

# **Newport School District**

**Jackson County, Arkansas**

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

**June 30, 2008**

LEGISLATIVE JOINT AUDITING COMMITTEE

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NEWPORT SCHOOL DISTRICT  
JACKSON COUNTY, ARKANSAS  
TABLE OF CONTENTS  
JUNE 30, 2008

Independent Auditor's Report  
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*  
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133  
Management Letter

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet – Regulatory Basis	A
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis	B
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis	C
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	3
Federal Award Programs – Summary Schedule of Prior Audit Findings	4
Schedule of Selected Information for the Last Four Years – Regulatory Basis (Unaudited)	5

**Sen. Bobby L. Glover**  
Senate Co-Chair  
**Rep. Johnny Hoyt**  
House Co-Chair  
**Sen. Bill Pritchard**  
Senate Co-Vice Chair  
**Rep. Beverly Pyle**  
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

Newport School District and School Board Members  
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Newport School District (the "District"), as of and for the year ended June 30, 2008, 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 previously 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, 2008, 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 previously 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, 2008, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2009 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), Schedule of 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*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs – Summary Schedule of Prior Audit Findings (Schedule 4) and Schedule of Selected Information for the Last Four Years – Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary Schedule 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) and the Schedule of Selected Information for the Last Four Years – Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, Arkansas  
August 13, 2009  
EDSD18508

Sen. Bobby L. Glover  
Senate Co-Chair  
Rep. Johnny Hoyt  
House Co-Chair  
Sen. Bill Pritchard  
Senate Co-Vice Chair  
Rep. Beverly Pyle  
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

Newport School District and School Board Members  
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Newport School District (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated August 13, 2009. 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, 2008, 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 opinions 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2008-1 and 2008-2 to be significant deficiencies 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 deficiencies described above, we consider items 2008-1 and 2008-2 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Compliance and Other Matters

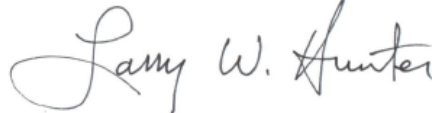
As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, 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*.

We noted certain matters that we reported to management of the District in a separate letter dated August 13, 2009.

The District's response to the findings identified in our audit, excluding the management letter findings, is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
August 13, 2009

**Sen. Bobby L. Glover**  
Senate Co-Chair  
**Rep. Johnny Hoyt**  
House Co-Chair  
**Sen. Bill Pritchard**  
Senate Co-Vice Chair  
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House Co-Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Newport School District and School Board Members  
Legislative Joint Auditing Committee

#### Compliance

We have audited the compliance of the Newport School District (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2008-3.

#### Internal Control Over Compliance

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

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

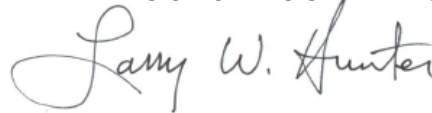
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2008-3 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
August 13, 2009

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# Arkansas



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Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### MANAGEMENT LETTER

Newport School District and School Board Members  
Legislative Joint Auditing Committee

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and to improve internal control. These matters were discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

1. Arkansas law requires the District to distribute any increase in the Educational Excellence Trust Fund to certified personnel positions. The District did not distribute the required amount of increase to the certified personnel, resulting in an underpayment of \$15,680.
2. State law requires the District's deposits to be properly insured and/or collateralized. At June 30, 2008, the District had uninsured and uncollateralized deposits of \$2,557,328.

This letter 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".

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
August 13, 2009

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NEWPORT SCHOOL DISTRICT  
 JACKSON COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2008

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 2,296,647	\$ 378,152	\$ 1,002,454	\$ 32,981
Investments	500,000		9,000,000	
Accounts receivable		19,602	48,538	
Property taxes receivable	187,277			
<b>TOTAL ASSETS</b>	<b>\$ 2,983,924</b>	<b>\$ 397,754</b>	<b>\$ 10,050,992</b>	<b>\$ 32,981</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 53,297	\$ 4,201		
Due student groups				\$ 17,447
<b>Total Liabilities</b>	<b>53,297</b>	<b>4,201</b>		<b>17,447</b>
<b>Fund Balances:</b>				
<b>Reserved:</b>				
Endowment				10,000
Scholarships				5,534
Capital projects			\$ 10,050,992	
<b>Unreserved:</b>				
Undesignated	2,930,627	393,553		
<b>Total Fund Balances</b>	<b>2,930,627</b>	<b>393,553</b>	<b>10,050,992</b>	<b>15,534</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,983,924</b>	<b>\$ 397,754</b>	<b>\$ 10,050,992</b>	<b>\$ 32,981</b>

