

**CONWAY SCHOOL DISTRICT NO. 1
FAULKNER COUNTY, ARKANSAS**

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2010

with

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Education
Conway School District No. 1
Conway, Arkansas

We have audited the accompanying financial statements of each major governmental fund, and the aggregate remaining fund information of the Conway School District No. 1 (the "District") as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2010, or the changes in the financial position, thereof for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major governmental fund and the aggregate remaining fund information of the District, as of June 30, 2010, 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 October 18, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 of accounting. The Schedule of Capital Assets, Schedule of Expenditures of Federal Awards as required by the 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 and Summary of Prior Audit Findings 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 of Findings and Questioned Costs and Summary of Prior Audit Findings 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 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.

Hudson, Cisne + Co. LLP

October 18, 2010
Little Rock, Arkansas

CONWAY SCHOOL DISTRICT NO. 1**BALANCE SHEET - REGULATORY BASIS****JUNE 30, 2010**

	<u>Major</u>		<u>Other governmental funds</u>	<u>Fiduciary fund types</u>
	<u>General fund</u>	<u>Special revenue fund</u>		
ASSETS				
Cash and cash equivalents	\$ 9,310,606	\$ 296,834	\$ 3,143,615	\$ 324,848
Accounts receivable	<u>46,806</u>	<u>1,307,845</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,357,412</u>	<u>\$ 1,604,679</u>	<u>\$ 3,143,615</u>	<u>\$ 324,848</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,052,526	\$ 502,070	\$ 5,092	\$ -
Due to student /other groups	-	-	-	324,848
Deferred revenue	<u>1,663,815</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>2,716,341</u>	<u>502,070</u>	<u>5,092</u>	<u>324,848</u>
Fund Balances:				
Reserved for:				
Capital projects	-	-	3,138,523	-
Unreserved:				
Undesignated	<u>6,641,071</u>	<u>1,102,609</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>6,641,071</u>	<u>1,102,609</u>	<u>3,138,523</u>	<u>-</u>
	<u>\$ 9,357,412</u>	<u>\$ 1,604,679</u>	<u>\$ 3,143,615</u>	<u>\$ 324,848</u>

See accompanying notes.

CONWAY SCHOOL DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS

YEAR ENDED JUNE 30, 2010

	Major		Other governmental funds
	General fund	Special revenue fund	
REVENUES			
Property taxes	\$ 32,954,210	\$ -	\$ -
Interest	75,000	2,528	167,815
Tuition charges	1,028,185	-	-
State revenues	38,665,122	26,290	41,480
Federal revenues	-	12,103,669	-
Food services	-	1,295,298	-
Student activities	652,788	-	-
Other	636,389	-	800,408
	<u>74,011,694</u>	<u>13,427,785</u>	<u>1,009,703</u>
EXPENDITURES			
Current:			
Instruction and instructional - related services	42,031,510	3,965,176	4,180
Support services	22,976,064	4,453,570	891,307
Non-instructional services	10,754	3,582,509	-
Other	-	44,097	-
Debt service:			
Principal retirement	121,217	-	1,965,000
Interest and fiscal charges	-	-	2,903,193
Paying agent's fees	-	-	9,488
Capital outlay	<u>863,515</u>	<u>1,425,304</u>	<u>4,622,442</u>
	<u>66,003,060</u>	<u>13,470,656</u>	<u>10,395,610</u>
Excess (deficiency) of revenue over expenditures	8,008,634	(42,871)	(9,385,907)
OTHER FINANCING SOURCES (USES)			
Transfers, net	(8,084,204)	205,465	7,878,739
Proceeds from refunding bond issue	-	-	62,535,000
Payment to refunding bond escrow agent	-	-	(62,033,241)
Bond issuance costs	-	-	(501,759)
Compensation for loss of capital assets	53,559	-	-
Total other financing sources (uses)	<u>(8,030,645)</u>	<u>205,465</u>	<u>7,878,739</u>
Net change in fund balances	(22,011)	162,594	(1,507,168)
Fund balance - beginning	<u>6,663,082</u>	<u>940,015</u>	<u>4,645,691</u>
Fund balance - ending	<u>\$ 6,641,071</u>	<u>\$ 1,102,609</u>	<u>\$ 3,138,523</u>

See accompanying notes.

