

Hermitage School District No. 12

Bradley County, Arkansas

General Purpose Financial Statements and Other Reports June 30, 2002

LEGISLATIVE JOINT AUDITING COMMITTEE



HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2002

Independent Auditor's Report
Combined Report(s) on Compliance, Internal Controls and Other Matters

GENERAL PURPOSE FINANCIAL STATEMENTS

	<u>Exhibit</u>
Combined Balance Sheet – Governmental and Fiduciary Fund Types and Account Groups	A
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund Types	B
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Governmental Fund Types	C
Notes to Financial Statements	

SUPPORTING SCHEDULES

	<u>Schedule</u>
Expenditures of Federal Awards	1
Federal Award Programs – Findings and Questioned Costs	2
Federal Award Programs – Summary of Prior Audit Findings	3

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Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
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Rep. David Evans
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, 2002, 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.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2002, 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 April 29, 2003 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
April 29, 2003
EDSD03202

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
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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, 2002, and have issued our report thereon dated April 29, 2003. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 the finding below to be a material weakness. Other matters involving compliance and/or internal control were reported to School District management in a separate letter.

AUDIT FINDING

Reportable Condition(s)

The District had inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel.

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, 2002. 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, 2002.

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

A handwritten signature in black ink that reads "William R. Baum". The signature is written in a cursive, flowing style.

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
April 29, 2003

HERMITAGE SCHOOL DISTRICT NO. 12
 BRADLEY COUNTY, ARKANSAS
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

Exhibit A

	Governmental Fund Types			Fiduciary	Account Groups		Totals
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
ASSETS							
Cash	\$ 549,021	\$ 191,243	\$ 29,667	\$ 476			\$ 770,407
Investments	116,816						116,816
Accounts receivable		35,000					35,000
Land					\$ 42,785		42,785
Buildings					2,865,457		2,865,457
Improvements other than buildings					51,078		51,078
Equipment					727,740		727,740
Amount to be provided for retirement of general long-term debt						\$ 1,808,225	1,808,225
TOTAL ASSETS	\$ 665,837	\$ 226,243	\$ 29,667	\$ 476	\$ 3,687,060	\$ 1,808,225	\$ 6,417,508
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 10,017	\$ 3,721					\$ 13,738
Due student groups				\$ 476			476
Bonds payable						\$ 1,375,000	1,375,000
Postdated warrants						254,905	254,905
Capital leases						80,000	80,000
Installment contracts						98,320	98,320
Total Liabilities	10,017	3,721		476		1,808,225	1,822,439

HERMITAGE SCHOOL DISTRICT NO. 12

Exhibit A

BRADLEY COUNTY, ARKANSAS

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

JUNE 30, 2002

	Governmental Fund Types			Fiduciary	Account Groups		Totals
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
LIABILITIES AND FUND EQUITY (Continued)							
Fund Equity:							
Investment in general fixed assets					\$ 3,687,060		\$ 3,687,060
Fund balances:							
Unreserved:							
Undesignated	\$ 655,820	\$ 222,522	\$ 29,667				908,009
Total Fund Equity	655,820	222,522	29,667		3,687,060		4,595,069
TOTAL LIABILITIES AND FUND EQUITY	\$ 665,837	\$ 226,243	\$ 29,667	\$ 476	\$ 3,687,060	\$ 1,808,225	\$ 6,417,508

