

# **Hermitage School District No. 12**

**Bradley County, Arkansas**

## **General Purpose Financial Statements and Other Reports June 30, 2001**

LEGISLATIVE JOINT AUDITING COMMITTEE

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BRADLEY COUNTY, ARKANSAS  
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Sen. Kevin A. Smith  
Senate Co-Chair  
Rep. Danny W. Ferguson  
House Co-Chair  
Sen. Henry "Hank" Wilkins, IV  
Senate Co-Vice Chair  
Rep. Tommy Roebuck  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Hermitage School District No. 12 and School Board Members  
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements of the Hermitage School District No. 12 (the "District"), as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of district management. Our responsibility is to express an opinion 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 opinion.

The District did not maintain adequate fixed asset accounting records for equipment; accordingly, we were unable to verify the equipment balance as of the date of the financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the equipment balance, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2002 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 grants. 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 performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents, including the schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
August 22, 2002  
EDSD03201

Sen. Kevin A. Smith  
Senate Co-Chair  
Rep. Danny W. Ferguson  
House Co-Chair  
Sen. Henry "Hank" Wilkins, IV  
Senate Co-Vice Chair  
Rep. Tommy Roebuck  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### COMBINED REPORT(S) ON COMPLIANCE, INTERNAL CONTROLS AND OTHER MATTERS

Hermitage School District No. 12 and School Board Members  
Legislative Joint Auditing Committee

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of the Hermitage School District No. 12. This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), the United States Office of Management and Budget (OMB), the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. Section I of this letter is designed to satisfy certain requirements for compliance and internal control over financial reporting, whereas, Section II is designed to satisfy certain requirements for compliance requirements applicable to each major federal award program and internal control over compliance in accordance with OMB Circular A-133.

#### SECTION I: REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general purpose financial statements of the Hermitage School District No. 12 (the "District"), as of and for the year ended June 30, 2001, and have issued our report thereon dated August 22, 2002. We conducted our audit in accordance with 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.

#### Compliance

As part of obtaining reasonable assurance about whether the District's general purpose 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, and federal contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are disclosed below in the Audit Findings section of this letter.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding numbers one and two below to be material weaknesses. Other matters involving compliance and/or internal control were reported to School District management in a separate letter.

## AUDIT FINDINGS

### Reportable Condition(s)

1. The District had inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel.
2. Fixed asset controls relating to equipment were not adequate, and the records were not maintained in a manner to ensure accountability.

SECTION II: REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

### Compliance

We have audited the compliance of the Hermitage School District No. 12 (the "District") with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. 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 generally accepted auditing standards; 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 on 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, 2001.

### 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 in order to determine our 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

These reports are intended 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.

DIVISION OF LEGISLATIVE AUDIT

*William R. Baum*

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
August 22, 2002

HERMITAGE SCHOOL DISTRICT NO. 12

Exhibit A

BRADLEY COUNTY, ARKANSAS

COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2001

	Governmental Fund Types			Fiduciary	Account Groups		Totals
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
<b>ASSETS</b>							
Cash	\$ 148,150	\$ 4,517	\$ 59,620	\$ 12,525			\$ 224,812
Investments	315,376						315,376
Land					\$ 42,785		42,785
Buildings					2,865,457		2,865,457
Improvements other than buildings					51,078		51,078
Equipment					1,206,516		1,206,516
Amount to be provided for retirement of general long-term debt						\$ 1,834,362	1,834,362
<b>TOTAL ASSETS</b>	<u>\$ 463,526</u>	<u>\$ 4,517</u>	<u>\$ 59,620</u>	<u>\$ 12,525</u>	<u>\$ 4,165,836</u>	<u>\$ 1,834,362</u>	<u>\$ 6,540,386</u>
<b>LIABILITIES AND FUND EQUITY</b>							
Liabilities:							
Due student groups				\$ 12,525			\$ 12,525
Bonds payable						\$ 1,410,000	1,410,000
Postdated warrants						289,937	289,937
Capital leases						6,398	6,398
Installment contracts						128,027	128,027
Total Liabilities				<u>12,525</u>		<u>1,834,362</u>	<u>1,846,887</u>
Fund Equity:							
Investment in general fixed assets					\$ 4,165,836		4,165,836
Fund balances:							
Unreserved:							
Undesignated	\$ 463,526	\$ 4,517	\$ 59,620				527,663
Total Fund Equity	<u>463,526</u>	<u>4,517</u>	<u>59,620</u>		<u>4,165,836</u>		<u>4,693,499</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 463,526</u>	<u>\$ 4,517</u>	<u>\$ 59,620</u>	<u>\$ 12,525</u>	<u>\$ 4,165,836</u>	<u>\$ 1,834,362</u>	<u>\$ 6,540,386</u>