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

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NEWPORT SCHOOL DISTRICT  
 JACKSON COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2008

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 3,527,857		
State assistance	7,794,736	\$ 6,777	
Federal assistance		2,182,148	
Activity revenues	232,267		
Meal sales		132,593	
Investment income	177,093		\$ 148,997
Other revenues	23,816	50,953	
<b>TOTAL REVENUES</b>	<b>11,755,769</b>	<b>2,372,471</b>	<b>148,997</b>
<b>EXPENDITURES</b>			
Regular programs	5,139,197	244,724	
Special education	596,565	459,858	
Workforce education	452,373		
Compensatory education	71,228	460,284	
Other instructional programs	356,236	23,840	
Student support services	457,461	16,922	
Instructional staff support services	606,070	265,874	
General administration support services	319,734	54,384	
School administration support services	782,949	68	
Central services support services	282,374		
Operation and maintenance of plant services	1,354,812	3,703	
Student transportation services	478,331	10,077	
Other support services	15,581		
Food services operations		977,804	
Community services operations		2,740	
Facilities acquisition and construction services	878,497		95,896
Non-programmed costs		14,037	
Activity expenditures	252,082		
Debt Service:			
Principal retirement	162,057		100,000
Interest and fiscal charges	23,687		19,259
<b>TOTAL EXPENDITURES</b>	<b>12,229,234</b>	<b>2,534,315</b>	<b>215,155</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(473,465)</b>	<b>(161,844)</b>	<b>(66,158)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in		162,132	119,259
Transfers out	(281,391)		
Proceeds from construction bond issue			9,965,000
Net bond issuance costs			(171,771)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(281,391)</b>	<b>162,132</b>	<b>9,912,488</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(754,856)</b>	<b>288</b>	<b>9,846,330</b>
<b>FUND BALANCES - JULY 1</b>	<b>3,685,483</b>	<b>393,265</b>	<b>204,662</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 2,930,627</b>	<b>\$ 393,553</b>	<b>\$ 10,050,992</b>

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

NEWPORT SCHOOL DISTRICT  
 JACKSON 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, 2008

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)	\$ 3,590,327	\$ 3,527,857	\$ (62,470)			
State assistance	7,597,418	7,794,736	197,318	\$ 6,500	\$ 6,777	\$ 277
Federal assistance				2,035,567	2,182,148	146,581
Activity revenues		232,267	232,267			
Meal sales				134,500	132,593	(1,907)
Investment income	115,000	177,093	62,093			
Other revenues	8,415	23,816	15,401		50,953	50,953
<b>TOTAL REVENUES</b>	<b>11,311,160</b>	<b>11,755,769</b>	<b>444,609</b>	<b>2,176,567</b>	<b>2,372,471</b>	<b>195,904</b>
<b>EXPENDITURES</b>						
Regular programs	5,500,999	5,139,197	361,802	154,728	244,724	(89,996)
Special education	595,147	596,565	(1,418)	548,386	459,858	88,528
Workforce education	417,114	452,373	(35,259)			
Compensatory education	143,308	71,228	72,080	483,382	460,284	23,098
Other instructional programs	309,099	356,236	(47,137)		23,840	(23,840)
Student support services	483,611	457,461	26,150	37,124	16,922	20,202
Instructional staff support services	666,588	606,070	60,518	220,616	265,874	(45,258)
General administration support services	212,060	319,734	(107,674)	52,565	54,384	(1,819)
School administration support services	828,064	782,949	45,115		68	(68)
Central services support services	265,648	282,374	(16,726)			
Operation and maintenance of plant services	1,313,243	1,354,812	(41,569)	3,728	3,703	25
Student transportation services	431,347	478,331	(46,984)	9,775	10,077	(302)
Other support services	14,686	15,581	(895)			
Food services operations				887,981	977,804	(89,823)
Community services operations				9,000	2,740	6,260
Facilities acquisition and construction services		878,497	(878,497)			
Non-programmed costs					14,037	(14,037)
Activity expenditures		252,082	(252,082)			
Debt Service:						
Principal retirement		162,057	(162,057)			
Interest and fiscal charges		23,687	(23,687)			
<b>TOTAL EXPENDITURES</b>	<b>11,180,914</b>	<b>12,229,234</b>	<b>(1,048,320)</b>	<b>2,407,285</b>	<b>2,534,315</b>	<b>(127,030)</b>

