

# **Gentry School District No. 19**

**Benton County, Arkansas**

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

**June 30, 2008**

LEGISLATIVE JOINT AUDITING COMMITTEE

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GENTRY SCHOOL DISTRICT NO. 19  
BENTON 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

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
Expenditures of Federal Awards	2
Federal Award Programs – Findings and Questioned Costs	3
Federal Award Programs – Summary of Prior Audit Findings	4

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

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Gentry School District No. 19 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 Gentry School District No. 19 (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 December 10, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, Arkansas  
December 10, 2008  
EDSD01908

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

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Gentry School District No. 19 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 Gentry School District No. 19 (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 December 10, 2008. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 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 Federal Award Programs - 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 Federal Award Programs - Findings and Questioned Costs to be material weaknesses.

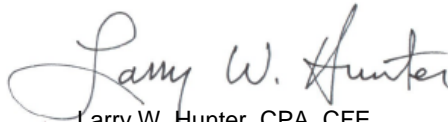
Compliance and Other Matters

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*.

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

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
December 10, 2008

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

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Gentry School District No. 19 and School Board Members  
Legislative Joint Auditing Committee

#### Compliance

We have audited the compliance of the Gentry School District No. 19 (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 Federal Award Programs - Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

#### Internal Control Over Compliance

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

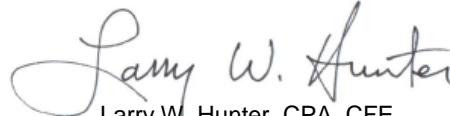
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal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

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

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

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

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
December 10, 2008

GENTRY SCHOOL DISTRICT NO. 19  
WASHINGTON 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	\$ 1,324,891	\$ 26,665	\$ 2,937	\$ 214,305
Property taxes receivable	187,691			
<b>TOTAL ASSETS</b>	<b><u>\$ 1,512,582</u></b>	<b><u>\$ 26,665</u></b>	<b><u>\$ 2,937</u></b>	<b><u>\$ 214,305</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 35,690		\$ 118,600	\$ 154,151
Short-term note payable	1,250,050			
Due to student groups				38,522
<b>Total Liabilities</b>	<b><u>1,285,740</u></b>		<b><u>118,600</u></b>	<b><u>192,673</u></b>
Fund Balances:				
Reserved:				
Scholarships				21,632
Capital projects			(115,663)	
Unreserved:				
Undesignated	226,842	\$ 26,665		
<b>Total Fund Balances</b>	<b><u>226,842</u></b>	<b><u>26,665</u></b>	<b><u>(115,663)</u></b>	<b><u>21,632</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 1,512,582</u></b>	<b><u>\$ 26,665</u></b>	<b><u>\$ 2,937</u></b>	<b><u>\$ 214,305</u></b>

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

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GENTRY SCHOOL DISTRICT NO. 19  
WASHINGTON 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	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 5,242,818		\$ 74,909
State assistance	6,008,559	\$ 4,972	20,705
Federal assistance		912,936	
Activity revenues	217,493		
Meal sales		146,138	
Investment income	87,414	26	
Other revenues	511,939	21,492	
<b>TOTAL REVENUES</b>	<b>12,068,223</b>	<b>1,085,564</b>	<b>95,614</b>
EXPENDITURES			
Regular programs	5,040,767	148,124	
Special education	816,195		
Workforce education	538,060	18,616	
Adult/continuing education	95,931		
Compensatory education	98,730	171,453	
Other instructional programs	122,027	21,149	
Student support services	383,362	113,460	
Instructional staff support services	699,248	75,948	
General administration support services	147,082		
School administration support services	590,428	37	
Central services support services	344,802	24,966	
Operation and maintenance of plant services	1,104,458		204,105
Student transportation services	541,392		
Other support services	3,657		
Food services operations		583,908	
Community services operations		225	
Facilities acquisition and construction services	4,784		20,705
Activity expenditures	212,524		
Debt Service:			
Principal retirement			720,000
Interest and fiscal charges	47,003		496,195
<b>TOTAL EXPENDITURES</b>	<b>10,790,450</b>	<b>1,157,886</b>	<b>1,441,005</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,277,773</b>	<b>(72,322)</b>	<b>(1,345,391)</b>
OTHER FINANCING SOURCES (USES)			
Transfers in			1,229,728
Transfers out	(1,229,728)		
Refund to grantors		(2,767)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,229,728)</b>	<b>(2,767)</b>	<b>1,229,728</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>48,045</b>	<b>(75,089)</b>	<b>(115,663)</b>
FUND BALANCES - JULY 1	178,797	101,754	
FUND BALANCES - JUNE 30	<u>\$ 226,842</u>	<u>\$ 26,665</u>	<u>\$ (115,663)</u>