CONWAY SCHOOL DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS

YEAR ENDED JUNE 30, 2010

	General Fund		
	Budget	Actual	Variance
REVENUES			
Property taxes	\$ 33,317,240	\$ 32,954,210	\$ (363,030)
Interest	132,161	75,000	(57,161)
Tuition charges	1,331,659	1,028,185	(303,474)
State revenues	36,699,261	38,665,122	1,965,861
Federal revenues	-	-	-
Food services	-	-	-
Student activities	-	652,788	652,788
Other	509,052	636,389	127,337
	71,989,373	74,011,694	2,022,321
EXPENDITURES			
Current:			
Instruction and instructional-related services	41,178,980	42,031,510	(852,530)
Support services	23,642,612	22,976,064	666,548
Non-instructional services	25,000	10,754	14,246
Other	70,000	-	70,000
Debt service:			
Principal retirement	102,350	121,217	(18,867)
Capital outlay	446,000	863,515	(417,515)
	65,464,942	66,003,060	(538,118)
Excess (deficiency) of revenues over expenditures	6,524,431	8,008,634	1,484,203
OTHER FINANCING SOURCES (USES)			
Transfers	(6,558,978)	(8,084,204)	(1,525,226)
Compensation for loss of capital assets	24,154	53,559	29,405
Total other financing sources (uses)	(6,534,824)	(8,030,645)	(1,495,821)

See accompanying notes.

Special Revenue Fund

<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
\$ -	\$ -	\$ -
-	2,528	2,528
-	-	-
25,750	26,290	540
13,806,395	12,103,669	(1,702,726)
1,423,460	1,295,298	(128,162)
-	-	-
-	-	-
15,255,605	13,427,785	(1,827,820)
4,878,395	3,965,176	913,219
7,589,835	4,453,570	3,136,265
3,503,501	3,582,509	(79,008)
85,346	44,097	41,249
-	-	-
-	1,425,304	(1,425,304)
16,057,077	13,470,656	2,586,421
(801,472)	(42,871)	758,601
216,000	205,465	(10,535)
-	-	-
216,000	205,465	(10,535)
\$ (585,472)	\$ 162,594	\$ 748,066

CONWAY SCHOOL DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1: Summary of significant accounting policies

Reporting entity

The Board of Education, a seven (7) member group, is the level of government which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Conway School District (“District”). There are no component units.

Fund accounting

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

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

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

Other governmental funds consist of the following:

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

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

Fiduciary Fund types include the following:

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

Measurement focus and basis of accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an Other Comprehensive Basis of Accounting (OCBOA). This basis of accounting is prescribed by Ark. Code Ann. 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.

CONWAY SCHOOL DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1: Summary of significant accounting policies (continued)

Measurement focus and basis of accounting (continued)

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP requires that basic financial statements present government-wide financial statements. Additionally, GAAP requires 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, if any, will be reflected in the notes to the financial statements.

Revenue recognition policies

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

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 straightline method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Used Life in Years</u>
Improvements/infrastructure	20
Building	50
Equipment	5-20

Property taxes

Property taxes are levied in November based on property assessments 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.

CONWAY SCHOOL DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1: Summary of significant accounting policies (continued)

Property taxes (continued)

Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes forty percent (40%) of the proceeds of local taxes which are not pledged to secure bonded indebtedness or forty percent (40%) of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

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

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

Fund balance designations

Reserved fund balance - represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for specific future use.

Designated fund balance - represents that portion of the fund balance which indicates tentative plans for financial resource utilization in a future period.

Undesignated fund balance - indicates that portion of the fund balance not reserved or designated.

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.

CONWAY SCHOOL DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1: Summary of significant accounting policies (continued)

Budget and budgetary accounting (continued)

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

Note 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)	\$ 564,960	\$ 558,345
Collateralized - held by pledging bank or pledging bank's trust department in the District's name	12,510,943	14,929,605
Total deposits	\$ 13,075,903	\$ 15,487,950

The total deposits reflected above include certificates of deposits of \$11,240 reported as investments and classified as nonparticipating contracts.

