

Searcy County School District No. 17

Searcy County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2005



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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Searcy County School District No. 17 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 Searcy County School District No. 17 (the "District"), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

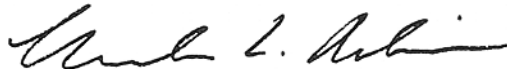
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2005, or the changes in financial position thereof for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary of Prior Audit Findings (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Expenditures of Federal Awards (Schedule 2), Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT



Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
July 20, 2006
EDSD42805

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Searcy County School District No. 17 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 Searcy County School District No. 17 (the "District"), as of and for the year ended June 30, 2005, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated July 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the regulatory basis financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding number 2005-1 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs to be a material weakness.

Compliance and Other Matters

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

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

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 20, 2006

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
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Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Searcy County School District No. 17 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the compliance of the Searcy County School District No. 17 (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs - Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

DIVISION OF LEGISLATIVE AUDIT

William R. Baum
William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 20, 2006

SEARCY COUNTY SCHOOL DISTRICT NO. 17
 SEARCY COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2005

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 2,426,834	\$ 385,526	\$ 410,478	\$ 51,065
Accounts receivable	33,978			
Property taxes receivable	89,062			
TOTAL ASSETS	\$ 2,549,874	\$ 385,526	\$ 410,478	\$ 51,065
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 80,554	\$ 124,920	\$ 45,789	\$ 135
Due student groups				43,911
Total Liabilities	80,554	124,920	45,789	44,046
Fund Balances:				
Reserved:				
Scholarships				7,019
Debt service	146,599			
Unreserved:				
Designated:				
Capital projects			364,689	
Undesignated	2,322,721	260,606		
Total Fund Balances	2,469,320	260,606	364,689	7,019
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,549,874	\$ 385,526	\$ 410,478	\$ 51,065

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

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes	\$ 1,259,593		
Property tax relief trust distribution	344,818		
State assistance	6,977,960	\$ 4,262	
Federal assistance	67,529	1,319,522	
Activity revenues	114,610		
Meal sales		141,707	
Investment income	107,450		
Other revenues	95,765	49,532	
TOTAL REVENUES	8,967,725	1,515,023	
EXPENDITURES			
Regular programs	3,082,580	53,200	\$ 4,470
Special education	435,939	151,682	
Workforce education	192,361	17,750	
Compensatory education	91,526	344,672	
Other instructional programs	215,177		
Student support services	274,697	95,886	
Instructional staff support services	240,186	45,313	
General administration support services	337,269	5,205	
School administration support services	428,381	538	
Business support services	45,078		
Operation and maintenance of plant services	749,110	2,312	38,940
Student transportation services	478,867		
Central support services	161,974	1,834	
Food services operations	3,049	492,917	
Community services		3,064	
Non-programmed costs	148,019	14,479	
Activity expenditures	122,108		
Capital outlay	517,811	129,781	949,937
Debt service:			
Principal retirement	33,806		85,000
Interest and fiscal charges	12,270		127,510
TOTAL EXPENDITURES	7,570,208	1,358,633	1,205,857
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,397,517	156,390	(1,205,857)
OTHER FINANCING SOURCES (USES)			
Transfers in			212,510
Transfers out	(212,510)		
Equity transfer from Leslie School District No. 23	299,288	22,384	
Proceeds from Qualified Zone Academy Bonds			358,225
TOTAL OTHER FINANCING SOURCES (USES)	86,778	22,384	570,735
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,484,295	178,774	(635,122)
FUND BALANCES - JULY 1	985,025	81,832	999,811
FUND BALANCES - JUNE 30	\$ 2,469,320	\$ 260,606	\$ 364,689