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

GENTRY SCHOOL DISTRICT NO. 19  
WASHINGTON 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)	\$ 5,056,000	\$ 5,242,818	\$ 186,818			
State assistance	5,757,753	6,008,559	250,806	\$ 560,047	\$ 4,972	\$ (555,075)
Federal assistance					912,936	912,936
Activity revenues		217,493	217,493			
Meal sales				300,000	146,138	(153,862)
Investment income		87,414	87,414		26	26
Other revenues	530,472	511,939	(18,533)		21,492	21,492
<b>TOTAL REVENUES</b>	<b>11,344,225</b>	<b>12,068,223</b>	<b>723,998</b>	<b>860,047</b>	<b>1,085,564</b>	<b>225,517</b>
<b>EXPENDITURES</b>						
Regular programs	4,775,893	5,040,767	(264,874)		148,124	(148,124)
Special education	865,767	816,195	49,572	153,018		153,018
Workforce education	465,397	538,060	(72,663)	16,667	18,616	(1,949)
Adult/continuing education		95,931	(95,931)			
Compensatory education	97,141	98,730	(1,589)	175,798	171,453	4,345
Other instructional programs	203,880	122,027	81,853		21,149	(21,149)
Student support services	359,482	383,362	(23,880)	38,000	113,460	(75,460)
Instructional staff support services	683,104	699,248	(16,144)	64,129	75,948	(11,819)
General administration support services	160,269	147,082	13,187			
School administration support services	629,850	590,428	39,422		37	(37)
Central services support services	364,399	344,802	19,597	20,000	24,966	(4,966)
Operation and maintenance of plant services	975,450	1,104,458	(129,008)			
Student transportation services	589,655	541,392	48,263			
Other support services	5,000	3,657	1,343			
Food services operations				301,283	583,908	(282,625)
Community services operations					225	(225)
Facilities acquisition and construction services		4,784	(4,784)			
Activity expenditures		212,524	(212,524)			
Debt Service:						
Principal retirement	1,250,000		1,250,000			
Interest and fiscal charges	27,000	47,003	(20,003)			
<b>TOTAL EXPENDITURES</b>	<b>11,452,287</b>	<b>10,790,450</b>	<b>661,837</b>	<b>768,895</b>	<b>1,157,886</b>	<b>(388,991)</b>

GENTRY SCHOOL DISTRICT NO. 19  
WASHINGTON 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	\$ (108,062)	\$ 1,277,773	\$ 1,385,835	\$ 91,152	\$ (72,322)	\$ (163,474)
OTHER FINANCING SOURCES (USES)						
Transfers in	5,683,614		(5,683,614)			
Transfers out	(6,977,302)	(1,229,728)	5,747,574			
Refund to grantors					(2,767)	(2,767)
TOTAL OTHER FINANCING SOURCES (USES)	(1,293,688)	(1,229,728)	63,960		(2,767)	(2,767)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,401,750)	48,045	1,449,795	91,152	(75,089)	(166,241)
FUND BALANCES - JULY 1	1,539,449	178,797	(1,360,652)	99,419	101,754	2,335
FUND BALANCES - JUNE 30	<u>\$ 137,699</u>	<u>\$ 226,842</u>	<u>\$ 89,143</u>	<u>\$ 190,571</u>	<u>\$ 26,665</u>	<u>\$ (163,906)</u>

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

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GENTRY SCHOOL DISTRICT NO. 19  
BENTON 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 Gentry 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.

GENTRY SCHOOL DISTRICT NO. 19  
 BENTON 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 \$2,500 for capitalizing equipment. Library holdings are not capitalized.

