

Nashville School District No. 1

Howard County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2007



NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
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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

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, 2007, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2007, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
April 16, 2008
EDSD16607

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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, 2007, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated April 16, 2008. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

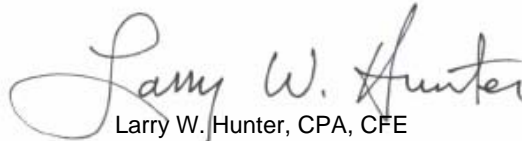
Compliance and Other Matters

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

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

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
April 16, 2008

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

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, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs - Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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, 2007.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

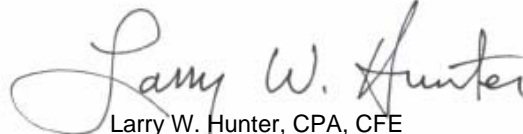
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter". The signature is written in black ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
April 16, 2008

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2007

Exhibit A

	Governmental Funds		
	Major		
	General	Special Revenue	Fiduciary Fund Types
ASSETS			
Cash	\$ 3,271,202	\$ 203,177	\$ 55,592
Investments			36,364
Accounts receivable	1,200	7,169	
Property taxes receivable	510,397		
 TOTAL ASSETS	\$ 3,782,799	\$ 210,346	\$ 91,956
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Due student groups			\$ 55,417
Fund Balances:			
Reserved:			
Endowment			36,364
Scholarships			175
Unreserved:			
Undesignated	\$ 3,782,799	\$ 210,346	
Total Fund Balances	3,782,799	210,346	36,539
 TOTAL LIABILITIES AND FUND BALANCES	\$ 3,782,799	\$ 210,346	\$ 91,956

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

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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, 2007

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 3,547,679		
State assistance	8,560,168	\$ 7,380	
Federal assistance		1,831,761	
Activity revenues	239,194		
Meal sales		207,594	
Investment income	159,328	161	
Other revenues	109,077	41,409	
TOTAL REVENUES	12,615,446	2,088,305	
EXPENDITURES			
Regular programs	5,960,501	119,169	
Special education	930,644	198,043	
Workforce education	793,992	32,394	
Compensatory education	55,562	472,719	
Other instructional programs	185,863		
Student support services	452,855	44,416	
Instructional staff support services	417,276	315,941	
General administration support services	297,505	21,575	
School administration support services	782,056		
Business support services	179,761	32,549	
Operation and maintenance of plant services	1,001,245		
Student transportation services	465,956		
Other support services	4,729		
Food services operations	39,782	854,307	
Facilities acquisition and construction services	26,250		
Activity expenditures	272,911		
Debt Service:			
Principal retirement			\$ 440,000
Interest and fiscal charges			119,989
TOTAL EXPENDITURES	11,866,888	2,091,113	559,989
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	748,558	(2,808)	(559,989)
OTHER FINANCING SOURCES (USES)			
Transfers in			559,989
Transfers out	(559,989)		
TOTAL OTHER FINANCING SOURCES (USES)	(559,989)		559,989
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	188,569	(2,808)	
FUND BALANCES - JULY 1	3,594,230	213,154	
FUND BALANCES - JUNE 30	\$ 3,782,799	\$ 210,346	\$ 0

