

Des Arc School District No. 5

Prairie County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2006

LEGISLATIVE JOINT AUDITING COMMITTEE



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PRAIRIE 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

Des Arc School District No. 5 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 Des Arc School District No. 5 (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.

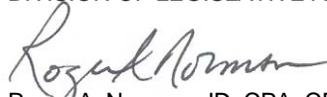
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 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 March 19, 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



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

Little Rock, Arkansas
March 19, 2007
EDSD31706

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

Des Arc School District No. 5 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 Des Arc School District No. 5 (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 March 19, 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.

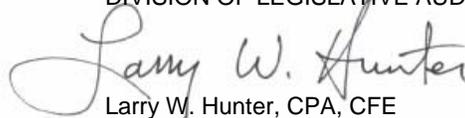
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the regulatory basis financial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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 19, 2007

Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
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Sen. Bobby L. Glover
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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

Des Arc School District No. 5 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the compliance of the Des Arc School District No. 5 (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.

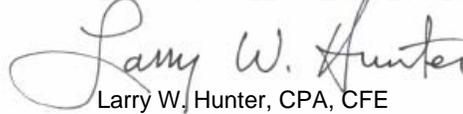
Internal Control Over Compliance

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

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 19, 2007

DES ARC SCHOOL DISTRICT NO. 5
PRAIRIE COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2006

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 2,699,729	\$ 86,927	\$ 285	\$ 11,865
Investments	10,577		772,334	
Property taxes receivable	169,688			
Interfund receivable	762,180			
TOTAL ASSETS	\$ 3,642,174	\$ 86,927	\$ 772,619	\$ 11,865
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 9,537		\$ 26,083	
Due student groups				\$ 11,010
Interfund payable			762,180	
Total Liabilities	9,537		788,263	11,010
Fund Balances:				
Reserved:				
Scholarships				855
Unreserved:				
Designated:				
Debt service			285	
Capital projects			(15,929)	
Undesignated	3,632,637	\$ 86,927		
Total Fund Balances	3,632,637	86,927	(15,644)	855
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,642,174	\$ 86,927	\$ 772,619	\$ 11,865

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

DES ARC SCHOOL DISTRICT NO. 5
 PRAIRIE 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)	\$ 1,261,029		
State assistance	3,262,684	\$ 2,474	\$ 21,352
Federal assistance	21,850	527,131	
Activity revenues	177,286		
Meal sales		90,336	
Investment income	58,957		21,311
Other revenues	8,637		
TOTAL REVENUES	4,790,443	619,941	42,663
EXPENDITURES			
Regular programs	1,915,733	56,477	
Special education	209,957	82,865	
Workforce education	187,321		
Adult/continuing education program	184,591		
Compensatory education	1,304	150,343	
Other instructional programs	264,323		
Student support services	135,104	4,831	
Instructional staff support services	174,004	21,560	
General administration support services	161,291	9,254	
School administration support services	270,606		
Business support services	77,117		
Operation and maintenance of plant services	506,129	6,100	
Student transportation services	152,121	2,905	
Central support services	22,419		
Other support services	10,348		
Food services operations	3,696	291,520	
Facilities acquisition and construction services			555,188
Non-programmed costs		2,959	
Activity expenditures	155,783		
Debt service:			
Principal retirement			30,000
Interest and fiscal charges			53,487
TOTAL EXPENDITURES	4,431,847	628,814	638,675
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	358,596	(8,873)	(596,012)
OTHER FINANCING SOURCES (USES)			
Transfers in	3,285	15,000	70,773
Transfers out	(85,773)	(3,285)	
TOTAL OTHER FINANCING SOURCES (USES)	(82,488)	11,715	70,773
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	276,108	2,842	(525,239)
FUND BALANCES - JULY 1	3,356,529	84,085	509,595
FUND BALANCES - JUNE 30	\$ 3,632,637	\$ 86,927	\$ (15,644)