Note 3: Accounts receivable

The accounts receivable balances are composed of the following at June 30, 2010:

Class of receivable	General fund	Special revenue fund	Total
Federal assistance	\$ -	\$ 1,307,037	\$ 1,307,037
State assistance	20,017	-	20,017
Other	26,789	808	27,597
	\$ 46,806	\$ 1,307,845	\$ 1,354,651

Note 4: Commitments

Construction contracts in progress

At June 30, 2010, the District was contractually obligated for one construction project with a total cost of approximately \$1,375,000 and remaining costs to complete of approximately \$1,335,000. The project is estimated to be completed in 2011.

CONWAY SCHOOL DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 4: Commitments (continued)

Long-term debt issued and outstanding

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

<u>Date of issue</u>	<u>Date of final maturity</u>	<u>Rate of interest</u>	<u>Amount authorized and issued</u>	<u>Debt outstanding June 30, 2010</u>	<u>Maturities to June 30, 2010</u>
1/1/2010	2/1/2033	3.0 - 4.75%	\$ 21,210,000	\$ 20,710,000	\$ 500,000
12/1/2009	2/1/2034	2.0 - 4.5%	41,325,000	40,880,000	445,000
5/1/2006	2/1/2034	4.25 - 4.75%	15,765,000	14,305,000	1,460,000
11/1/2006	2/1/2023	3.45 - 4.0%	12,845,000	11,065,000	1,780,000
9/1/2007	2/1/2034	3.65% - 4.35%	1,560,000	1,490,000	70,000
11/29/2001	11/29/2011	4.75%	800,000	190,986	609,014
12/11/2009	12/11/2019	4.6%	805,400	773,231	32,169
Totals			<u>\$ 94,310,400</u>	<u>\$ 89,414,217</u>	<u>\$ 4,896,183</u>

Changes in long-term debt:

<u>Description</u>	<u>Balance July 1, 2009</u>	<u>Issued</u>	<u>Retired**</u>	<u>Balance June 30, 2010</u>
Bonds payable	\$ 88,530,000	\$ 62,535,000	\$ 62,615,000	\$ 88,450,000
Postdated warrants	280,034	-	89,048	190,986
Other debt	-	805,400	32,169	773,231
Totals	<u>\$ 88,810,034</u>	<u>\$ 63,340,400</u>	<u>\$ 62,736,217</u>	<u>\$ 89,414,217</u>

**Includes \$60,650,000 early retirement of debt - see Note 7.

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

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,739,852	\$ 2,406,449	\$ 5,146,301
2012	3,052,381	3,543,289	6,595,670
2013	3,052,914	3,446,531	6,499,445
2014	3,136,306	3,348,838	6,485,144
2015	3,249,857	3,248,051	6,497,908
2016 - 2020	17,962,907	14,516,436	32,479,343
2021 - 2025	18,965,000	10,962,994	29,927,994
2026 - 2030	19,540,000	7,175,904	26,715,904
2031 - 2035	17,715,000	2,429,779	20,144,779
Totals	<u>\$ 89,414,217</u>	<u>\$ 51,078,271</u>	<u>\$ 140,492,488</u>

CONWAY SCHOOL DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 5: Accounts payable

The accounts payable balances are composed of the following at June 30, 2010:

	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Total</u>
Vendor payables	\$ 1,051,784	\$ 502,070	\$ 5,092	\$ 1,558,946
Other	<u>742</u>	<u>-</u>	<u>-</u>	<u>742</u>
Totals	<u>\$ 1,052,526</u>	<u>\$ 502,070</u>	<u>\$ 5,092</u>	<u>\$ 1,559,688</u>

Note 6: Interfund transfers

The following details the transfers between governmental funds for operating purposes:

