

# **Hermitage School District No. 12**

**Bradley County, Arkansas**

## **General Purpose Financial Statements and Other Reports**

**June 30, 2003**



HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
TABLE OF CONTENTS  
JUNE 30, 2003

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 – General and Special Revenue 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

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverly  
Senate Co-Vice Chair  
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, 2003, 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, 2003, 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 March 1, 2004 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  
March 1, 2004  
EDSD03203

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverly  
Senate Co-Vice Chair  
Rep. David Evans  
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, 2003, and have issued our report thereon dated March 1, 2004. 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, 2003. 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, 2003.

##### 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  
March 1, 2004

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2003

	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	\$ 708,463	\$ 148,390	\$ 142,587				\$ 999,440
Investments	119,467						119,467
Accounts receivable	28,582	15,000					43,582
Due from other funds		621					621
Due from student groups				\$ 578			578
Land					\$ 42,785		42,785
Buildings					2,702,118		2,702,118
Improvements other than buildings					51,078		51,078
Equipment					798,070		798,070
Amount to be provided for retirement of general long-term debt						\$ 1,849,917	1,849,917
<b>TOTAL ASSETS</b>	<b>\$ 856,512</b>	<b>\$ 164,011</b>	<b>\$ 142,587</b>	<b>\$ 578</b>	<b>\$ 3,594,051</b>	<b>\$ 1,849,917</b>	<b>\$ 6,607,656</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Overdraft				\$ 578			\$ 578
Accounts payable	\$ 23,549						23,549
Due to other funds	621						621
Bonds payable						\$ 1,335,000	1,335,000
Postdated warrants						359,110	359,110
Capital leases						70,250	70,250
Installment contracts						85,557	85,557
<b>Total Liabilities</b>	<b>24,170</b>			<b>578</b>		<b>1,849,917</b>	<b>1,874,665</b>

HERMITAGE SCHOOL DISTRICT NO. 12  
 BRADLEY COUNTY, ARKANSAS  
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 2003

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)
LIABILITIES AND FUND EQUITY (CONTINUED)							
Fund Equity:							
Investment in general fixed assets					\$ 3,594,051		\$ 3,594,051
Fund balances:							
Unreserved:							
Undesignated	\$ 832,342	\$ 164,011	\$ 142,587				1,138,940
Total Fund Equity	<u>832,342</u>	<u>164,011</u>	<u>142,587</u>		<u>3,594,051</u>		<u>4,732,991</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 856,512</u>	 <u>\$ 164,011</u>	 <u>\$ 142,587</u>	 <u>\$ 578</u>	 <u>\$ 3,594,051</u>	 <u>\$ 1,849,917</u>	 <u>\$ 6,607,656</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, 2003

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
REVENUES					
Property taxes	\$ 559,732				\$ 559,732
State assistance	2,444,300	\$ 47,293	\$ 35,464		2,527,057
Federal assistance	53,222	640,060			693,282
Activity revenues	80,607				80,607
Meal sales		65,784			65,784
Interest on investments	10,416				10,416
Other revenues	8,450	10,359			18,809
<b>TOTAL REVENUES</b>	<b>3,156,727</b>	<b>763,496</b>	<b>35,464</b>		<b>3,955,687</b>
EXPENDITURES					
Regular programs	1,329,309	55,370			1,384,679
Special education	94,383	82,408			176,791
Workforce education	109,645				109,645
Compensatory education		153,842			153,842
Other instructional programs	40,388				40,388
Support services	1,124,400	511,199		\$ 2,776	1,638,375
Non-programmed costs	42,839	19,188			62,027
Activity expenditures	76,532				76,532
Capital outlay				26,891	26,891
Debt service:					
Principal retirement	59,483		40,000		99,483
Interest and fiscal charges	23,486		71,675		95,161
<b>TOTAL EXPENDITURES</b>	<b>2,900,465</b>	<b>822,007</b>	<b>111,675</b>	<b>29,667</b>	<b>3,863,814</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	256,262	(58,511)	(76,211)	(29,667)	91,873