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

DES ARC SCHOOL DISTRICT NO. 5

Exhibit C

PRAIRIE 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

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,190,726	\$ 1,261,029	\$ 70,303			
State assistance	2,957,393	3,262,684	305,291	\$ 3,000	\$ 2,474	\$ (526)
Federal assistance	24,000	21,850	(2,150)	487,027	527,131	40,104
Activity revenues		177,286	177,286			
Meal sales				92,300	90,336	(1,964)
Investment income	50,000	58,957	8,957			
Other revenues	6,800	8,637	1,837			
TOTAL REVENUES	4,228,919	4,790,443	561,524	582,327	619,941	37,614
EXPENDITURES						
Regular programs	1,856,229	1,915,733	(59,504)	76,056	56,477	19,579
Special education	216,681	209,957	6,724	89,363	82,865	6,498
Workforce education	202,261	187,321	14,940			
Adult/continuing education program	216,315	184,591	31,724			
Compensatory education		1,304	(1,304)	157,213	150,343	6,870
Other instructional programs	242,446	264,323	(21,877)			
Student support services	148,648	135,104	13,544	6,000	4,831	1,169
Instructional staff support services	183,788	174,004	9,784	26,477	21,560	4,917
General administration support services	158,880	161,291	(2,411)	9,107	9,254	(147)
School administration support services	269,192	270,606	(1,414)			
Business support services	77,955	77,117	838			
Operation and maintenance of plant services	421,577	506,129	(84,552)	12,352	6,100	6,252
Student transportation services	151,448	152,121	(673)		2,905	(2,905)
Central support services	25,000	22,419	2,581			
Other support services	6,000	10,348	(4,348)			
Food services operations		3,696	(3,696)	261,819	291,520	(29,701)
Community services				500		500
Non-programmed costs					2,959	(2,959)
Activity expenditures		155,783	(155,783)			
TOTAL EXPENDITURES	4,176,420	4,431,847	(255,427)	638,887	628,814	10,073

DES ARC SCHOOL DISTRICT NO. 5
 PRAIRIE 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	\$ 52,499	\$ 358,596	\$ 306,097	\$ (56,560)	\$ (8,873)	\$ 47,687
OTHER FINANCING SOURCES (USES)						
Transfers in	2,123,072	3,285	(2,119,787)	15,000	15,000	
Transfers out	(2,208,574)	(85,773)	2,122,801		(3,285)	(3,285)
TOTAL OTHER FINANCING SOURCES (USES)	(85,502)	(82,488)	3,014	15,000	11,715	(3,285)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(33,003)	276,108	309,111	(41,560)	2,842	44,402
FUND BALANCES - JULY 1	3,335,671	3,356,529	20,858	84,084	84,085	1
FUND BALANCES - JUNE 30	\$ 3,302,668	\$ 3,632,637	\$ 329,969	\$ 42,524	\$ 86,927	\$ 44,403

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

DES ARC SCHOOL DISTRICT NO. 5
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a seven (7) 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 Des Arc 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:

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

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.

DES ARC SCHOOL DISTRICT NO. 5
 PRAIRIE 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

DES ARC SCHOOL DISTRICT NO. 5
PRAIRIE 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. Reserved fund balance - represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Designated fund balance - represents that portion of the fund balance which indicates tentative plans for financial resource utilization in a future period.
3. 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.

DES ARC SCHOOL DISTRICT NO. 5
PRAIRIE 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 8 are nonbudgeted financial data for the year ended June 30, 2006. Such payments are recorded 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	3,381,717	3,549,215
Total Deposits	\$ 3,581,717	\$ 3,749,215

The above total deposits include certificates of deposits of \$782,911 reported as investments and classified as nonparticipating contracts.