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

HERMITAGE SCHOOL DISTRICT NO. 12  
 BRADLEY COUNTY, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 2001

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
<b>REVENUES</b>					
Property taxes	\$ 657,336				\$ 657,336
State assistance	2,105,319	\$ 2,215	\$ 34,325		2,141,859
Federal assistance		425,686			425,686
Activity revenues	77,717				77,717
Meal sales		54,703			54,703
Interest on investments	17,144				17,144
Other revenues	26,488	396			26,884
<b>TOTAL REVENUES</b>	<b>2,884,004</b>	<b>483,000</b>	<b>34,325</b>		<b>3,401,329</b>
<b>EXPENDITURES</b>					
Regular programs	1,171,971	27,148			1,199,119
Special education	108,826	27,014			135,840
Workforce education	155,233				155,233
Compensatory education	2,056	114,113			116,169
Other instructional programs	61,294				61,294
Support services	1,139,409	308,345		\$ 89,366	1,537,120
Non-programmed costs	51,763	13,387			65,150
Activity expenditures	62,929				62,929
Capital outlay				345,871	345,871
Debt service:					
Principal retirement	32,443		35,000		67,443
Interest and fiscal charges	26,278		74,870		101,148
<b>TOTAL EXPENDITURES</b>	<b>2,812,202</b>	<b>490,007</b>	<b>109,870</b>	<b>435,237</b>	<b>3,847,316</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>71,802</b>	<b>(7,007)</b>	<b>(75,545)</b>	<b>(435,237)</b>	<b>(445,987)</b>

HERMITAGE SCHOOL DISTRICT NO. 12  
 BRADLEY COUNTY, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 2001

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
OTHER FINANCING SOURCES (USES)					
Transfers in			\$ 69,404		\$ 69,404
Transfers out	\$ (69,404)				(69,404)
Value of capital lease	6,398				6,398
Proceeds from postdated warrant				\$ 153,000	153,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(63,006)</b>		<b>69,404</b>	<b>153,000</b>	<b>159,398</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>8,796</b>	<b>\$ (7,007)</b>	<b>(6,141)</b>	<b>(282,237)</b>	<b>(286,589)</b>
FUND BALANCES - JULY 1	454,730	11,524	6,141	341,857	814,252
FUND BALANCES - JUNE 30	<u>\$ 463,526</u>	<u>\$ 4,517</u>	<u>\$ 0</u>	<u>\$ 59,620</u>	<u>\$ 527,663</u>

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

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS

Exhibit C

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Property taxes	\$ 598,109	\$ 657,336	\$ 59,227
State assistance	2,252,990	2,141,859	(111,131)
Federal assistance	313,642	425,686	112,044
Activity revenues		77,717	77,717
Meal sales		54,703	54,703
Interest on investments	8,000	17,144	9,144
Other revenues	7,000	26,884	19,884
<b>TOTAL REVENUES</b>	<b>3,179,741</b>	<b>3,401,329</b>	<b>221,588</b>
<b>EXPENDITURES</b>			
Regular programs	1,243,531	1,199,119	44,412
Special education	132,889	135,840	(2,951)
Workforce education	163,625	155,233	8,392
Compensatory education	113,418	116,169	(2,751)
Other instructional programs	57,966	61,294	(3,328)
Support services	1,305,031	1,537,120	(232,089)
Community services	200		200
Non-programmed costs	55,566	65,150	(9,584)
Activity expenditures		62,929	(62,929)
Capital outlay	620,226	345,871	274,355
Debt service:			
Principal retirement	59,553	67,443	(7,890)
Interest and fiscal charges	104,862	101,148	3,714
<b>TOTAL EXPENDITURES</b>	<b>3,856,867</b>	<b>3,847,316</b>	<b>9,551</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(677,126)</b>	<b>(445,987)</b>	<b>231,139</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in		69,404	69,404
Transfers out		(69,404)	(69,404)
Value of capital lease		6,398	6,398
Proceeds from postdated warrant	153,000	153,000	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>153,000</b>	<b>159,398</b>	<b>6,398</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(524,126)</b>	<b>(286,589)</b>	<b>237,537</b>
<b>FUND BALANCES - JULY 1</b>	<b>895,389</b>	<b>814,252</b>	<b>(81,137)</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 371,263</b>	<b>\$ 527,663</b>	<b>\$ 156,400</b>

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

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2001

NOTE 1: Summary of Significant Accounting Policies

A. 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 Hermitage School District (District). The District's financial statements reflect all funds and accounts directly under the control of the District. There are no component units.

