	\$ 100
TOTAL REVENUES	5,517,221	1,389,302	100
EXPENDITURES			
Regular programs	2,160,865	151,895	
Special education	388,393	69,585	
Workforce education	250,892		
Adult/continuing education program	232,018		
Compensatory education	133,631	241,513	
Other instructional programs	119,314		
Student support services	405,158	20,224	
Instructional staff support services	377,206	325,946	
General administration support services	187,665	67,873	
School administration support services	319,041	479	
Business support services	27,167		
Operation and maintenance of plant services	443,008	257	
Student transportation services	201,013	7,292	
Central support services	189,097	84,545	
Other support services	5,799	42,695	
Food services operations	2,026	385,276	
Non-programmed costs	2,058		
Activity expenditures	31,568		
Debt Service:			
Principal retirement	13,421		75,000
Interest and fiscal charges	3,247		118,025
TOTAL EXPENDITURES	5,492,587	1,397,580	193,025
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	24,634	(8,278)	(192,925)
OTHER FINANCING SOURCES (USES)			
Transfers in			193,025
Transfers out	(193,025)		
Refund to grantor		(16,795)	
TOTAL OTHER FINANCING SOURCES (USES)	(193,025)	(16,795)	193,025
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(168,391)	(25,073)	100
FUND BALANCES - JULY 1	1,743,788	401,342	
FUND BALANCES - JUNE 30	\$ 1,575,397	\$ 376,269	\$ 100

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, 2006

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,023,000	\$ 1,050,115	\$ 27,115			
State assistance	4,021,869	4,327,235	305,366	\$ 3,000	\$ 3,205	\$ 205
Federal assistance				1,272,283	1,313,977	41,694
Activity revenues		41,821	41,821			
Meal sales				18,800	24,591	5,791
Investment income	34,800	27,042	(7,758)			
Other revenues	47,512	71,008	23,496		47,529	47,529
TOTAL REVENUES	5,127,181	5,517,221	390,040	1,294,083	1,389,302	95,219
EXPENDITURES						
Regular programs	2,016,790	2,160,865	(144,075)	209,308	151,895	57,413
Special education	314,293	388,393	(74,100)	117,797	69,585	48,212
Workforce education	234,475	250,892	(16,417)			
Adult/continuing education program	300,483	232,018	68,465			
Compensatory education	182,347	133,631	48,716	364,820	241,513	123,307
Other instructional programs	157,237	119,314	37,923			
Student support services	392,068	405,158	(13,090)	13,600	20,224	(6,624)
Instructional staff support services	327,381	377,206	(49,825)	304,848	325,946	(21,098)
General administration support services	204,498	187,665	16,833	103,661	67,873	35,788
School administration support services	306,387	319,041	(12,654)		479	(479)
Business support services	61,646	27,167	34,479			
Operation and maintenance of plant services	490,772	443,008	47,764		257	(257)
Student transportation services	197,580	201,013	(3,433)	12,300	7,292	5,008
Central support services	152,306	189,097	(36,791)	47,451	84,545	(37,094)
Other support services	6,550	5,799	751	26,300	42,695	(16,395)
Food services operations		2,026	(2,026)	342,024	385,276	(43,252)
Community services				1,500		1,500
Non-programmed costs		2,058	(2,058)			
Activity expenditures		31,568	(31,568)			
Debt Service:						
Principal retirement		13,421	(13,421)			
Interest and fiscal charges		3,247	(3,247)			
TOTAL EXPENDITURES	5,344,813	5,492,587	(147,774)	1,543,609	1,397,580	146,029

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, 2006

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (217,632)	\$ 24,634	\$ 242,266	\$ (249,526)	\$ (8,278)	\$ 241,248
OTHER FINANCING SOURCES (USES)						
Transfers in	2,592,558		(2,592,558)			
Transfers out	(2,785,578)	(193,025)	2,592,553			
Refund to grantor					(16,795)	(16,795)
TOTAL OTHER FINANCING SOURCES (USES)	(193,020)	(193,025)	(5)		(16,795)	(16,795)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(410,652)	(168,391)	242,261	(249,526)	(25,073)	224,453
FUND BALANCES - JULY 1	1,722,186	1,743,788	21,602	350,256	401,342	51,086
FUND BALANCES - JUNE 30	<u>\$ 1,311,534</u>	<u>\$ 1,575,397</u>	<u>\$ 263,863</u>	<u>\$ 100,730</u>	<u>\$ 376,269</u>	<u>\$ 275,539</u>

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

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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, presented in the aggregate, 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, 2006

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, except for property taxes (see Note 1 F below).

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, 2006

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 are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes forty percent (40%) of the proceeds of local taxes which are not pledged to secure bonded indebtedness or forty percent (40%) of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

Amendment No. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

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

1. Designated fund balance - represents that portion of the fund balance which indicates tentative plans for financial resource utilization in a future period.
2. 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.