NEWPORT SCHOOL DISTRICT  
 JACKSON 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, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 130,246	\$ (473,465)	\$ (603,711)	\$ (230,718)	\$ (161,844)	\$ 68,874
OTHER FINANCING SOURCES (USES)						
Transfers in	5,722,605		(5,722,605)	113,800	162,132	48,332
Transfers out	(5,955,454)	(281,391)	5,674,063			
TOTAL OTHER FINANCING SOURCES (USES)	(232,849)	(281,391)	(48,542)	113,800	162,132	48,332
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(102,603)	(754,856)	(652,253)	(116,918)	288	117,206
FUND BALANCES - JULY 1	3,752,603	3,685,483	(67,120)	392,815	393,265	450
FUND BALANCES - JUNE 30	\$ 3,650,000	\$ 2,930,627	\$ (719,373)	\$ 275,897	\$ 393,553	\$ 117,656

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

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NEWPORT SCHOOL DISTRICT  
JACKSON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Board of Education, a seven 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 Newport School District (District). There are no component units.

**B. Description of Funds**

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

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

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

Other governmental funds, presented in the aggregate, consist of the following:

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

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Fund types include the following:

Agency Funds - Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

**C. Measurement Focus and Basis of Accounting**

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Arkansas Code Annotated § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

NEWPORT SCHOOL DISTRICT  
 JACKSON COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

**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:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	20
Buildings	25-50
Equipment	5-20

NEWPORT SCHOOL DISTRICT  
JACKSON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30<sup>th</sup> is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30<sup>th</sup> is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

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. Arkansas Code Annotated § 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.

NEWPORT SCHOOL DISTRICT  
 JACKSON COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

**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)	\$ 300,000	\$ 300,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	10,882,344	10,882,344
Uninsured, Uncollateralized	2,027,890	2,557,328
Total Deposits	\$ 13,210,234	\$ 13,739,672

The above total deposits include certificates of deposit of \$9,500,000 reported as investments and classified as nonparticipating contracts.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has established a deposit policy addressing custodial credit risk. However, as of June 30, 2008, \$2,557,328 of the District's bank balance of \$13,739,672 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$2,557,328

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$68,140 at June 30, 2008 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	Special Revenue	Other Aggregate	
Federal assistance	\$ 4,866		\$ 4,866
Investment income		\$ 48,538	48,538
Other	14,736		14,736
Totals	\$ 19,602	\$ 48,538	\$ 68,140

NEWPORT SCHOOL DISTRICT  
 JACKSON COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2008:

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, 2008	Maturities To June 30, 2008
6/1/03	2/1/13	2 - 3.25%	\$ 850,000	\$ 560,000	\$ 290,000
11/1/07	2/1/28	3.75 - 4.125%	9,965,000	9,965,000	
8/3/04	8/3/11	4.55%	440,000	268,052	171,948
4/1/99	6/1/09	4.75%	922,954	97,554	825,400
Totals			<u>\$ 12,177,954</u>	<u>\$ 10,890,606</u>	<u>\$ 1,287,348</u>

Changes in Long-term Debt

	Balance July 1, 2007	Issued	Retired	Balance June 30, 2008
Bonds payable	\$ 660,000	\$ 9,965,000	\$ 100,000	\$ 10,525,000
Postdated warrants	327,937		59,885	268,052
Installment contracts	199,726		102,172	97,554
Totals	<u>\$ 1,187,663</u>	<u>\$ 9,965,000</u>	<u>\$ 262,057</u>	<u>\$ 10,890,606</u>

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

Year Ended June 30,	Principal	Interest	Total
2009	\$ 515,163	\$ 518,270	\$ 1,033,433
2010	535,457	402,439	937,896
2011	548,436	382,881	931,317
2012	571,550	362,592	934,142
2013	520,000	341,305	861,305
2014-2018	2,220,000	1,451,337	3,671,337
2019-2023	2,685,000	998,494	3,683,494
2024-2028	3,295,000	418,029	3,713,029
Totals	<u>\$ 10,890,606</u>	<u>\$ 4,875,347</u>	<u>\$ 15,765,953</u>

NEWPORT SCHOOL DISTRICT  
 JACKSON COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$57,498 at June 30, 2008 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 53,297	\$ 4,201	\$ 57,498

**6: INTERFUND TRANSFERS**

The District transferred \$119,259 from the general fund to the other aggregate funds for debt related payments. Additionally, the District transferred \$162,132 from the general fund to the special revenue fund to supplement its food services operations.

**7: RETIREMENT PLANS**

**Arkansas Teacher Retirement System**

**Plan Description.** The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit 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 noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2008, 2007 and 2006 were \$1,131,507, \$1,060,884 and \$1,056,096, 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 (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteachers hired before July 1, 1989. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit 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 APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

**Funding Policy.** APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the years ended June 30, 2008, 2007 and 2006 were \$7,557, \$7,401 and \$7,946, respectively, equal to the required contributions for each year.