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

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2005

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$ 1,169,847	\$ 1,259,593	\$ 89,746			
Property tax relief trust distribution		344,818	344,818			
State assistance	6,068,867	6,977,960	909,093	\$ 3,400	\$ 4,262	\$ 862
Federal assistance	20,000	67,529	47,529	1,121,658	1,319,522	197,864
Activity revenues		114,610	114,610			
Meal sales				195,534	141,707	(53,827)
Investment income	25,000	107,450	82,450			
Other revenues		95,765	95,765		49,532	49,532
TOTAL REVENUES	7,283,714	8,967,725	1,684,011	1,320,592	1,515,023	194,431
EXPENDITURES						
Regular programs	2,778,242	3,082,580	(304,338)	42,500	53,200	(10,700)
Special education	513,628	435,939	77,689	204,496	151,682	52,814
Workforce education	181,838	192,361	(10,523)	27,382	17,750	9,632
Compensatory education	52,687	91,526	(38,839)	260,751	344,672	(83,921)
Other instructional programs	157,319	215,177	(57,858)			
Student support services	267,468	274,697	(7,229)	116,250	95,886	20,364
Instructional staff support services	238,188	240,186	(1,998)	44,549	45,313	(764)
General administration support services	333,362	337,269	(3,907)		5,205	(5,205)
School administration support services	414,766	428,381	(13,615)		538	(538)
Business support services	44,998	45,078	(80)			
Operation and maintenance of plant services	490,951	749,110	(258,159)		2,312	(2,312)
Student transportation services	535,727	478,867	56,860			
Central support services	122,507	161,974	(39,467)		1,834	(1,834)
Food services operations	20,359	3,049	17,310	444,337	492,917	(48,580)
Community services					3,064	(3,064)
Non-programmed costs	75,000	148,019	(73,019)	13,531	14,479	(948)
Activity expenditures		122,108	(122,108)			
Capital outlay		517,811	(517,811)		129,781	(129,781)
Debt service:						
Principal retirement	45,860	33,806	12,054			
Interest and fiscal charges		12,270	(12,270)			
TOTAL EXPENDITURES	6,272,900	7,570,208	(1,297,308)	1,153,796	1,358,633	(204,837)

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2005

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 1,010,814	\$ 1,397,517	\$ 386,703	\$ 166,796	\$ 156,390	\$ (10,406)
OTHER FINANCING SOURCES (USES)						
Transfers out	(153,606)	(212,510)	(58,904)			
Equity transfer from Leslie School District No. 23		299,288	299,288		22,384	22,384
TOTAL OTHER FINANCING SOURCES (USES)	(153,606)	86,778	240,384		22,384	22,384
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	857,208	1,484,295	627,087	166,796	178,774	11,978
FUND BALANCES - JULY 1	726,607	985,025	258,418	117,228	81,832	(35,396)
FUND BALANCES - JUNE 30	\$ 1,583,815	\$ 2,469,320	\$ 885,505	\$ 284,024	\$ 260,606	\$ (23,418)

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

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five (5) 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 Searcy County School District (District). There are no component units.

B. Description of Funds

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

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

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

Other governmental funds consist of the following:

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.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

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 that are due at the end of the fiscal year and collected within 60 days are accrued. Deferred property taxes are not recognized.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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.

H. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

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

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

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 106,106	\$ 106,109
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	3,021,198	3,870,541
Total Deposits	\$ 3,127,304	\$ 3,976,650

The above total deposits do not include cash in the amount of \$146,599 which was held by Bank of America for the retirement of Qualified Zone Academy Bonds (QZABs) and invested in U.S. Government securities. See Note 11.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

3: RECEIVABLES

The receivables of \$123,040 at June 30, 2005, are as follows:

<u>Class of Receivable</u>	<u>General Fund</u>
Taxes:	
Local	\$ 89,062
Accounts	<u>33,978</u>
 Total	 <u>\$ 123,040</u>

4: COMMITMENTS

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

Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2005</u>	<u>Maturities To June 30, 2005</u>
12/01/03	06/01/33	3.25-5.00%	\$ 2,750,000	\$ 2,650,000	\$ 100,000
09/01/92	02/01/07	4.50-5.10%	356,650	90,000	266,650
10/23/02	05/01/12	4.95%	25,000	17,500	7,500
10/23/02	05/01/12	4.95%	150,000	105,000	45,000
02/14/02	02/14/12	0.00%	580,252	580,252	
05/27/05	05/27/15	0.00%	358,225	358,225	
06/20/01	06/20/11	6.50%	81,593	55,036	26,557
08/14/02	08/14/07	5.28%	<u>49,867</u>	<u>24,071</u>	<u>25,796</u>
 Totals			 <u>\$ 4,351,587</u>	 <u>\$ 3,880,084</u>	 <u>\$ 471,503</u>