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, 2003

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
OTHER FINANCING SOURCES (USES)					
Transfers in			\$ 76,211	\$ 3,529	\$ 79,740
Transfers out	\$ (79,740)				(79,740)
Proceeds from postdated warrant				141,175	141,175
Net postdated warrant issuance cost				(2,117)	(2,117)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(79,740)</b>		<b>76,211</b>	<b>142,587</b>	<b>139,058</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>176,522</b>	<b>\$ (58,511)</b>		<b>112,920</b>	<b>230,931</b>
<b>FUND BALANCES - JULY 1</b>	<b>655,820</b>	<b>222,522</b>		<b>29,667</b>	<b>908,009</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 832,342</b>	<b>\$ 164,011</b>	<b>\$ 0</b>	<b>\$ 142,587</b>	<b>\$ 1,138,940</b>

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 -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003

Exhibit C

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Property taxes	\$ 670,223	\$ 559,732	\$ (110,491)				\$ 670,223	\$ 559,732	\$ (110,491)
State assistance	2,283,314	2,444,300	160,986	\$ 74,123	\$ 47,293	\$ (26,830)	2,357,437	2,491,593	134,156
Federal assistance	80,000	53,222	(26,778)	406,852	640,060	233,208	486,852	693,282	206,430
Activity revenues		80,607	80,607					80,607	80,607
Meal sales					65,784	65,784		65,784	65,784
Interest on investments	10,000	10,416	416				10,000	10,416	416
Other revenues	4,000	8,450	4,450		10,359	10,359	4,000	18,809	14,809
<b>TOTAL REVENUES</b>	<b>3,047,537</b>	<b>3,156,727</b>	<b>109,190</b>	<b>480,975</b>	<b>763,496</b>	<b>282,521</b>	<b>3,528,512</b>	<b>3,920,223</b>	<b>391,711</b>
EXPENDITURES									
Regular programs	1,451,535	1,329,309	122,226	32,333	55,370	(23,037)	1,483,868	1,384,679	99,189
Special education	93,140	94,383	(1,243)	66,285	82,408	(16,123)	159,425	176,791	(17,366)
Workforce education	97,088	109,645	(12,557)				97,088	109,645	(12,557)
Compensatory education				123,524	153,842	(30,318)	123,524	153,842	(30,318)
Other instructional programs	41,806	40,388	1,418				41,806	40,388	1,418
Support services	1,196,020	1,124,400	71,620	434,383	511,199	(76,816)	1,630,403	1,635,599	(5,196)
Community services				200	200		200	200	
Non-programmed costs	46,500	42,839	3,661	22,000	19,188	2,812	68,500	62,027	6,473
Activity expenditures		76,532	(76,532)					76,532	(76,532)
Debt service:									
Principal retirement	68,065	59,483	8,582				68,065	59,483	8,582
Interest and fiscal charges	23,487	23,486	1				23,487	23,486	1
<b>TOTAL EXPENDITURES</b>	<b>3,017,641</b>	<b>2,900,465</b>	<b>117,176</b>	<b>678,725</b>	<b>822,007</b>	<b>(143,282)</b>	<b>3,696,366</b>	<b>3,722,472</b>	<b>(26,106)</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	29,896	256,262	226,366	(197,750)	(58,511)	139,239	(167,854)	197,751	365,605
OTHER FINANCING SOURCES (USES)									
Transfers out		(79,740)	(79,740)					(79,740)	(79,740)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	29,896	176,522	146,626	(197,750)	(58,511)	139,239	(167,854)	118,011	285,865
FUND BALANCES - JULY 1	550,155	655,820	105,665	197,750	222,522	24,772	747,905	878,342	130,437
FUND BALANCES - JUNE 30	\$ 580,051	\$ 832,342	\$ 252,291	\$ 0	\$ 164,011	\$ 164,011	\$ 580,051	\$ 996,353	\$ 416,302

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, 2003

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 are 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, 2003

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. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

I. Liability for Compensated Absences

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

J. Fund Equity

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

K. 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.

L. 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, 2003

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)	\$ 153,977	\$ 127,213
Uninsured, Collateralized	844,721	976,967
Total Deposits	\$ 998,698	\$ 1,104,180

The above total deposits do not include cash on hand in the amount of \$164.