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, 2007

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 3,390,054	\$ 3,547,679	\$ 157,625			
State assistance	8,280,562	8,560,168	279,606		\$ 7,380	\$ 7,380
Federal assistance				\$ 597,530	1,831,761	1,234,231
Activity revenues		239,194	239,194			
Meal sales					207,594	207,594
Investment income	50,000	159,328	109,328		161	161
Other revenues	2,500	109,077	106,577		41,409	41,409
TOTAL REVENUES	11,723,116	12,615,446	892,330	597,530	2,088,305	1,490,775
EXPENDITURES						
Regular programs	6,049,185	5,960,501	88,684	113,404	119,169	(5,765)
Special education	751,423	930,644	(179,221)		198,043	(198,043)
Workforce education	774,220	793,992	(19,772)		32,394	(32,394)
Compensatory education	134,758	55,562	79,196	404,125	472,719	(68,594)
Other instructional programs	187,492	185,863	1,629			
Student support services	482,597	452,855	29,742	8,000	44,416	(36,416)
Instructional staff support services	477,407	417,276	60,131	71,818	315,941	(244,123)
General administration support services	333,619	297,505	36,114	22,200	21,575	625
School administration support services	800,387	782,056	18,331			
Business support services	198,264	179,761	18,503	51,912	32,549	19,363
Operation and maintenance of plant services	1,304,277	1,001,245	303,032			
Student transportation services	596,446	465,956	130,490			
Other support services	5,000	4,729	271			
Food services operations		39,782	(39,782)		854,307	(854,307)
Community services				1,000		1,000
Facilities acquisition and construction services	300,000	26,250	273,750			
Non-programmed costs	10,000		10,000	6,498		6,498
Activity expenditures		272,911	(272,911)			
TOTAL EXPENDITURES	12,405,075	11,866,888	538,187	678,957	2,091,113	(1,412,156)

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, 2007

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (681,959)	\$ 748,558	\$ 1,430,517	\$ (81,427)	\$ (2,808)	\$ 78,619
OTHER FINANCING SOURCES (USES)						
Transfers in	7,003,675		(7,003,675)	20,000		(20,000)
Transfers out	(7,584,536)	(559,989)	7,024,547			
TOTAL OTHER FINANCING SOURCES (USES)	(580,861)	(559,989)	20,872	20,000		(20,000)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,262,820)	188,569	1,451,389	(61,427)	(2,808)	58,619
FUND BALANCES - JULY 1	3,683,056	3,594,230	(88,826)	213,009	213,154	145
FUND BALANCES - JUNE 30	\$ 2,420,236	\$ 3,782,799	\$ 1,362,563	\$ 151,582	\$ 210,346	\$ 58,764

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

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NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five 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.

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.

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

E. Capital Assets

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

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

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 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.

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Taxes (Continued)

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

G. 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.

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

On-behalf payments as described at Note 9 are nonbudgeted data for the year ended June 30, 2007. Such payments are reported as actual revenues and expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis (Exhibit C).

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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)	\$ 118,309	\$ 118,309
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	3,448,026	4,626,207
Total Deposits	\$ 3,566,335	\$ 4,744,516

The above total deposits include certificates of deposit of \$36,364 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$8,369 at June 30, 2007 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 1,200		\$ 1,200
Federal assistance		\$ 7,169	7,169
Totals	\$ 1,200	\$ 7,169	\$ 8,369

4: COMMITMENTS

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Primary School addition	June 30, 2008	\$ 42,250

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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, 2007	Maturities To June 30, 2007
4/26/01	4/1/14	3.75 - 4.5%	\$ 817,196	\$ 500,000	\$ 317,196
8/1/03	4/1/14	2 - 3.4%	4,410,000	2,995,000	1,415,000
Totals			<u>\$ 5,227,196</u>	<u>\$ 3,495,000</u>	<u>\$ 1,732,196</u>

Changes in Long-term Debt

	Balance July 1, 2006	Issued	Retired	Balance June 30, 2007
Bonds payable	<u>\$ 3,935,000</u>	<u>\$ 0</u>	<u>\$ 440,000</u>	<u>\$ 3,495,000</u>

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

Year Ended June 30,	Principal	Interest	Total
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	515,000	54,682	569,682
2013-2014	1,080,000	64,323	1,144,323
Totals	<u>\$ 3,495,000</u>	<u>\$ 478,279</u>	<u>\$ 3,973,279</u>

5: INTERFUND TRANSFERS

The District transferred \$559,989 from the general fund to the other aggregate funds for debt related payments.

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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, 2007, 2006 and 2005 were \$1,140,349, \$1,086,244 and \$982,148, 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, 2007, 2006 and 2005 were \$714, \$961 and \$1,221, respectively, equal to the required contributions for each year.