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

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

GENTRY SCHOOL DISTRICT NO. 19  
BENTON 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.

GENTRY SCHOOL DISTRICT NO. 19  
BENTON 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)	\$ 100,000	\$ 100,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	1,468,778	1,871,801
Total Deposits	\$ 1,568,778	\$ 1,971,801

The above total deposits do not include cash on hand in the amount of \$20.

**3: 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
3/1/02	4/1/15	3.2 - 4.2%	\$ 815,411	\$ 490,000	\$ 325,411
4/1/02	10/1/08	3 - 3.75%	464,000	70,000	394,000
8/1/02	4/1/15	3 - 4%	959,935	555,000	404,935
8/1/03	4/1/15	3 - 4%	4,135,000	2,535,000	1,600,000
11/1/04	4/1/34	3 - 5%	7,000,000	6,550,000	450,000
5/1/05	4/1/34	3 - 4.5%	1,500,000	1,405,000	95,000
Totals			\$ 14,874,346	\$ 11,605,000	\$ 3,269,346

Changes in Long-Term Debt

	Balance July 1, 2007	Issued	Retired	Balance June 30, 2008
Bonds payable	\$ 12,325,000	\$ 0	\$ 720,000	\$ 11,605,000

GENTRY SCHOOL DISTRICT NO. 19  
BENTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**3: COMMITMENTS (CONTINUED)**

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

Year Ended June 30,	Principal	Interest	Total
2009	\$ 740,000	\$ 470,710	\$ 1,210,710
2010	690,000	448,693	1,138,693
2011	710,000	425,475	1,135,475
2012	735,000	400,415	1,135,415
2013	765,000	373,495	1,138,495
2014-2018	2,180,000	1,499,260	3,679,260
2019-2023	1,405,000	1,204,988	2,609,988
2024-2028	1,725,000	884,645	2,609,645
2029-2033	2,160,000	446,352	2,606,352
2034	495,000	24,325	519,325
Totals	<u>\$ 11,605,000</u>	<u>\$ 6,178,358</u>	<u>\$ 17,783,358</u>

**4: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The accounts payable and accrued liabilities balance of \$308,441 at June 30, 2008 was comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types	Total
	Major	Other Aggregate		
	General			
Vendor payables	\$ 35,690	\$ 118,600		\$ 154,290
Payroll withholdings and matching			\$ 153,999	153,999
Other			152	152
Totals	<u>\$ 35,690</u>	<u>\$ 118,600</u>	<u>\$ 154,151</u>	<u>\$ 308,441</u>

**5: SHORT-TERM DEBT INSTRUMENTS**

On November 23, 2007, the District paid off a short-term note payable, dated April 20, 2007, of \$1,250,000 at 6% interest. The note proceeds were used to fund operating expenses.

On March 13, 2008, the District executed a short-term note payable of \$1,250,050 at 4.85% interest maturing December 13, 2008. The note proceeds were used to fund operating expenses.

**6: INTERFUND TRANSFERS**

The District transferred \$1,229,728 from the general fund to the other aggregate funds for debt related payments of \$1,216,195 and to supplement certain capital expenditures by \$13,533.

GENTRY SCHOOL DISTRICT NO. 19  
BENTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**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 \$1,040,644, \$1,019,419 and \$913,040, 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 \$5,665, \$5,979 and \$5,767, respectively, equal to the required contributions for each year.

GENTRY SCHOOL DISTRICT NO. 19  
BENTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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

ADDITIONS	
Donations	\$ 29,774
Interest	<u>277</u>
 TOTAL ADDITIONS	 30,051
 DEDUCTIONS	
Scholarships	<u>23,338</u>
 CHANGE IN FUND BALANCE	 6,713
 FUND BALANCE - JULY 1	 <u>14,919</u>
 FUND BALANCE - JUNE 30	 <u><u>\$ 21,632</u></u>

**9: DEFICIT FUND BALANCES**

As of June 30, 2008, the other aggregate funds had a deficit fund balance of \$115,663 due to liabilities related to building repairs.

**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 and student accidents. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

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

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, contents, and vehicles.