	<u>General fund</u>	<u>Special revenue fund</u>	<u>Capital project fund</u>	<u>Debt service fund</u>	<u>Total</u>
Transfers in	\$ 44,163,164	\$ 221,275	\$ 3,214,177	\$ 4,729,170	\$ 52,327,786
Transfers out	<u>(52,247,368)</u>	<u>(15,810)</u>	<u>(64,608)</u>	<u>-</u>	<u>(52,327,786)</u>
	<u>\$ (8,084,204)</u>	<u>\$ 205,465</u>	<u>\$ 3,149,569</u>	<u>\$ 4,729,170</u>	<u>\$ -</u>

Note 7: Debt refundings

On December 1, 2009, the District issued \$41,325,000 in refunding bonds with interest rates of 2.0% to 4.5%. Bond proceeds of \$41,159,206 were deposited with an escrow agent to advance refund \$40,245,000 of outstanding bonds dated November 1, 2004 with interest rates of 3.0% to 4.875% and to pay interest and fees. The bonds were called on February 1, 2010. Both the old and new bond issues have final maturity dates of February 1, 2034.

On January 1, 2010, the District issued \$21,210,000 in refunding bonds with interest rates of 3.0% to 4.75%. Bond proceeds of \$20,874,035 were deposited with an escrow agent to advance refund \$20,405,000 of outstanding bonds dated July 1, 2003 with interest rates of 4.0% to 4.7% and to pay interest and fees. The bonds were called on February 1, 2010. Both the old and new bond issues have final maturity dates of February 1, 2033.

Note 8: 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.

CONWAY SCHOOL DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 8: Retirement plans (continued)

Arkansas Teacher Retirement System (continued)

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 nonfederally-funded employees for the years ended June 30, 2010, 2009, and 2008 were \$6,365,658, \$6,454,801, and \$6,427,011, respectively.

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 nonteaching Arkansas public school employees hired before July 1, 1989. APERS 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: APERS has contributory and non-contributory plans. Contributory members are required by law to contribute 5% 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 APERS for the years ended June 30, 2010, 2009 and 2008 was \$7,404, \$9,614 and \$15,238, respectively, equal to the required contributions for each year.

Note 9: Risk management

The District is exposed to various risk of loss from torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District carries commercial insurance for coverage of buildings' contents, board liability, theft, student accidents, and bus drivers and business trip accidental death and dismemberment. 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 is a member of the Arkansas School Board Association self-insurance program, a public entity risk pool currently operating a common risk management and insurance program for its members. The fund was created by members to formulate, develop and administer a program of self-funding for the fund's membership, obtain lower costs for Workmen's Compensation Coverage and develop a comprehensive loss control program. The District pays an annual premium to the fund for its Workmen's Compensation Coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reissue through commercial carriers for claims in excess of specified stop loss amounts.

CONWAY SCHOOL DISTRICT NO. 1**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2010****Note 10: Litigation and contingencies**

The District participates in federally assisted grant programs. The District is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

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 the member districts, a program of insurance to obtain lower costs for property and vehicle 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.

Note 11: Subsequent events

On September 21, 2010, voters approved a 1.9 mill tax increase. Based on the 2009 assessment (\$960,041,419) for taxes payable in 2010, the increase will generate approximately \$1,824,078 additional revenue each year. As a result of the positive vote, the District will issue bonds to reconstruct Conway High School West (est. \$40 million) and build a new elementary school (est. \$15 million).

The high school reconstruction will be completed in two phases. Phase I, which will begin in March, 2011 and is expected to be completed by July 16, 2012, will include the erection of classroom space between the current Conway High School West facility and Prince Street. Phase II, to be completed in the fall of 2013, will include the construction of a new cafeteria, the removal of the existing "Pod" buildings, and the connection of all buildings on the campus.

Construction of the new elementary school will begin March 2011 and will be completed by June 1, 2012.