3: RECEIVABLES

The receivables of \$169,688 at June 30, 2006, are as follows:

Class of Receivable	General Fund
Taxes:	
Local	\$ 169,688

DES ARC SCHOOL DISTRICT NO. 5
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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
11/1/03	6/1/28	2.75 - 4.75%	\$ 1,350,000	\$ 1,265,000	\$ 85,000

Changes in Long-Term Debt

	Balance July 1, 2005	Issued	Retired	Balance June 30, 2006
Bonds payable	\$ 1,295,000	\$ 0	\$ 30,000	\$ 1,265,000

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

Year Ended June 30,	Principal	Interest	Total
2007	\$ 35,000	\$ 52,263	\$ 87,263
2008	35,000	51,300	86,300
2009	35,000	50,338	85,338
2010	40,000	49,235	89,235
2011	40,000	47,975	87,975
2012-2016	235,000	216,968	451,968
2017-2021	295,000	165,870	460,870
2022-2026	375,000	94,775	469,775
2027-2028	175,000	12,587	187,587
Totals	\$ 1,265,000	\$ 741,311	\$ 2,006,311

5: INTERFUND TRANSFERS

The accompanying financial statements reflect interfund transfers of \$15,000 from the general fund to the special revenue fund to supplement the food services operations, \$70,773 from the general fund to the other aggregate funds for debt related payments and \$3,285 from the special revenue fund to the general fund for reimbursement of expenditures pertaining to the Hurricane Education Recovery program.

DES ARC SCHOOL DISTRICT NO. 5
PRAIRIE 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 \$331,453, \$334,216 and \$252,840, 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 \$2,128, \$1,591 and \$1,561, respectively, equal to the required contributions for each year.

DES ARC SCHOOL DISTRICT NO. 5
PRAIRIE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

7: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 128
Interest	<u>27</u>
TOTAL ADDITIONS	155
DEDUCTIONS	
Scholarships	<u>800</u>
CHANGE IN FUND BALANCE	(645)
FUND BALANCE - JULY 1	<u>1,500</u>
FUND BALANCE - JUNE 30	<u><u>\$ 855</u></u>

8: ON-BEHALF PAYMENTS

The accompanying financial statements reflect on-behalf payments of \$45,872 for health insurance premiums paid by the Arkansas Department of Education.

9: DEFICIT FUND BALANCES

The capital projects fund had a deficit fund balance of \$15,929 at June 30, 2006 due to the recognition of accounts payable pertaining to a construction project. The deficit will be eliminated in the subsequent period.

DES ARC SCHOOL DISTRICT NO. 5
 PRAIRIE 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	<u>\$ 108,371</u>
 <i>Depreciable capital assets:</i>	
Buildings	3,958,243
Improvements/infrastructure	203,295
Equipment	<u>1,181,710</u>
Total depreciable capital assets	<u>5,343,248</u>
 Less accumulated depreciation for:	
Buildings	1,879,166
Improvements/infrastructure	69,881
Equipment	<u>821,267</u>
Total accumulated depreciation	<u>2,770,314</u>
 Total depreciable capital assets, net	<u>2,572,934</u>
 Capital assets, net	<u><u>\$ 2,681,305</u></u>

DES ARC SCHOOL DISTRICT NO. 5
PRAIRIE 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	59-01	\$ 48,356
National School Lunch Program	10.555	59-01	117,741
Total State Department of Education			166,097
Passed Through State Department of Health and Human Services:			
National School Lunch Program (Note 2)	10.555	59-01	15,643
TOTAL CHILD NUTRITION CLUSTER			181,740
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Distance Learning and Telemedicine Loans and Grants	10.855		12,405
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	59-01	167,604
Special Education - Grants to States	84.027	59-01	99,141
State Grants for Innovative Programs	84.298	59-01	2,199
Education Technology State Grants	84.318	59-01	2,358
Rural Education	84.358	59-01	5,768
Improving Teacher Quality State Grants	84.367	59-01	42,957
Hurricane Education Recovery	84.938	59-01	3,285
Total U. S. Department of Education			323,312
TOTAL OTHER PROGRAMS			335,717
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 517,457

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 Des Arc School District No. 5 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.

DES ARC SCHOOL DISTRICT NO. 5
 PRAIRIE 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:

CFDA Numbers	Name of Federal Programs or Cluster
84.010	Title I Grants - Local Educational Agencies
84.027	Special Education - Grants To States

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

Auditee qualified as low-risk auditee? yes no

DES ARC SCHOOL DISTRICT NO. 5
PRAIRIE 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.

DES ARC SCHOOL DISTRICT NO. 5
PRAIRIE 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.