

# **Dermott Special School District**

**Chicot County, Arkansas**

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

**June 30, 2007**



DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
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Sen. Randy Laverly  
Senate Co-Chair  
Rep. J R Rogers  
House Co-Chair  
Sen. Bobby L. Glover  
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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, 2007, which collectively comprise the District's regulatory basis financial statements 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, 2007, 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, 2007, 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 August 14, 2008 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, appearing to read "Roger A. Norman".

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

Little Rock, Arkansas  
August 14, 2008  
EDSD04107

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, 2007, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated August 14, 2008. 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 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, 2007, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting as prescribed or permitted by Arkansas Code such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 2007-1 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs to be a material weakness.

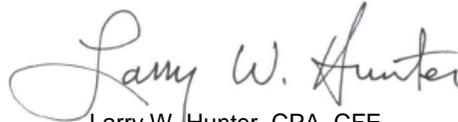
Compliance and Other Matters

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*.

The District's response to the findings identified in our audit is described in the accompanying schedule of Federal Award Programs – Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is 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 is 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  
August 14, 2008

Sen. Randy Laverty  
Senate Co-Chair  
Rep. J R Rogers  
House Co-Chair  
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House Co-Vice Chair

# Arkansas



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, 2007. 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.

As described in item 2007-2 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs, the District did not comply with requirements regarding allowable costs/cost principles that are applicable to its Title I Grants – Local Educational Agencies program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2007.

#### 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

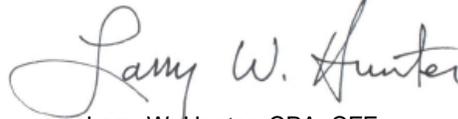
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs as item 2007-2 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. Of the significant deficiency in internal control over compliance described in the accompanying schedule of Federal Award Programs – Findings and Questioned Costs, we consider item 2007-2 to be a material weakness.

This report is 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 is 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  
August 14, 2008

DERMOTT SPECIAL SCHOOL DISTRICT  
 CHICOT COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2007

Exhibit A

	Governmental Funds		
	Major		Fiduciary Fund Types
	General	Special Revenue	
<b>ASSETS</b>			
Cash	\$ 1,202,350	\$ 291,418	\$ 13,665
Investments	338,603		
Accounts receivable	99	49,777	
Property taxes receivable	48,189		
Due from other funds		120	
<b>TOTAL ASSETS</b>	<b>\$ 1,589,241</b>	<b>\$ 341,315</b>	<b>\$ 13,665</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,069		
Due student groups			\$ 13,665
Due to other funds	120		
<b>Total Liabilities</b>	<b>2,189</b>		<b>13,665</b>
Fund Balances:			
Unreserved:			
Undesignated	1,587,052	\$ 341,315	
<b>Total Fund Balances</b>	<b>1,587,052</b>	<b>341,315</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,589,241</b>	<b>\$ 341,315</b>	<b>\$ 13,665</b>

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

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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, 2007

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 1,052,689		
State assistance	4,377,923	\$ 3,083	
Federal assistance		1,481,743	
Activity revenues	37,696		
Meal sales		19,033	
Investment income	27,542		
Other revenues	39,660	25,149	
<b>TOTAL REVENUES</b>	<b>5,535,510</b>	<b>1,529,008</b>	
<b>EXPENDITURES</b>			
Regular programs	2,163,971	31,187	
Special education	334,284	54,834	
Workforce education	233,265		
Adult/continuing education	231,331		
Compensatory education	21,878	135,139	
Other instructional programs	11,623		
Student support services	489,738	16,601	
Instructional staff support services	591,299	760,945	
General administration support services	214,763	68,353	
School administration support services	317,651		
Business support services	32,476	53,769	
Operation and maintenance of plant services	411,250	1,330	
Student transportation services	190,704	6,316	
Other support services	10,483	30,229	
Food services operations	1,464	364,522	
Community services	998	40,737	
Non-programmed costs	19,552		
Activity expenditures	34,454		
Debt Service:			
Principal retirement	14,169		\$ 80,000
Interest and fiscal charges	2,500		116,102
<b>TOTAL EXPENDITURES</b>	<b>5,327,853</b>	<b>1,563,962</b>	<b>196,102</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>207,657</b>	<b>(34,954)</b>	<b>(196,102)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			196,002
Transfers out	(196,002)		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(196,002)</b>		<b>196,002</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>11,655</b>	<b>(34,954)</b>	<b>(100)</b>
<b>FUND BALANCES - JULY 1</b>	<b>1,575,397</b>	<b>376,269</b>	<b>100</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 1,587,052</b>	<b>\$ 341,315</b>	<b>\$ 0</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 -  
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2007