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

CONWAY SCHOOL DISTRICT NO. 1**SCHEDULE OF CAPITAL ASSETS****FOR THE YEAR ENDED JUNE 30, 2010****(Unaudited)****Nondepreciable capital assets:**

Land	\$ 5,969,379
Construction in progress	<u>1,106,222</u>
Total nondepreciable capital assets	<u>7,075,601</u>

Depreciable capital assets:

Buildings	117,633,411
Improvements/infrastructure	3,443,873
Equipment	<u>12,579,282</u>
Total depreciable capital assets	<u>133,656,566</u>

Less accumulated depreciation for:

Buildings	27,788,290
Improvements/infrastructure	1,342,034
Equipment	<u>7,652,065</u>
Total accumulated depreciation	<u>36,782,389</u>

Total depreciable capital assets, net	<u>96,874,177</u>
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Capital assets, net	<u><u>\$ 103,949,778</u></u>
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**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**

To the Board of Education
Conway School District No. 1
Conway, Arkansas

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Conway School District No. 1 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated October 18, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We issued an adverse opinion because the District prepared the financial statements in conformity with accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Internal control over financial reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

To the Board of Education
Page Two

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

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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

Hudson, Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
October 18, 2010



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Conway School District No. 1
Conway, Arkansas

Compliance

We have audited the compliance of the Conway School District No. 1 (the "District") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. 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 grant agreements 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, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Districts' compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

To the Board of Education
Page Two

Internal control over compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was the limited purpose described in the first paragraph of this section and would not necessary identify all deficiencies in internal control over compliance that might be deficiencies, 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 for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

Hudson, Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
October 18, 2010

CONWAY SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA number	Federal expenditures
U.S. DEPARTMENT OF EDUCATION		
<u>Passed through Arkansas Department of Education</u>		
Adult Education - Basic Grants to States	84.002	\$ 235,065
Title I - Part A - Grants to Local Education Agencies	84.010	1,793,037
Title I - Part A - Grants to Local Education Agencies - ARRA	84.389	283,137
Title VI - Part B - Special Education	84.027	1,806,020
Title VI - Part B - Special Education - ARRA	84.391	1,613,823
Title IV - Safe and Drug Free Schools	84.186A	63,730
Even Start Family Literacy	84.213	46,524
Eisenhower Math and Science	84.281	17,057
21st Century Community Learning Centers, Title IV, Part B	84.287	138,298
Title V - Part A - Innovation	84.298	56,621
Title III - English Language Acquisition	84.365	67,536
Title II - Part A - Improving Teacher Quality State Grants	84.367	325,474
State Fiscal Stabilization Funds - ARRA	84.394	2,849,270
<u>Passed through Arkansas Department of Career Education</u>		
Vocational Education - Basic Grants	84.048	130,803
Total U.S. Department of Education		<u>9,426,395</u>
U.S. DEPARTMENT OF AGRICULTURE		
<u>Passed through Arkansas Department of Education</u>		
Cash Assistance:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	517,082
National School Lunch Program	10.555	1,618,830
<u>Passed through Arkansas Department of Human Services</u>		
Non-cash Assistance (Commodities):		
Child Nutrition Cluster:		
National School Lunch Program	10.555	177,653
Adult Education Employee Training	10.561	71,818
Fresh Fruit and Vegetable Program	10.582	38,966
Total U.S. Department of Agriculture		<u>2,424,349</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<u>Passed through Arkansas Department of Education</u>		
Medical Assistance Program	93.778	76,925
		<u>\$ 11,927,669</u>

Notes to schedule:

- This schedule includes the federal awards activity of the 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, *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 basic financial statements.
- Medicaid reimbursements are defined as contracts for services and not federal awards, therefore, such reimbursements totaling \$284,986 are not covered by the reporting requirements of OMB Circular A-133.

CONWAY SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

1. Our report expresses an adverse opinion based on generally accepted accounting principles and an unqualified opinion based on regulatory basis of accounting on the basic financial statements of Conway School District No. 1.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of non-compliance material to the financial statement of Conway School District No. 1 were disclosed during the audit of the financial statements.
4. There were no significant deficiencies during the audit of the major federal award programs.
5. Our report on compliance for the major federal award programs for Conway School District No. 1 expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs.
7. The programs tested as major programs included:
 - Title VI - Part B - Special Education Grants to States - CFDA 84.027
 - Title VI - Part B - Special Education Grants to States, ARRA - CFDA 84.391
 - State Fiscal Stabilization Funds, ARRA - CFDA 84.394
 - Vocational Education - Basic Grants to States - CFDA 84.048
 - Adult Education - Basic Grants to States - CFDA 84.002
8. The threshold for distinguishing types A and B program was \$357,830.
9. Conway School District No. 1 was determined to be a high-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

There were no findings or questioned costs that were required to be reported for the year ended June 30, 2010.