B. Basis of Presentation - Fund Accounting

The accounts are maintained in accordance with the principles of fund accounting. 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. Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The following types of funds and account groups are recognized in the accompanying financial statements.

Governmental Funds

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the entity in a trustee capacity or as an agent for individuals, other governmental units, and other funds.

Account Groups

General Fixed Assets - to account for all fixed assets of the entity.

General Long-term Debt - to account for all long-term debt of the entity.

C. Basis of Accounting

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are generally recognized when the related fund liability is incurred. Exceptions include: (1) unmatured principal and interest on general long-term debt which is recognized when due; and (2) prepaid expenses, which are not recorded.

D. General Fixed Assets

General fixed assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Such assets are reported at cost or estimated historical cost, if actual data is not available, in the general fixed assets account group. Donated fixed assets are reported at fair market value when received in the general fixed assets account group. Library holdings and textbooks are not capitalized. In accordance with generally accepted accounting principles applicable to governmental entities, no provision for depreciation is reported.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2001

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. 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.

F. Investments

Investments consist of certificates of deposits classified as nonparticipating contracts and are reported at cost.

G. Inventories

Inventories are considered expenditures when purchased.

H. Liability for Compensated Absences

The accompanying financial statements do not include a liability for compensated absences as the amount is not material.

I. Fund Equity

Fund Balance - Undesignated fund balance - indicates that portion of fund equity not reserved or designated.

J. 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 State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of school districts employ the cash basis method.

K. Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods or services. The District does not record encumbrances in its accounting system and none are reported in the accompanying financial statements.

NOTE 2: Budget Versus Actual

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Governmental Fund Types (Exhibit C) includes revenues and expenditures of the activity and food service funds and certain transfers among funds. However, the District does not budget these activities.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2001

NOTE 3: Public Fund Deposits

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)	\$ 147,649	\$ 149,927
Uninsured, Collateralized	77,063	226,217
Total Deposits	\$ 224,712	\$ 376,144

The above total deposits do not include cash on hand in the amount of \$100.

NOTE 4: Public Fund Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of deposit	\$ 315,376	\$ 0	\$ 0	\$ 315,376	\$ 315,376

NOTE 5: Changes in General Fixed Assets

	Balance July 1, 2000	Additions	Reclassi- fications	Balance June 30, 2001
Land	\$ 42,785			\$ 42,785
Buildings	1,936,830	\$ 294,537	\$ 634,090	2,865,457
Improvements other than buildings	32,877	18,201		51,078
Equipment	1,127,715	78,801		1,206,516
Construction in progress	634,090		(634,090)	
Totals	\$ 3,774,297	\$ 391,539	\$ 0	\$ 4,165,836

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2001

NOTE 6: 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, 2001	Maturities to June 30, 2001
04/27/99	12/15/03	8%	\$ 28,144	\$ 17,678	\$ 10,466
07/21/99	07/21/07	4.93%	153,000	136,937	16,063
11/01/99	06/01/23	4.85 to 5.5%	1,477,186	1,410,000	67,186
03/10/00	03/10/10	6.005%	112,691	104,176	8,515
05/31/00	05/31/03	6%	8,998	6,174	2,824
07/19/00	04/15/08	6%	153,000	153,000	
06/21/01	06/21/06	7.4201%	6,397	6,397	
Totals			<u>\$ 1,939,416</u>	<u>\$ 1,834,362</u>	<u>\$ 105,054</u>

NOTE 7: Changes in Long-term Debt

	Balance July 1, 2000	Issued	Retired	Balance June 30, 2001
Bonds payable	\$ 1,445,000		\$ 35,000	\$ 1,410,000
Postdated warrants	153,000	\$ 153,000	16,063	289,937
Capital leases		6,398		6,398
Installment contracts	144,407		16,380	128,027
Totals	<u>\$ 1,742,407</u>	<u>\$ 159,398</u>	<u>\$ 67,443</u>	<u>\$ 1,834,362</u>