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 1,028,500	\$ 1,052,689	\$ 24,189			
State assistance	4,181,649	4,377,923	196,274	\$ 3,000	\$ 3,083	\$ 83
Federal assistance				1,288,207	1,481,743	193,536
Activity revenues		37,696	37,696			
Meal sales				23,000	19,033	(3,967)
Investment income	27,000	27,542	542			
Other revenues	34,462	39,660	5,198	76,861	25,149	(51,712)
<b>TOTAL REVENUES</b>	<b>5,271,611</b>	<b>5,535,510</b>	<b>263,899</b>	<b>1,391,068</b>	<b>1,529,008</b>	<b>137,940</b>
<b>EXPENDITURES</b>						
Regular programs	2,176,686	2,163,971	12,715	88,264	31,187	57,077
Special education	295,481	334,284	(38,803)	82,288	54,834	27,454
Workforce education	226,433	233,265	(6,832)			
Adult/continuing education	291,433	231,331	60,102			
Compensatory education	59,359	21,878	37,481	319,607	135,139	184,468
Other instructional programs	66,966	11,623	55,343			
Student support services	485,503	489,738	(4,235)	23,179	16,601	6,578
Instructional staff support services	303,202	591,299	(288,097)	363,199	760,945	(397,746)
General administration support services	165,257	214,763	(49,506)	77,634	68,353	9,281
School administration support services	315,716	317,651	(1,935)			
Business support services	471,789	32,476	439,313	93,771	53,769	40,002
Operation and maintenance of plant services	467,203	411,250	55,953		1,330	(1,330)
Student transportation services	201,932	190,704	11,228	6,875	6,316	559
Other support services	5,550	10,483	(4,933)	30,950	30,229	721
Food services operations		1,464	(1,464)	298,926	364,522	(65,596)
Community services		998	(998)	59,300	40,737	18,563
Other non-instructional services	20,000		20,000			
Non-programmed costs		19,552	(19,552)			
Activity expenditures		34,454	(34,454)			
Debt Service:						
Principal retirement	17,000	14,169	2,831			
Interest and fiscal charges		2,500	(2,500)			
<b>TOTAL EXPENDITURES</b>	<b>5,569,510</b>	<b>5,327,853</b>	<b>241,657</b>	<b>1,443,993</b>	<b>1,563,962</b>	<b>(119,969)</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, 2007

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (297,899)	\$ 207,657	\$ 505,556	\$ (52,925)	\$ (34,954)	\$ 17,971
OTHER FINANCING SOURCES (USES)						
Transfers in	2,585,571		(2,585,571)			
Transfers out	(2,781,479)	(196,002)	2,585,477			
TOTAL OTHER FINANCING SOURCES (USES)	(195,908)	(196,002)	(94)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(493,807)	11,655	505,462	(52,925)	(34,954)	17,971
FUND BALANCES - JULY 1	1,609,328	1,575,397	(33,931)	251,522	376,269	124,747
FUND BALANCES - JUNE 30	\$ 1,115,521	\$ 1,587,052	\$ 471,531	\$ 198,597	\$ 341,315	\$ 142,718

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

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DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Education, a six 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.