NEWPORT SCHOOL DISTRICT  
 JACKSON COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

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

ADDITIONS	
Interest	\$ 225
CHANGE IN FUND BALANCE	225
FUND BALANCE - JULY 1	15,309
FUND BALANCE - JUNE 30	\$ 15,534

**9: BENDEL SCHOLARSHIP FUND**

A donation of \$10,000 by the Bendel family was utilized for the establishment of a scholarship fund. The interest earnings fund the scholarships. All funds pertaining to this endowment are maintained in an interest-bearing checking account.

**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 board liability (errors and omissions) and student accident coverage. 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.

Additionally, the District participates in the Arkansas School Boards Association – Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating and settling claims that have been filed against member districts. The District pays an annual premium for its coverage of buildings and contents.

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

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

NEWPORT SCHOOL DISTRICT  
JACKSON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**11: SUBSEQUENT EVENTS**

During the period December 8, 2008 to August 13, 2009, the District executed contracts totaling \$14,343,944 for the construction of a new elementary building.

**12: CONSTRUCTION IN PROGRESS**

The balance of the construction in progress account at June 30, 2008, at Schedule 1, represents preliminary costs associated with the construction of a new elementary complex. There were no significant construction commitments at June 30, 2008.

NEWPORT SCHOOL DISTRICT  
 JACKSON COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2008  
 (Unaudited)

Schedule 1

	Balance June 30, 2008
<i>Nondepreciable capital assets:</i>	
Land	\$ 1,021,054
Construction in progress	119,896
Total nondepreciable capital assets	1,140,950
 <i>Depreciable capital assets:</i>	
Buildings	7,798,277
Improvements/infrastructure	173,965
Equipment	3,359,928
Total depreciable capital assets	11,332,170
 Less accumulated depreciation for:	
Buildings	4,331,700
Improvements/infrastructure	100,758
Equipment	2,320,841
Total accumulated depreciation	6,753,299
Total depreciable capital assets, net	4,578,871
Capital assets, net	\$ 5,719,821

NEWPORT SCHOOL DISTRICT  
JACKSON COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	34-03-000	\$ 167,530
National School Lunch Program	10.555	34-03-000	450,088
Total State Department of Education			617,618
Passed Through State Department of Human Services:			
Summer Food Service Program for Children	10.559	SA112	7,426
<b>TOTAL CHILD NUTRITION CLUSTER</b>			625,044
<b>SPECIAL EDUCATION CLUSTER</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	3403	423,658
Special Education - Preschool Grants	84.173	3403	39,339
<b>TOTAL SPECIAL EDUCATION CLUSTER</b>			462,997
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Agriculture</u>			
Food Donation (Notes 2 and 4)	10.550		1,745
Passed Through State Department of Health and Human Services:			
Food Donation (Notes 3 and 4)	10.550	3403A2008	48,657
Total U. S. Department of Agriculture			50,402
<u>U. S. Department of Defense</u>			
ROTC (Note 5)	12.AR080014		56,806
<u>U. S. Department of Education</u>			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		1,641
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	34-03	622,306
Safe and Drug-Free Schools and Communities - State Grants	84.186	34-03	9,215
State Grants for Innovative Programs	84.298	34-03	3,264
Education Technology State Grants	84.318	3403	240
Special Education - State Personnel Development	84.323	3403	3,273
Reading First State Grants	84.357	3403	160,976
Rural Education	84.358	3403	44,867
Improving Teacher Quality State Grants	84.367	3403	167,092
Total U. S. Department of Education			1,012,874
<b>TOTAL OTHER PROGRAMS</b>			1,120,082
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 2,208,123</b>

The accompanying notes are an integral part of this schedule.

NEWPORT SCHOOL DISTRICT  
JACKSON COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Newport School District and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. 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 Human Services.
- Note 4: CFDA Number 10.550 pertains to food commodities distributed by USDA for use in the following categorical programs: National School Lunch Program (CFDA 10.555), and the Summer Food Service Program for Children (CFDA 10.559). USDA deleted this number from the CFDA in April 2008. The audit covering the District's fiscal year beginning July 1, 2008, and future audits, will therefore identify commodity assistance by the CFDA numbers of the programs in which the commodities are used.
- Note 5: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 6: During the year ended June 30, 2008, the District received Medicaid funding of \$37,850 from the State Department of Human Services. Such payments are not considered Federal awards expended and therefore are not included in the above schedule.