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	\$ 119,467	\$ 0	\$ 0	\$ 119,467	\$ 119,467

NOTE 5: Changes in General Fixed Assets

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land	\$ 42,785			\$ 42,785
Buildings	2,865,457		\$ 163,339	2,702,118
Improvements other than buildings	51,078			51,078
Equipment	727,740	\$ 93,288	22,958	798,070
Totals	\$ 3,687,060	\$ 93,288	\$ 186,297	\$ 3,594,051

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

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, 2003	Maturities To June 30, 2003
11/01/09	06/01/23	4.85% to 5.5%	\$ 1,477,186	\$ 1,335,000	\$ 142,186
07/21/99	07/21/07	4.9300%	153,000	102,397	50,603
07/19/00	04/15/08	6.0000%	153,000	115,538	37,462
06/18/03	06/18/13	0.0000%	141,175	141,175	
03/10/00	03/10/10	6.0050%	112,691	85,557	27,134
07/05/01	07/05/11	5.9875%	48,000	44,356	3,644
03/01/02	12/01/06	4.8750%	32,000	25,894	6,106
Totals			<u>\$ 2,117,052</u>	<u>\$ 1,849,917</u>	<u>\$ 267,135</u>

NOTE 7: Changes in Long-term Debt

	Balance July 1, 2002	Issued	Retired	Balance June 30, 2003
Bonds payable	\$ 1,375,000		\$ 40,000	\$ 1,335,000
Postdated warrants	254,905	\$ 141,175	36,970	359,110
Capital leases	80,000		9,750	70,250
Installment contracts	98,320		12,763	85,557
Totals		<u>\$ 1,808,225</u>	<u>\$ 99,483</u>	<u>\$ 1,849,917</u>

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

Year Ended June 30,	Principal	Interest	Total
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
2008	121,160	66,543	187,703
To Maturity	<u>1,286,925</u>	<u>530,014</u>	<u>1,816,939</u>
Totals		<u>\$ 1,849,917</u>	<u>\$ 2,772,474</u>

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 8: Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2003
Playground equipment	\$ 48,000
Computer lab equipment	32,000
Total	\$ 80,000
	June 30, 2003
Total Minimum Lease Payments	\$ 87,785
Less: Amount Representing Interest	17,535
Total Present Value of Net Minimum Lease Payments	\$ 70,250

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, 2003, 2002 and 2001 were \$162,706, \$174,216 and \$173,411, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$22,142, \$18,237 and \$18,258, respectively, equal to the required contributions for each year.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

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, 2003, 2002 and 2001 were \$869, \$880 and \$880, respectively, equal to the required contributions for each year.

NOTE 10: Subsequent Events

On December 4, 2003, the District issued \$3,600,000 in refunding and construction bonds.

NOTE 11: Qualified Zone Academy Bonds (QZAB)

The District issued Qualified Zone Academy Bonds (QZAB's) during the period. This is a new financing vehicle created by the Tax Relief Act of 1997. QZAB's do not generally require interest payments from the borrower. The eligible financial institution holding the bond receives a tax credit in lieu of interest payments. The principal is not due until the end of the term. The borrower makes deposits into a sinking fund account annually and the sinking fund will earn interest. The District borrowed \$141,175 using this method by issuing postdated warrants. The District will deposit into a sinking fund at Bank of America \$13,036.65 for ten years, depositing a total of \$130,366.50 into the sinking fund. This amount plus interest will be used to retire the debt on June 18, 2013, the maturity date.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003

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	\$ 52,836
National School Lunch Program	10.555	06-01	145,609
Total State Department of Education			198,445
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	06-01	14,539
<b>TOTAL CHILD NUTRITION CLUSTER</b>			<b>212,984</b>
<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	190,083
Special Education - Grants to States	84.027	06-01	93,375
Safe and Drug-Free Schools and Communities - State Grants	84.186	06-01	3,046
Innovative Education Program Strategies	84.298	06-00	5,400
Education Technology State Grants	84.318	06-01	5,502
Comprehensive School Reform Demonstration	84.332	06-01	43,229
School Renovation Grant	84.352	06-01	162,156
Reading First State Grants	84.357	06-01	1,875
Rural Education	84.358	06-01	16,190
Improving Teacher Quality State Grants	84.367	06-01	33,491
Total U. S. Department of Education			554,347
<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	16,875
<b>TOTAL OTHER PROGRAMS</b>			<b>571,222</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 784,206</b>

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, 2003

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, 2003

Schedule 2

**SECTION II - FINANCIAL STATEMENT FINDINGS**

2003-1. 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, 2003

Schedule 3

There were no findings in the prior audit.