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.

DERMOTT SPECIAL SCHOOL DISTRICT  
 CHICOT COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

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

**C. Measurement Focus and Basis of Accounting (Continued)**

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

**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 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 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 30<sup>th</sup> is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30<sup>th</sup> is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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

F. Property Taxes (Continued)

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

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.

On-behalf payments as described at Note 9 are nonbudgeted data for the year ended June 30, 2007. 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)	\$ 100,000	\$ 100,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	<u>1,745,936</u>	<u>2,038,217</u>
Total Deposits	<u>\$ 1,845,936</u>	<u>\$ 2,138,217</u>

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)**

The above total deposits do not include cash on hand in the amount of \$100. The above total deposits include certificates of deposit of \$338,603 reported as investments and classified as nonparticipating contracts.

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$49,876 at June 30, 2007 was comprised of the following:

Description	Governmental Funds		
	Major		
	General	Special Revenue	Total
Federal assistance		\$ 18,696	\$ 18,696
Other	\$ 99	31,081	31,180
Totals	\$ 99	\$ 49,777	\$ 49,876

The District made a duplicate payment of \$29,250 from the special revenue fund. The District contacted the vendor and is seeking reimbursement.

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2007:

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, 2007	Maturities To June 30, 2007
12/1/03	6/1/28	2.55 - 4.75%	\$ 2,865,000	\$ 2,645,000	\$ 220,000
7/13/04	12/1/08	5.567%	72,603	30,747	41,856
Totals			\$ 2,937,603	\$ 2,675,747	\$ 261,856

Changes in Long-term Debt

	Balance July 1, 2006	Retired	Balance June 30, 2007
Bonds payable	\$ 2,725,000	\$ 80,000	\$ 2,645,000
Capital leases	44,916	14,169	30,747
Totals	\$ 2,769,916	\$ 94,169	\$ 2,675,747

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**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
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	95,000	100,468	195,468
2013-2017	535,000	444,797	979,797
2018-2022	660,000	326,525	986,525
2023-2027	830,000	163,640	993,640
2028	185,000	8,787	193,787
Totals	<u>\$ 2,675,747</u>	<u>\$ 1,480,988</u>	<u>\$ 4,156,735</u>

Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2007
Four copiers and three duplicators	<u>\$ 72,603</u>
	<u>June 30, 2007</u>
Total Minimum Lease Payments	\$ 33,338
Less: Amount Representing Interest	<u>2,591</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 30,747</u>

**5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The accounts payable and accrued liabilities balance of \$2,069 at June 30, 2007 was comprised of the following:

Description	Governmental Fund	
	Major	
	General	
Vendor payables	\$	1,649
Payroll withholdings and matching		<u>420</u>
Totals	<u>\$</u>	<u>2,069</u>

DERMOTT SPECIAL SCHOOL DISTRICT  
 CHICOT COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

**6: INTERFUND TRANSFERS**

The District transferred \$196,002 from the general fund to the other aggregate funds 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, 2007, 2006 and 2005 were \$510,125, \$494,948 and \$466,526, 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 5% 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, 2007, 2006 and 2005 were \$331, \$321 and \$1041, respectively, equal to the required contributions for each year.

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

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

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**9: ON-BEHALF PAYMENTS**

The accompanying financial statements reflect on-behalf payments of \$55,572 for health insurance premiums paid by the Arkansas Department of Education.

**10: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for student accidents and catastrophic coverage, and employee and board travel. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

The District participates in the Arkansas School Boards Association – Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The District participates in the Public School Property Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop and administer, on behalf of member districts, a program of insurance to obtain lower costs for property coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for this coverage.

The District participates in the Public School Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The general objective of the program is to allow member districts a means of insuring vehicles. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for this coverage.