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

Year Ended June 30,	Principal	Interest	Total
2002	\$ 88,603	\$ 96,932	\$ 185,535
2003	96,793	92,044	188,837
2004	101,800	86,776	188,576
2005	98,333	81,202	179,535
2006	101,378	75,975	177,353
To Maturity	<u>1,347,455</u>	<u>662,058</u>	<u>2,009,513</u>
Totals	<u>\$ 1,834,362</u>	<u>\$ 1,094,987</u>	<u>\$ 2,929,349</u>

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2001

NOTE 8: Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2001
Copier	\$ 6,398
	June 30, 2001
Total Minimum Lease Payments	\$ 7,677
Less: Amount Representing Interest	1,279
Total Present Value of Net Minimum Lease Payments	\$ 6,398

NOTE 9: Retirement Plans

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 12%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2001, 2000 and 1999 were \$173,411, \$170,706 and \$173,924, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2001, 2000 and 1999 were \$18,258, \$17,242 and \$9,678, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteaching Arkansas public school employees hired before July 1, 1989. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2001

NOTE 9: Retirement Plans (Continued)

Arkansas Public Employees Retirement System (Continued)

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2001, 2000 and 1999 were \$880, \$546 and \$1,621, respectively, equal to the required contributions for each year.

NOTE 10: Litigation

A lawsuit was filed against the District on November 12, 1998 by Kevin Mark Price in the Circuit Court of Benton County (Case No. CV 98-802-1, Kevin Mark Price v. Hermitage School District). Mr. Price filed the complaint stating that his contract was terminated without legal justification. The lawsuit was settled out of court on October 9, 2001 with the District paying \$10,000 to Mr. Price to settle the matter.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2001

Schedule 1

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	06-01	\$ 58,031
National School Lunch Program	10.555	06-01	124,139
Total State Department of Education			<u>182,170</u>
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	06-01	11,944
TOTAL CHILD NUTRITION CLUSTER			<u>194,114</u>
 <b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	06-01	144,348
Special Education - Grants to States	84.027	06-01	46,584
Innovative Education Program Strategies	84.298	06-01	3,881
Class Size Reduction	84.340	06-01	23,267
Total U. S. Department of Education			<u>218,080</u>
 <u>U.S. Department of Health and Human Services</u>			
Passed through State Department of Human Services:			
Family Preservation and Support Services	93.556	716021204	20,032
TOTAL OTHER PROGRAMS			<u>238,112</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 432,226</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 Hermitage School District No. 12 and is presented on the modified accrual 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 presentation of, the basic financial statements.

Note 2: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.

HERMITAGE SCHOOL DISTRICT NO. 12  
 BRADLEY COUNTY, ARKANSAS  
 FEDERAL AWARD PROGRAMS -  
 FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2001

Schedule 2

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

FINANCIAL STATEMENTS

Type of auditor's report issued: Qualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

FEDERAL AWARDS

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Programs or Cluster
10.553, 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee?  yes  no

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2001

Schedule 2

**SECTION II - FINANCIAL STATEMENT FINDINGS**

REPORTABLE CONDITIONS

2001-1. Segregation of Duties

Specific Requirement - Duties pertaining to cash transactions should be adequately segregated to reduce the opportunities for any individual in the normal course of his/her duties to both perpetuate and conceal errors or irregularities.

Condition - Duties pertaining to cash transactions were not adequately segregated. This condition could be applicable to the District's federal programs.

Effect - The District had inadequate control over cash transactions.

Cause - Duties pertaining to cash transactions were not adequately segregated due to a limited number of personnel.

Recommendation - Segregation of duties relating to cash transactions should be established to the extent possible.

Response - We concur with the recommendation.

2001-2. Equipment Records

Specific Requirement - Controls over equipment should be established to achieve the objective of safeguarding assets, and records should be maintained to ensure proper financial reporting.

Condition - Fixed asset controls relating to equipment were not adequate, and the records were not maintained in a manner to ensure accountability. This condition could be applicable to the District's federal programs.

Effect - Equipment was not safeguarded, and the asset balance could not be verified as of the date of the financial statements.

Cause - Proper controls relating to equipment have not been implemented.

Recommendation - Implement an effective system of internal control relating to equipment and maintain adequate equipment records.

Response - We concur with the recommendation.

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

No findings and questioned costs noted.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2001

Schedule 3

There were no findings in the prior audit.