7: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS

Donations	\$	50
Interest		1,857
		1,857
 TOTAL ADDITIONS		 1,907

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

7: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS (CONTINUED)

DEDUCTIONS	
Scholarships	\$ 3,150
CHANGE IN FUND BALANCE	(1,243)
FUND BALANCE - JULY 1	37,782
FUND BALANCE - JUNE 30	\$ 36,539

8: PRIVATE-PURPOSE TRUST FUNDS

The District maintains the Nashville High School Scholarship Fund and awards scholarships each year to graduating students to attend an institution of higher learning. The endowed portion of the scholarship fund of \$36,364 is maintained in certificates of deposit classified as nonparticipating contracts. The Nashville High School Scholarship fund includes four scholarship funds endowed by various individuals and in memory of certain individuals. These 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.

9: ON-BEHALF PAYMENTS

The accompanying financial statements reflect on-behalf payments of \$110,106 for health insurance premiums paid by the Arkansas Department of Education.

10: RISK MANAGEMENT

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

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

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

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

11: SUBSEQUENT EVENTS

On March 13, 2008, the District issued construction bonds of \$970,000.

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2007
(Unaudited)

Schedule 1

	Balance June 30, 2007
<i>Nondepreciable capital assets:</i>	
Land	\$ 330,498
<i>Depreciable capital assets:</i>	
Buildings	11,132,717
Improvements/infrastructure	86,013
Equipment	2,898,501
Total depreciable capital assets	14,117,231
Less accumulated depreciation for:	
Buildings	5,371,910
Improvements/infrastructure	16,096
Equipment	2,224,446
Total accumulated depreciation	7,612,452
Total depreciable capital assets, net	6,504,779
Capital assets, net	\$ 6,835,277

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	31-05-000	\$ 149,884
National School Lunch Program	10.555	31-05-000	439,262
Total State Department of Education			589,146
Passed Through State Department of Health and Human Services:			
Summer Food Service Program for Children	10.559	SA164	10,834
TOTAL CHILD NUTRITION CLUSTER			599,980
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Food Donation (Note 2)	10.550		1,748
Passed Through State Department of Health and Human Services:			
Food Donation (Note 3)	10.550	3105	38,193
Total U. S. Department of Agriculture			39,941
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	31-05	463,639
Special Education - Grants to States	84.027	31-05	248,871
Safe and Drug-Free Schools and Communities - State Grants	84.186	31-05	10,443
State Grants for Innovative Programs	84.298	31-05	4,459
Education Technology State Grants	84.318	31-05	10,527
Reading First State Grants	84.357	31-05-012	230,800
Rural Education	84.358	3105000	81,529
Improving Teacher Quality State Grants	84.367	31-05	110,134
Hurricane Education Recovery	84.938	3105000	8,910
Passed Through State Department of Workforce Education:			
Career and Technical Education - Basic Grants to States	84.048	L-31-05-000	32,393
Total U. S. Department of Education			1,201,705
TOTAL OTHER PROGRAMS			1,241,646
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,841,626

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 U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Health and Human Services.
- Note 4: During the year ended June 30, 2007, the District received Medicaid funding of \$7,472 from the State Department of Health and Human Services. Such payments are not considered Federal awards expended and therefore are not included in the above schedule.

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

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
- Significant deficiencies 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
- Significant deficiencies 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, and 10.559	Child Nutrition Cluster
84.010	Title I Grants - Local Educational Agencies

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

Auditee qualified as low-risk auditee? yes no

NASHVILLE SCHOOL DISTRICT NO. 1
HOWARD COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

2007-1. Segregation of Duties

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

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

Context: Completion of internal control questionnaire.

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

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

Recommendation: To achieve effective internal control over financial reporting, accounting duties should be distributed among appropriate employees.

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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, 2007

Schedule 4

There were no findings in the prior audit.