

# **Nashville School District No. 1**

**Howard County, Arkansas**

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

**June 30, 2006**



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

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Nashville School District No. 1 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 Nashville School District No. 1 (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.

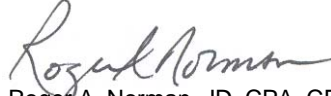
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 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 January 16, 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  
January 16, 2007  
EDSD16606

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*

Nashville School District No. 1 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 Nashville School District No. 1 (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 January 16, 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

*William R. Baum*

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
January 16, 2007

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



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Nashville School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

#### Compliance

We have audited the compliance of the Nashville School District No. 1 (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

*William R. Baum*

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
January 16, 2007

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2006

Exhibit A

	Governmental Funds		
	Major		
	General	Special Revenue	Fiduciary Fund Types
ASSETS			
Cash	\$ 3,014,474	\$ 213,153	\$ 51,501
Investments			37,182
Property taxes receivable	579,756		
 TOTAL ASSETS	\$ 3,594,230	\$ 213,153	\$ 88,683
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Due student groups			\$ 50,901
 Fund Balances:			
Reserved:			
Endowment			37,182
Scholarships			600
Unreserved:			
Undesignated	\$ 3,594,230	\$ 213,153	
Total Fund Balances	3,594,230	213,153	37,782
 TOTAL LIABILITIES AND FUND BALANCES	\$ 3,594,230	\$ 213,153	\$ 88,683

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

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD 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	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 3,788,870		
State assistance	8,409,927	\$ 6,533	
Federal assistance		1,839,021	
Activity revenues	284,800		
Meal sales		216,872	
Investment income	113,016	174	
Other revenues	88,766	17,929	
<b>TOTAL REVENUES</b>	<b>12,685,379</b>	<b>2,080,529</b>	
<b>EXPENDITURES</b>			
Regular programs	5,654,265	148,592	
Special education	849,165	263,792	
Workforce education	720,035	27,271	
Compensatory education	127,249	488,991	
Other instructional programs	177,479		
Student support services	434,900	51,647	
Instructional staff support services	400,229	203,384	
General administration support services	277,036	21,794	
School administration support services	771,317		
Business support services	87,835		
Operation and maintenance of plant services	979,634	5,512	
Student transportation services	536,132	2,590	
Central support services	109,350	1,947	
Other support services	3,763		
Food services operations	8,391	797,046	
Community services		578	
Facilities acquisition and construction services	253,176		
Non-programmed costs	90	3,825	
Activity expenditures	254,784		
Debt service:			
Principal retirement			\$ 425,000
Interest and fiscal charges			129,628
<b>TOTAL EXPENDITURES</b>	<b>11,644,830</b>	<b>2,016,969</b>	<b>554,628</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,040,549</b>	<b>63,560</b>	<b>(554,628)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			554,628
Transfers out	(554,628)		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(554,628)</b>		<b>554,628</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>485,921</b>	<b>63,560</b>	
<b>FUND BALANCES - JULY 1</b>	<b>3,108,309</b>	<b>149,593</b>	
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 3,594,230</b>	<b>\$ 213,153</b>	<b>\$ 0</b>

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

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD 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)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 3,179,410	\$ 3,788,870	\$ 609,460			
State assistance	7,886,649	8,409,927	523,278		\$ 6,533	\$ 6,533
Federal assistance				\$ 578,099	1,839,021	1,260,922
Activity revenues	75,000	284,800	209,800			
Meal sales					216,872	216,872
Investment income		113,016	113,016		174	174
Other revenues		88,766	88,766		17,929	17,929
<b>TOTAL REVENUES</b>	<b>11,141,059</b>	<b>12,685,379</b>	<b>1,544,320</b>	<b>578,099</b>	<b>2,080,529</b>	<b>1,502,430</b>
<b>EXPENDITURES</b>						
Regular programs	5,772,930	5,654,265	118,665	118,669	148,592	(29,923)
Special education	717,270	849,165	(131,895)	13,929	263,792	(249,863)
Workforce education	740,048	720,035	20,013	32,234	27,271	4,963
Compensatory education	27,096	127,249	(100,153)	442,581	488,991	(46,410)
Other instructional programs	189,276	177,479	11,797			
Student support services	401,713	434,900	(33,187)	9,284	51,647	(42,363)
Instructional staff support services	383,138	400,229	(17,091)	42,267	203,384	(161,117)
General administration support services	448,741	277,036	171,705	21,251	21,794	(543)
School administration support services	780,895	771,317	9,578			
Business support services	82,711	87,835	(5,124)			
Operation and maintenance of plant services	1,146,204	979,634	166,570		5,512	(5,512)
Student transportation services	559,984	536,132	23,852	2,400	2,590	(190)
Central support services	220,004	109,350	110,654		1,947	(1,947)
Other support services	5,000	3,763	1,237			
Food services operations		8,391	(8,391)		797,046	(797,046)
Community services				1,000	578	422
Facilities acquisition and construction services	350,000	253,176	96,824			
Non-programmed costs	10,000	90	9,910	6,215	3,825	2,390
Activity expenditures	81,000	254,784	(173,784)			
<b>TOTAL EXPENDITURES</b>	<b>11,916,010</b>	<b>11,644,830</b>	<b>271,180</b>	<b>689,830</b>	<b>2,016,969</b>	<b>(1,327,139)</b>

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD 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	\$ (774,951)	\$ 1,040,549	\$ 1,815,500	\$ (111,731)	\$ 63,560	\$ 175,291
OTHER FINANCING SOURCES (USES)						
Transfers in	6,615,248		(6,615,248)			
Transfers out	(7,168,999)	(554,628)	6,614,371			
TOTAL OTHER FINANCING SOURCES (USES)	(553,751)	(554,628)	(877)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,328,702)	485,921	1,814,623	(111,731)	63,560	175,291
FUND BALANCES - JULY 1	3,173,053	3,108,309	(64,744)	148,950	149,593	643
FUND BALANCES - JUNE 30	\$ 1,844,351	\$ 3,594,230	\$ 1,749,879	\$ 37,219	\$ 213,153	\$ 175,934

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

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**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 Nashville 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.