DERMOTT SPECIAL SCHOOL DISTRICT
 CHICOT COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Budget and Budgetary Accounting (Continued)

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.

On-behalf payments as described at Note 7 are nonbudgeted financial data for the year ended June 30, 2006. Such payments are reported as actual revenues and expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis (Exhibit C).

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	1,600,184	1,803,051
Uninsured, Uncollateralized	81,490	81,490
Total Deposits	\$ 1,881,674	\$ 2,084,541

The above total deposits do not include cash on hand in the amount of \$100. The above total deposits include certificates of deposit of \$326,562 reported as investments and classified as nonparticipating contracts.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, \$81,490 of the District's bank balance of \$2,084,541 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$81,490</u>
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DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

3: RECEIVABLES

The receivables of \$75,922 at June 30, 2006 are as follows:

Class of Receivable	Special Revenue Fund
Grants:	
Federal	\$ 18,636
Other	57,286
Total	\$ 75,922

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2006:

Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2006	Maturities To June 30, 2006
12/1/03	6/1/28	2.55 - 4.75%	\$ 2,865,000	\$ 2,725,000	\$ 140,000
7/13/04	12/1/08	5.567%	72,603	44,916	27,687
Totals			\$ 2,937,603	\$ 2,769,916	\$ 167,687

Changes in Long-term Debt

	Balance July 1, 2005	Issued	Retired	Balance June 30, 2006
Bonds payable	\$ 2,800,000		\$ 75,000	\$ 2,725,000
Capital leases	58,337		13,421	44,916
Totals	\$ 2,858,337	\$ 0	\$ 88,421	\$ 2,769,916

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

4: COMMITMENTS (CONTINUED)

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

Year Ended June 30,	Principal	Interest	Total
2007	\$ 94,169	\$ 117,808	\$ 211,977
2008	94,957	114,539	209,496
2009	100,790	111,227	212,017
2010	85,000	107,118	192,118
2011	90,000	103,887	193,887
2012-2016	515,000	464,475	979,475
2017-2021	630,000	353,610	983,610
2022-2026	795,000	200,007	995,007
2027-2028	365,000	26,125	391,125
Totals	<u>\$ 2,769,916</u>	<u>\$ 1,598,796</u>	<u>\$ 4,368,712</u>

Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2006
Four (4) copiers and three (3) duplicators	<u>\$ 72,603</u>
	<u>June 30, 2006</u>
Total Minimum Lease Payments	\$ 50,007
Less: Amount Representing Interest	<u>5,091</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 44,916</u>

5: INTERFUND TRANSFERS

The District transferred \$193,025 from the general fund to the other aggregate funds for debt related payments.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

6: 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, 2006, 2005 and 2004 were \$494,948, \$466,526 and \$339,802, 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, 2006, 2005 and 2004 were \$321, \$1,041 and \$987, respectively, equal to the required contributions for each year.

7: ON-BEHALF PAYMENTS

The accompanying financial statements reflect on-behalf payments of \$55,937 for health insurance premiums paid by the Arkansas Department of Education.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

8: 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, 2006
 (Unaudited)

Schedule 1

	Balance June 30, 2006
<i>Nondepreciable capital assets:</i>	
Land	\$ 303,723
<i>Depreciable capital assets:</i>	
Buildings	4,245,175
Improvements/infrastructure	276,456
Equipment	2,017,242
Total depreciable capital assets	6,538,873
Less accumulated depreciation for:	
Buildings	2,362,151
Improvements/infrastructure	127,599
Equipment	1,230,793
Total accumulated depreciation	3,720,543
Total depreciable capital assets, net	2,818,330
Capital assets, net	\$ 3,122,053

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

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	\$ 115,079
National School Lunch Program	10.555	09-01	234,701
Total State Department of Education			349,780
Passed Through State Department of Health and Human Services:			
National School Lunch Program (Note 2)	10.555	09-01	19,448
TOTAL CHILD NUTRITION CLUSTER			369,228
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	564,696
Special Education - Grants to States	84.027	09-01	121,401
Even Start - State Educational Agencies	84.213	09-01	122,907
State Grants for Innovative Programs	84.298	09-01	1,159
Education Technology State Grants	84.318	09-01	8,475
Rural Education	84.358	09-01	6,069
Improving Teacher Quality State Grants	84.367	09-01	112,801
Hurricane Education Recovery	84.938	09-01	16,973
Total U. S. Department of Education			954,481
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Health and Human Services:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	09-01	2,298
TOTAL OTHER PROGRAMS			956,779
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,326,007

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 preparation of, the regulatory basis financial statements.
- Note 2: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Health and Human Services.

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

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:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I Grants - Local Educational Agencies

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

Auditee qualified as low-risk auditee? yes no

DERMOTT SPECIAL SCHOOL DISTRICT
CHICOT COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITION

2006-1. 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, 2006

Schedule 4

There were no findings in the prior audit.