DERMOTT SPECIAL SCHOOL DISTRICT  
 CHICOT COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2007  
 (Unaudited)

Schedule 1

	Balance June 30, 2007
<i>Nondepreciable capital assets:</i>	
Land	\$ 303,723
<i>Depreciable capital assets:</i>	
Buildings	4,245,175
Improvements/infrastructure	276,456
Equipment	2,288,463
Total depreciable capital assets	6,810,094
Less accumulated depreciation for:	
Buildings	2,442,375
Improvements/infrastructure	142,781
Equipment	1,434,829
Total accumulated depreciation	4,019,985
Total depreciable capital assets, net	2,790,109
Capital assets, net	\$ 3,093,832

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying 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	\$ 137,808
National School Lunch Program	10.555	09-01	<u>244,717</u>
<b>TOTAL CHILD NUTRITION CLUSTER</b>			<u><u>382,525</u></u>
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Health and Human Services:			
Food Donation (Note 2)	10.550	09-01	<u>18,718</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	09-01	564,369
Special Education - Grants to States	84.027	09-01	103,543
Safe and Drug-Free Schools and Communities - State Grants	84.186	09-01	7,719
Even Start - State Educational Agencies	84.213	09-01	100,149
State Grants for Innovative Programs	84.298	09-01	2,491
Education Technology State Grants	84.318	09-01	66,777
Reading First State Grants	84.357	09-01	100,758
Rural Education	84.358	09-01	42,765
Improving Teacher Quality State Grants	84.367	09-01	199,914
Hurricane Education Recovery	84.938	09-01	6,277
Total U. S. Department of Education			<u><u>1,194,762</u></u>
<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	<u>4,678</u>
<b>TOTAL OTHER PROGRAMS</b>			<u><u>1,218,158</u></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,600,683</u></u>

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 State Department of Health and Human Services.
- Note 3: During the year ended June 30, 2007, the District received Medicaid funding of \$4,086 from the State Department of Health and Human Services. Such payments are not considered Federal awards expended and therefore are not included in the above schedule.



DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

SIGNIFICANT DEFICIENCY

2007-1. Segregation of Duties

Criteria: Financial accounting duties should be distributed among appropriate employees to enhance the design of the internal control process to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting.

Condition: The District has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting.

Context: Completion of internal control questionnaire.

Effect: Financial accounting duties are not distributed among the District's employees to sufficiently reduce the risk that a material misstatement of the financial statements due to fraud or error will not be prevented or detected.

Cause: Cost/benefit implications hinder the District's ability to adequately segregate financial accounting duties among employees.

Recommendation: To achieve effective internal control over financial reporting, 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**

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
TITLE I GRANTS - LOCAL EDUCATIONAL AGENCIES - CFDA 84.010  
PASS-THROUGH NUMBER 09-01  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2007

2007-2. Allowable Costs/Cost Principles

Criteria: Office of Management and Budget (OMB) Circular A-87 establishes principles and standards for determining allowable costs from federal awards. Allowable costs should be paid according to the budget approved by the State Department of Education and should be clerically accurate.

Condition: The District issued a duplicate payment of \$29,250, to a service provider, Save Our Kids, using Title I grant funds.

Questioned costs: Total questioned costs of \$29,250 were detected.

Context: An examination of Title I grant expenditures revealed the overpayment. Additional duplicate payments were not noted.

Effect: A duplicate payment of \$29,250 was issued from Title I grant funds; however, in evaluating the likelihood of additional questioned costs this appeared to be an isolated incident.

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007

Schedule 3

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

SIGNIFICANT DEFICIENCY (Continued)

2007-2. Allowable Costs/Cost Principles (Continued)

Cause: Lack of internal controls and management oversight resulted in the District making this overpayment.

Recommendation: The District should seek reimbursement from this vendor.

Views of responsible officials and planned corrective actions: We concur with the recommendation and are currently seeking restitution.

DERMOTT SPECIAL SCHOOL DISTRICT  
CHICOT COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007

Schedule 4

There were no findings in the prior audit.