C. FINDINGS - FEDERAL AWARDS AUDIT

None

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

2009-1

Criteria: 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.

CONWAY SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

2009-1 (continued)

Condition: A deficiency in the internal control component of control activities adversely affecting 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 the financial accounting duties among appropriate employees to provide reasonable assurance that 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's assets, was adversely affected by the identified weakness in the above internal control component.

Cause: District's 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.

Previous 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's assets.

Current Status: Financial accounting duties have been more fully segregated during the year ended June 30, 2010, with additional supervision and monitoring added in areas of prior concern. The District continues to look for ways to strengthen internal controls and is looking to add even more staff in this area to further enhance the current segregation.



**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS**

To the Board of Education
Conway School District No. 1
Conway, Arkansas

We have examined management's assertions that Conway School District No. 1 substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and the applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2010. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the District's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, Conway School District No. 1 complied with the aforementioned requirements for the year ended June 30, 2010.

This report is intended solely for the information and use of the School Board, management, and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Hudson, Cisne & Co. LLP

Hudson Cisne & Co. LLP
Little Rock, Arkansas
October 18, 2010

CONWAY SCHOOL DISTRICT NO. 1
SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
YEAR ENDED JUNE 30, 2010

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding & Purchasing Commodities	6-21-301 – 6-21-305
Ethical Guidelines and Prohibitions	6-13-628; 6-24-101 et seq.
Collateralization & Investment of Funds	6-20-222; 19-1-504
Deposit of Funds	19-8-104; 19-8-106
District Finances	6-20-402
• Bonded & Non-bonded Debt, District School Bonds	6-20-1201 – 6-20-1208; 6-20-1210
• Petty Cash	6-20-409
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-617 – 6-13-620; 6-13-1406; 6-24-101; 6-24-104; 6-24-105
• District Treasurer	6-13-701
○ Warrants	6-17-918; 6-17-919; 6-20-403
Management Letter for Audit	14-75-101 – 14-75-104
Nonrecurring Salary Payments	6-20-412
Revolving Loan Fund	6-19-114; 6-20-801 et seq.
Salary Laws	6-17-2201 et seq.; 6-17-2301 et seq.
School Elections	6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118; 6-13-1412; 6-13-1413
Teachers and Employees	
• Personnel Policies	6-17-201 et seq.
• Employment and Assignment	6-17-301 et seq.
• Teacher's License Requirement	6-17-401 et seq.
• Contracts	6-17-801 et seq.
• Certification Requirements	6-17-309; 6-17-401
• Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
• Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
Teacher Salaries, the Minimum Foundation Program Aid Act	6-17-803; 6-17-907; 6-17-908; 6-17-911 - 6-17-913; 6-17-918; 6-17-919
Trust Funds (Education Excellence)	6-5-307
Use of Contractors, Improvement Contracts	22-9-201 – 22-9-205
Use of DM&O Millage	26-80-110

CONWAY SCHOOL DISTRICT NO. 1**SUPPLEMENTAL DATA SHEET****YEAR ENDED JUNE 30, 2010**

The following information is being provided to satisfy the requirements of Arkansas Department of Health and Human Services Audit Guidelines, Section IX. C - Special Requirements:

1. Entity's Full Name: Conway School District No. 1 of Faulkner County
2. Entity's Address: 2220 Prince Street
Conway, AR 72034
3. Entity's FEIN: 71-6021200
4. Entity's Telephone Number: 501-450-4800
5. Name of Director: Dr. Greg Murry, Superintendent
6. Name of Contact Person: Dr. Greg Murry, Superintendent