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, 2002

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
REVENUES					
Property taxes	\$ 532,634				\$ 532,634
State assistance	2,407,995	\$ 7,019	\$ 35,279		2,450,293
Federal assistance		690,894			690,894
Activity revenues	92,585				92,585
Meal sales		71,730			71,730
Interest on investments	12,559				12,559
Other revenues	18,797	3,973			22,770
TOTAL REVENUES	3,064,570	773,616	35,279		3,873,465
EXPENDITURES					
Regular programs	1,211,685	32,418			1,244,103
Special education	114,554	25,797			140,351
Workforce education	95,550				95,550
Compensatory education		119,440			119,440
Other instructional programs	41,099				41,099
Support services	1,201,543	360,779		\$ 19,151	1,581,473
Non-programmed costs	42,043	17,177			59,220
Activity expenditures	76,975				76,975
Capital outlay				10,802	10,802
Debt service:					
Principal retirement	71,137		35,000		106,137
Interest and fiscal charges	24,748		73,221		97,969
TOTAL EXPENDITURES	2,879,334	555,611	108,221	29,953	3,573,119
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	185,236	218,005	(72,942)	(29,953)	300,346

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, 2002

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
OTHER FINANCING SOURCES (USES)					
Transfers in			\$ 72,942		\$ 72,942
Transfers out	\$ (72,942)				(72,942)
Value of capital lease	80,000				80,000
TOTAL OTHER FINANCING SOURCES (USES)	7,058		72,942		80,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	192,294	\$ 218,005		\$ (29,953)	380,346
FUND BALANCES - JULY 1	463,526	4,517		59,620	527,663
FUND BALANCES - JUNE 30	\$ 655,820	\$ 222,522	\$ 0	\$ 29,667	\$ 908,009

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

HERMITAGE SCHOOL DISTRICT NO. 12

Exhibit C

BRADLEY COUNTY, ARKANSAS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 610,133	\$ 532,634	\$ (77,499)
State assistance	2,352,270	2,450,293	98,023
Federal assistance	463,018	690,894	227,876
Activity revenues		92,585	92,585
Meal sales		71,730	71,730
Interest on investments	13,000	12,559	(441)
Other revenues	7,500	22,770	15,270
TOTAL REVENUES	3,445,921	3,873,465	427,544
EXPENDITURES			
Regular programs	1,324,841	1,244,103	80,738
Special education	171,940	140,351	31,589
Workforce education	103,867	95,550	8,317
Compensatory education	129,454	119,440	10,014
Other instructional programs	36,848	41,099	(4,251)
Support services	1,444,899	1,581,473	(136,574)
Community services	200		200
Non-programmed costs	79,103	59,220	19,883
Activity expenditures		76,975	(76,975)
Capital outlay		10,802	(10,802)
Debt service:			
Principal retirement	88,595	106,137	(17,542)
Interest and fiscal charges	97,430	97,969	(539)
TOTAL EXPENDITURES	3,477,177	3,573,119	(95,942)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(31,256)	300,346	331,602
OTHER FINANCING SOURCES (USES)			
Transfers in	102,709	72,942	(29,767)
Transfers out	(102,709)	(72,942)	29,767
Value of capital lease		80,000	80,000
TOTAL OTHER FINANCING SOURCES (USES)	0	80,000	80,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(31,256)	380,346	411,602
FUND BALANCES - JULY 1	433,481	527,663	94,182
FUND BALANCES - JUNE 30	\$ 402,225	\$ 908,009	\$ 505,784

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, 2002

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.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.

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 deposit 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.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

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 funds, which are not budgeted by the District.

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)	\$ 150,958	\$ 155,969
Uninsured, Collateralized	619,283	705,885
Total Deposits	\$ 770,241	\$ 861,854

The above total deposits do not include cash on hand in the amount of \$166.

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	\$ 116,816	\$ 0	\$ 0	\$ 116,816	\$ 116,816

NOTE 5: Changes in General Fixed Assets

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Land	\$ 42,785			\$ 42,785
Buildings	2,865,457			2,865,457
Improvements other than buildings	51,078			51,078
Equipment	1,206,516	\$ 114,489	\$ 593,265	727,740
Totals	\$ 4,165,836	\$ 114,489	\$ 593,265	\$ 3,687,060