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD 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

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD 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 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.

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. 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. 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.

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

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

H. Budget and Budgetary Accounting (Continued)

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)	\$ 100,000	\$ 100,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	3,216,310	4,512,235
Total Deposits	\$ 3,316,310	\$ 4,612,235

The above total deposits include certificates of deposits of \$37,182 reported as investments and classified as nonparticipating contracts.

**3: RECEIVABLES**

The receivables of \$579,756 at June 30, 2006, are as follows:

Class of Receivable	General Fund
Taxes:	
Local	\$ 579,756

**4: COMMITMENTS**

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
High School Roof	July 31, 2006	\$ 117,669

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**4: COMMITMENTS (Continued)**

B. 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
4/26/2001	4/1/2014	3.75-4.5%	\$ 817,196	\$ 560,000	\$ 257,196
8/1/2003	4/1/2014	2-3.4%	4,410,000	3,375,000	1,035,000
Totals			<u>\$ 5,227,196</u>	<u>\$ 3,935,000</u>	<u>\$ 1,292,196</u>

Changes in Long-term Debt

	Balance July 1, 2005	Retired	Balance June 30, 2006
Bonds payable	<u>\$ 4,360,000</u>	<u>\$ 425,000</u>	<u>\$ 3,935,000</u>

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

Year Ended June 30,	Principal	Interest	Total
2007	\$ 440,000	\$ 118,861	\$ 558,861
2008	455,000	108,406	563,406
2009	465,000	96,755	561,755
2010	485,000	84,025	569,025
2011	495,000	70,088	565,088
2012-2016	1,595,000	119,005	1,714,005
Totals	<u>\$ 3,935,000</u>	<u>\$ 597,140</u>	<u>\$ 4,532,140</u>

**5: INTERFUND TRANSFERS**

The Statement of Revenues, Expenditures and Changes in Fund Balances reflects interfund transfers of \$554,628 from the General Fund to the Debt Service Fund for debt related payments.

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD 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 \$1,086,244, \$982,148 and \$802,941, 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 \$961, \$1,221 and \$1,518, respectively, equal to the required contributions for each year.

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

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

ADDITIONS	
Donations	\$ 400
Interest	<u>669</u>
 TOTAL ADDITIONS	 <u>1,069</u>
DEDUCTIONS	
Scholarships	(2,100)
Student Support	<u>(414)</u>
 TOTAL DEDUCTIONS	 <u>(2,514)</u>
 CHANGE IN FUND BALANCE	 (1,445)
 FUND BALANCE - JULY 1	 <u>39,227</u>
 FUND BALANCE - JUNE 30	 <u><u>\$ 37,782</u></u>

**8: PRIVATE PURPOSE TRUST FUNDS**

The District maintains four (4) scholarship funds. They were endowed by various individuals and in memory of certain individuals. The scholarships are funded by donations and interest earned on investments. Scholarship recipients are selected by committees in accordance with stipulations set forth by the endowing parties.

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD 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	\$ 330,498
<i>Depreciable capital assets:</i>	
Buildings	11,132,717
Improvements/infrastructure	86,013
Equipment	2,917,535
Total depreciable capital assets	14,136,265
Less accumulated depreciation for:	
Buildings	5,148,703
Improvements/infrastructure	11,795
Equipment	2,126,864
Total accumulated depreciation	7,287,362
Total depreciable capital assets, net	6,848,903
Capital assets, net	\$ 7,179,401

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD 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
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	31-05-000	\$ 130,651
National School Lunch Program	10.555	31-05-000	394,583
Total State Department of Education			525,234
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	3105	36,433
Summer Food Service Program for Children	10.559		6,929
Total State Department of Human Services (Note 3)			43,362
<b>TOTAL CHILD NUTRITION CLUSTER</b>			<b>568,596</b>
 <b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	31-05	403,527
Special Education - Grants to States	84.027	31-05	329,755
Vocational Education - Basic Grants to States	84.048	L-31-05-000	27,271
Safe and Drug-Free Schools and Communities - National Programs (Note 3)	84.184		44,175
Safe and Drug-Free Schools and Communities - State Grants	84.186	31-05	13,401
State Grants For Innovative Programs	84.298	31-05	11,145
Education Technology State Grants (Note 3)	84.318		4,359
Reading First State Grants	84.357	31-05-012	225,980
Rural Education	84.358	3105000	8,113
Improving Teacher Quality State Grants	84.367	31-05	114,549
Hurricane Education Recovery Act (Note 3)	84.938		24,090
<b>TOTAL OTHER PROGRAMS</b>			<b>1,206,365</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 1,774,961</b>

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 Nashville School District No. 1 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 Human Services.
- Note 3: The Agency or Pass-Through number was not available.

NASHVILLE SCHOOL DISTRICT NO. 1  
 HOWARD COUNTY, ARKANSAS  
 FEDERAL AWARD PROGRAMS -  
 FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2006

Schedule 3

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

FEDERAL AWARDS

Internal control over major programs:

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

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
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

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDING**

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.

NASHVILLE SCHOOL DISTRICT NO. 1  
HOWARD 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.