NEWPORT SCHOOL DISTRICT  
JACKSON COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

SIGNIFICANT DEFICIENCIES

2008-1. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five interrelated components - *control environment, risk assessment, information and communication, control activities* and *monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Condition: A deficiency in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was more than a remote likelihood that a misstatement of the District's financial statements that would be more than inconsequential would not be prevented or detected. 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: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect: The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, were adversely affected by the identified weakness in the above internal control component.

Cause: District management, due to cost/benefit implications, which hindered the District's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiency in internal control.

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Views of responsible officials and planned corrective actions: The District will adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

NEWPORT SCHOOL DISTRICT  
JACKSON COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

SIGNIFICANT DEFICIENCIES (Continued)

2008-2. Misstatements Not Detected by Internal Control System

Criteria or specific requirement: Financial accounting records should be accurate 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 maintained accurate financial accounting records to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting. We noted unrecorded accrued interest of \$48,538 in the other aggregate funds. The financial statements were corrected for these errors during the audit fieldwork.

Context: Identification of misstatements not initially detected by the District's internal control and necessary adjustments to the trial balance.

Effect: Misstatements were not detected by the District's internal control system.

Cause: Financial accounting records had not been properly monitored.

Recommendation: To achieve reliable and accurate financial accounting records, the District should exercise due care to ensure all transactions are properly recorded.

Views of responsible officials and planned corrective actions: The District will use greater caution in monitoring accounting records. Internal control will become more aware of misstatements so that financial errors are corrected.

NEWPORT SCHOOL DISTRICT  
JACKSON COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF AGRICULTURE  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION AND STATE DEPARTMENT OF HUMAN SERVICES  
CHILD NUTRITION CLUSTER - CFDA NUMBERS 10.553, 10.555, and 10.559  
PASS-THROUGH NUMBERS 34-03-000 and SA112  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2008

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
SPECIAL EDUCATION CLUSTER - CFDA NUMBERS 84.027 and 84.173  
PASS-THROUGH NUMBER 3403  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2008

U.S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
TITLE I GRANTS - LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010  
PASS-THROUGH NUMBER 34-03  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2008

2008-3. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires the preparation of monthly personnel activity reports or equivalent documentation when District employees work multiple activities. Periodic time certifications are required when an employee works solely on a single federal program.

Condition: Monthly personnel activity reports and periodic time certifications were not prepared for child nutrition, special education or Title I employees.

Context: Examination of documentation substantiating time worked by employees.

Effect: The District was unable to provide required documentation substantiating the time charged to the child nutrition, special education or Title I programs.

Cause: The District was unaware of the OMB Circular A-87 requirement pertaining to monthly personnel activity reports or periodic time certifications.

Recommendation: The District should prepare the monthly personnel activity reports or periodic time certifications for all applicable employees.

Views of responsible officials and planned corrective actions: The District is currently using the practice of having all employees paid with federal funds fill out monthly personnel time reports.

NEWPORT SCHOOL DISTRICT  
JACKSON COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 4

There were no findings in the prior audit.

NEWPORT SCHOOL DISTRICT  
 JACKSON COUNTY, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FOUR YEARS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2008  
 (Unaudited)

Schedule 5

<b>General Fund</b>	Year Ended June 30,			
	2008	2007	2006	2005
Total Assets	\$ 2,983,924	\$ 3,685,483	\$ 3,433,276	\$ 3,326,119
Total Liabilities	53,297			
Total Fund Balances	2,930,627	3,685,483	3,433,276	3,326,119
Total Revenues	11,755,769	11,307,038	11,250,928	10,838,167
Total Expenditures	12,229,234	10,875,758	10,840,421	10,482,751
Total Other Financing Sources (Uses)	(281,391)	(179,073)	(303,350)	(529,974)
 <b>Special Revenue Fund</b>				
Total Assets	397,754	393,265	476,886	455,254
Total Liabilities	4,201			
Total Fund Balances	393,553	393,265	476,886	455,254
Total Revenues	2,372,471	2,504,691	2,991,065	3,540,908
Total Expenditures	2,534,315	2,651,229	3,154,227	3,719,193
Total Other Financing Sources (Uses)	162,132	62,917	184,794	225,551
 <b>Other Aggregate Funds</b>				
Total Assets	10,050,992	204,662	204,662	246,709
Total Liabilities				
Total Fund Balances	10,050,992	204,662	204,662	246,709
Total Revenues	148,997			
Total Expenditures	215,155	116,156	160,103	760,922
Total Other Financing Sources (Uses)	9,912,488	116,156	118,056	744,423