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

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, 2002	Maturities To June 30, 2002
11/01/99	06/01/23	4.85 to 5.5%	\$ 1,477,186	\$ 1,375,000	\$ 102,186
07/21/99	07/21/07	4.930%	153,000	120,083	32,917
07/19/00	04/15/08	6.000%	153,000	134,822	18,178
03/10/00	03/10/10	6.005%	112,691	95,142	17,549
05/31/00	05/31/03	6.000%	8,998	3,178	5,820
07/05/01	07/05/11	5.988%	48,000	48,000	
03/01/02	12/01/06	4.875%	32,000	32,000	
Totals			<u>\$ 1,984,875</u>	<u>\$ 1,808,225</u>	<u>\$ 176,650</u>

NOTE 7: Changes in Long-term Debt

	Balance July 1, 2001	Issued	Retired	Balance June 30, 2002
Bonds payable	\$ 1,410,000		\$ 35,000	\$ 1,375,000
Postdated warrants	289,937		35,032	254,905
Capital leases	6,398	\$ 80,000	6,398	80,000
Installment contracts	128,027		29,707	98,320
Totals	<u>\$ 1,834,362</u>	<u>\$ 80,000</u>	<u>\$ 106,137</u>	<u>\$ 1,808,225</u>

Includes \$6,398 early retirement of debt – See Note 10.

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

Year Ended June 30,	Principal	Interest	Total
2003	\$ 99,482	\$ 94,761	\$ 194,243
2004	104,052	89,930	193,982
2005	107,369	84,430	191,799
2006	110,861	78,756	189,617
2007	119,550	72,884	192,434
To Maturity	<u>1,266,911</u>	<u>596,556</u>	<u>1,863,467</u>
Totals	<u>\$ 1,808,225</u>	<u>\$ 1,017,317</u>	<u>\$ 2,825,542</u>

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 8: Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2002
Playground equipment	\$ 48,000
Computer lab equipment	32,000
Total	\$ 80,000
	June 30, 2002
Total Minimum Lease Payments	\$ 101,584
Less: Amount Representing Interest	21,584
Total Present Value of Net Minimum Lease Payments	\$ 80,000

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, 2002, 2001 and 2000 were \$174,216, \$173,411 and \$170,706, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2002, 2001 and 2000 were \$18,237, \$18,258 and \$17,242, respectively, equal to the required contributions for each year.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 9: Retirement Plans (Continued)

Arkansas Public Employees Retirement System

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

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2002, 2001 and 2000 were \$880, \$880 and \$546, respectively, equal to the required contributions for each year.

NOTE 10: Early Retirement of Debt

The District paid off a capital lease for office equipment with Global Business Solutions during the 2001 - 2002 school year in the amount of \$6,398. The original payoff date was June 21, 2006.

HERMITAGE SCHOOL DISTRICT NO. 12
BRADLEY COUNTY, ARKANSAS
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Schedule 1

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	06-01	\$ 47,407
National School Lunch Program	10.555	06-01	120,133
Total State Department of Education			167,540
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	06-01	17,386
TOTAL CHILD NUTRITION CLUSTER			184,926
 OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	06-01	147,493
Special Education - Grants to States	84.027	06-01	36,701
Safe and Drug-Free Schools and Communities - State Grants	84.186	06-01	444
Innovative Education Program Strategies	84.298	06-01	3,136
Comprehensive School Reform Demonstration	84.332	06-01	56,771
Class Size Reduction	84.340	06-01	28,838
School Renovation Grant	84.352	06-01	9,722
Total U. S. Department of Education			283,105
 <u>U.S. Department of Health and Human Services</u>			
Passed through State Department of Human Services:			
Promoting Safe and Stable Families	93.556	716021204	13,125
TOTAL OTHER PROGRAMS			296,230
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 481,156

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 the 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, 2002

Schedule 2

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

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, 2002

Schedule 2

SECTION II - FINANCIAL STATEMENT FINDINGS

2002-1. 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.

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, 2002

Schedule 3

There were no findings in the prior audit.