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.

GENTRY SCHOOL DISTRICT NO. 19  
BENTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**11: FISCAL DISTRESS STATUS**

On April 21, 2008, the State Board of Education classified the District in Fiscal Distress, Phase 1, effective July 1, 2008. The District has implemented a plan to address the applicable issues.

GENTRY SCHOOL DISTRICT NO. 19  
WASHINGTON 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	\$ 252,820
<i>Depreciable capital assets:</i>	
Buildings	21,039,465
Improvements/infrastructure	1,944,272
Equipment	1,416,920
Total depreciable capital assets	24,400,657
Less accumulated depreciation for:	
Buildings	5,640,337
Improvements/infrastructure	1,208,829
Equipment	1,025,946
Total accumulated depreciation	7,875,112
Total depreciable capital assets, net	16,525,545
Capital assets, net	\$ 16,778,365

GENTRY SCHOOL DISTRICT NO. 19  
WASHINGTON COUNTY, ARKANSAS  
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	04-03-000	\$ 81,005
National School Lunch Program	10.555	04-03-000	<u>291,048</u>
TOTAL CHILD NUTRITION CLUSTER			<u>372,053</u>
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Agriculture</u>			
Food Donation (Note 2)			
	10.550		1,354
Passed Through State Department of Human Services:			
Food Donation (Note 3)	10.550	0403	36,508
Total U. S. Department of Agriculture			<u>37,862</u>
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	04-03	172,498
Special Education - Grants to States	84.027	0403	262,198
Safe and Drug-Free Schools and Communities - State Grants	84.186	04-03	33,000
State Grants for Innovative Programs	84.298	0403	2,601
Education Technology State Grants	84.318	04-03	8,266
English Language Acquisition Grants	84.365	0403	21,149
Improving Teacher Quality State Grants	84.367	04-03-000	23,790
Passed Through State Department of Workforce Education:			
Career and Technical Education - Basic Grants to States	84.048	L04-03-000	25,143
Total U. S. Department of Education			<u>548,645</u>
TOTAL OTHER PROGRAMS			<u>586,507</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 958,560</u>

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 Gentry School District No. 19 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.
- Note 2: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2008, the District received Medicaid funding of \$25,333 from the State Department of Human Services. Such payments are not considered Federal awards expended and therefore are not included in the above schedule.

GENTRY SCHOOL DISTRICT NO. 19  
 WASHINGTON COUNTY, ARKANSAS  
 FEDERAL AWARD PROGRAMS -  
 FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

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

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Programs or Cluster
10.553 and 10.555 84.027	Child Nutrition Cluster Special Education - Grants to States

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

Auditee qualified as low-risk auditee?  yes  no

GENTRY SCHOOL DISTRICT NO. 19  
WASHINGTON COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
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: 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: The deficiency in the below listed internal control component 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.

Control Activities

The responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets have not been assigned to a sufficient number of different employees to reduce the opportunities to allow any person to be in a position to both perpetuate and conceal errors or fraud in the normal course of his or her duties.

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 lack of understanding of management responsibilities, and cost/benefit implications, which hindered the District's ability to hire sufficient appropriate personnel, 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: We concur with the recommendation.

GENTRY SCHOOL DISTRICT NO. 19  
WASHINGTON COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 3

SIGNIFICANT DEFICIENCIES (CONTINUED)

2008-2. Misstatements not Detected by Internal Control System

Criteria: 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's internal control system did not prevent or detect material errors in the financial accounting records. Such records are utilized in the preparation of the District's financial statements. Significant errors included an unrecorded short-term note payable of \$1,250,050. The financial statements were subsequently corrected by adjusting entries during audit fieldwork. A similar finding was reported in the previous audit.

Context: Necessary adjustments to the trial balance.

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

Cause: District personnel have not been adequately trained and financial accounting records have not been properly monitored.

Recommendation: To achieve accurate financial accounting records, accounting personnel should be adequately trained and financial accounting records should be properly monitored.

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

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

No findings and questioned costs noted.

GENTRY SCHOOL DISTRICT NO. 19  
WASHINGTON COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008

Schedule 4

There were no findings in the prior audit.