Changes in Long-term Debt

	<u>Balance Marshall School District July 1, 2004</u>	<u>Balance Leslie School District July 1, 2004</u>	<u>Adjusted Balance July 1, 2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2005</u>
Bonds payable	\$ 2,700,000	\$ 125,000	\$ 2,825,000		\$ 85,000	\$ 2,740,000
Certificates of indebtedness		140,000	140,000		17,500	122,500
Postdated warrants	580,252		580,252	\$ 358,225		938,477
Capital leases	<u>62,325</u>	<u>33,088</u>	<u>95,413</u>		<u>16,306</u>	<u>79,107</u>
 Totals	 <u>\$ 3,342,577</u>	 <u>\$ 298,088</u>	 <u>\$ 3,640,665</u>	 <u>\$ 358,225</u>	 <u>\$ 118,806</u>	 <u>\$ 3,880,084</u>

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

4: COMMITMENTS (Continued)

Long-term Debt Issued and Outstanding (Continued)

The above schedule reflects the addition of long-term debt from Leslie School District which was annexed into the Marshall School District, now known as the Searcy County School District.

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

Year Ended June 30,	Principal	Interest	Total
2006	\$ 131,505	\$ 133,882	\$ 265,387
2007	141,738	127,908	269,646
2008	83,214	121,641	204,855
2009	86,915	118,379	205,294
2010	87,536	114,941	202,477
2011-2015	1,319,176	524,088	1,843,264
2016-2020	410,000	448,553	858,553
2021-2025	505,000	350,880	855,880
2026-2030	645,000	217,250	862,250
2031-2033	470,000	47,750	517,750
Totals	<u>\$ 3,880,084</u>	<u>\$ 2,205,272</u>	<u>\$ 6,085,356</u>

Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2005
Equipment	\$ 61,561
Excel lighting	81,593
Total	<u>\$ 143,154</u>
	<u>June 30, 2005</u>
Total Minimum Lease Payments	\$ 92,924
Less: Amount Representing Interest	<u>13,817</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 79,107</u>

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

5: ACCOUNTS, SALARIES AND OTHER PAYABLES

The payables of \$251,398 at June 30, 2005, are as follows:

	General Fund	Special Revenue Fund	Capital Projects Fund	Fiduciary	Total
Accounts	\$ 80,554	\$ 124,920	\$ 45,789	\$ 135	\$ 251,398

6: INTERFUND TRANSFERS

Transfers totaling \$212,510 were made from the Operating Fund to the Debt Service Fund for debt related payments.

7: RETIREMENT PLANS

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%. The District's contributions to ATRS for the years ended June 30, 2005, 2004 and 2003 were \$594,220, \$378,557 and \$282,795, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteaching Arkansas public school employees hired before July 1, 1989. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2005, 2004 and 2003 were \$529, \$389 and \$982, respectively, equal to the required contributions for each year.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 245
Interest	24
Equity transfer from Leslie School District No. 23	<u>1,918</u>
 TOTAL ADDITIONS	 2,187
 DEDUCTIONS	
Scholarships	<u>1,250</u>
 CHANGE IN FUND BALANCE	 937
 FUND BALANCE - JULY 1	 <u>6,082</u>
 FUND BALANCE - JUNE 30	 <u><u>\$ 7,019</u></u>

9: DEFICIT FUND BALANCES

The Food Services Fund had a deficit fund balance of \$5,897 as a result of accruing accounts payable of \$5,897.

10: SUBSEQUENT EVENTS

On December 20, 2005, the District agreed to assume financial and academic control of the North Central Career Center located at Leslie, Arkansas.

11: QUALIFIED ZONE ACADEMY BONDS (QZAB)

The District issued Qualified Zone Academy Bonds (QZABs) on February 14, 2002 and May 27, 2005. QZABs are a financing vehicle created by the Tax Relief Act of 1997. QZABs do not generally require interest payments from the borrower. The eligible financial institution holding the bond receives a tax credit in lieu of interest payments. The principal is not due until the end of the term. The borrower makes deposits into a sinking fund account annually and the sinking fund earns interest. The District borrowed \$580,252 in 2002 and \$358,225 in 2005 using this method by issuing post-dated warrants. Required annual sinking fund deposits are: \$45,860 each year for ten years to Bank of America for a total of \$458,600 for the 2002 issue and \$33,988 each year for ten years to U.S. Bank for a total of \$339,880 for the 2005 issue. These amounts plus interest will be used to retire the debt when due. The balance in the sinking fund for the 2002 issue at June 30, 2005 was \$146,599. No deposits had been made to the sinking fund for the 2005 issue at June 30, 2005.

12: ADVANCED REFUNDING OF DEBT

In December 2003, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Agency's financial statements.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

12: ADVANCED REFUNDING OF DEBT (Continued)

As of June 30, 2005, the escrow fund established to provide the retirement of the bonds being refunded had a balance of \$1,374,296. The remaining principal amount of the outstanding bonds considered defeased was \$1,340,000. The bonds can be called for redemption on or after June 1, 2006.

13: CONSOLIDATION

Pursuant to Act 60 of 2003, effective July 1, 2004, the Leslie School District annexed with the Marshall School District. The annexed school district became known as the Searcy County School District.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

Schedule 1

	Balance Marshall School District July 1, 2004	Balance Leslie School District July 1, 2004	Adjusted Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<i>Nondepreciable capital assets:</i>						
Land	\$ 96,687	\$ 103,546	\$ 200,233			\$ 200,233
<i>Depreciable capital assets:</i>						
Buildings	3,630,879	1,830,611	5,461,490	\$ 1,104,233		6,565,723
Improvements/infrastructure	183,052	192,968	376,020	42,944		418,964
Equipment	2,127,010	433,247	2,560,257	478,052	\$ 153,718	2,884,591
Total depreciable capital assets	<u>5,940,941</u>	<u>2,456,826</u>	<u>8,397,767</u>	<u>1,625,229</u>	<u>153,718</u>	<u>9,869,278</u>
Less accumulated depreciation for:						
Buildings	1,512,271	1,023,934	2,536,205	88,255		2,624,460
Improvements/infrastructure	51,322	42,836	94,158	16,237		110,395
Equipment	1,199,038	159,309	1,358,347	388,096	28,790	1,717,653
Total accumulated depreciation	<u>2,762,631</u>	<u>1,226,079</u>	<u>3,988,710</u>	<u>492,588</u>	<u>28,790</u>	<u>4,452,508</u>
Total depreciable capital assets, net	<u>3,178,310</u>	<u>1,230,747</u>	<u>4,409,057</u>	<u>1,132,641</u>	<u>124,928</u>	<u>5,416,770</u>
Capital assets, net	<u>\$ 3,274,997</u>	<u>\$ 1,334,293</u>	<u>\$ 4,609,290</u>	<u>\$ 1,132,641</u>	<u>\$ 124,928</u>	<u>\$ 5,617,003</u>

Note 1: The above schedule reflects the addition of fixed assets from Leslie School District, which was annexed into the Marshall School District, now known as the Searcy County School District No. 17.

Note 2: Included in equipment additions were donations of \$27,700.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	65-02	\$ 64,408
National School Lunch Program	10.555	65-02	217,253
Total State Department of Education			<u>281,661</u>
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	65-02	25,517
Summer Food Service Program for Children	10.559	65-02	18,104
Total State Department of Human Services			<u>43,621</u>
TOTAL CHILD NUTRITION CLUSTER			<u>325,282</u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Delta Rural Systems Grant	47.076	65-02	325
Title I Grants - Local Educational Agencies	84.010	65-02	397,927
Special Education - Grants to States	84.027	65-02	202,973
Vocational Education - Basic Grants to States	84.048	65-02	27,278
Indian Education Grants to Local Educational Agencies	84.060	65-02	92,721
Special Education - Preschool Grant	84.173	65-02	9,005
Safe and Drug-Free Schools and Communities - State Grants	84.186	65-02	14,393
State Grants For Innovative Programs	84.298	65-02	6,224
Education Technology State Grants	84.318	65-02	6,865
Special Education - Technical Assistance and Dissemination	84.326	65-02	1,390
Reading First Grant	84.357	65-02	12,000
Rural Education	84.358	65-02	7,420
Improving Teacher Quality State Grants	84.367	65-02	41,669
Total U. S. Department of Education			<u>820,190</u>
<u>U.S. Department of Health and Human Services</u>			
Passed Through State Department of Health:			
Acquired Immunodeficiency Syndrome Activity Grant	93.118	65-02	75
TOTAL OTHER PROGRAMS			<u>820,265</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,145,547</u>

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Searcy County School District No. 17 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.
- Note 2: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
 SEARCY COUNTY, ARKANSAS
 FEDERAL AWARD PROGRAMS -
 FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2005

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Types of auditor's reports issued: GAAP basis of reporting - adverse
 Regulatory basis opinion units - unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? yes no

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITIONS

2005-1. Segregation of Duties

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

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

Context: Completion of internal control questionnaire.

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

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

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

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings and questioned costs noted.

SEARCY COUNTY SCHOOL DISTRICT NO. 17
SEARCY COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Schedule 4

There were no findings in the prior audit.