

# **Hermitage School District No. 12**

**Bradley County, Arkansas**

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

**June 30, 2004**



HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
TABLE OF CONTENTS  
JUNE 30, 2004

Independent Auditor's Report  
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*  
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet – Regulatory Basis	A
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis	B
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis	C
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets	1
Expenditures of Federal Awards	2
Federal Award Programs – Findings and Questioned Costs	3
Federal Award Programs – Summary of Prior Audit Findings	4

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverly  
Senate Co-Vice Chair  
Rep. Sandra Prater  
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 financial statements of each major governmental fund and the aggregate remaining fund information of the Hermitage School District No. 12 (the "District"), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
August 10, 2005  
EDSD03204

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. Sandra Prater  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Hermitage School District No. 12 (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated August 10, 2005. 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. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Department of Education, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements and not to provide an opinion 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 described in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs as item 2004-1.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the regulatory basis 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 number 2004-1 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs to be a material weakness. Other matters involving compliance and/or internal control are reported in a separate management letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

DIVISION OF LEGISLATIVE AUDIT



William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
August 10, 2005

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. Sandra Prater  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

#### Compliance

We have audited the compliance of the Hermitage School District No. 12 (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. 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 grant agreements applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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, 2004.

#### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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 reportable 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 caused by error or fraud 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 solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

*William R. Baum*

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
August 10, 2005

HERMITAGE SCHOOL DISTRICT NO. 12  
 BRADLEY COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2004

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 858,120	\$ 52,244	\$ 71,283	\$ 1,329
Deposit with paying agent	13,037			
Investments	121,410		1,760,156	
Accounts receivable	14,342	26,179		
Property taxes receivable	23,220			
Due from student groups				2,775
<b>TOTAL ASSETS</b>	<b>\$ 1,030,129</b>	<b>\$ 78,423</b>	<b>\$ 1,831,439</b>	<b>\$ 4,104</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 44,808	\$ 6,235		\$ 4,104
<b>Fund Balances:</b>				
<b>Reserved:</b>				
Debt service	13,037		\$ 1,271	
Capital projects			1,830,168	
<b>Unreserved:</b>				
Undesignated	972,284	72,188		
<b>Total Fund Balances</b>	<b>985,321</b>	<b>72,188</b>	<b>1,831,439</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,030,129</b>	<b>\$ 78,423</b>	<b>\$ 1,831,439</b>	<b>\$ 4,104</b>

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

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes	\$ 640,803		
Property tax relief trust distribution	136,938		
State assistance	2,304,018	\$ 2,377	\$ 33,965
Federal assistance	49,047	653,224	
Activity revenues	82,924		
Meal sales		63,997	
Investment income	10,722		11,427
Other revenues	46,205	1,434	
<b>TOTAL REVENUES</b>	<b>3,270,657</b>	<b>721,032</b>	<b>45,392</b>
EXPENDITURES			
Regular programs	1,354,137	79,181	12,181
Special education	100,784	62,400	
Workforce education	113,187		
Compensatory education		237,712	
Other instructional programs	38,224		
Student support services	118,794	34,276	
Instructional staff support services	109,960	97,632	
General administration support services	211,245	6,000	
School administration support services	147,240		
Business support services	40,747		
Operation and maintenance of plant services	241,350	1,689	62,918
Student transportation services	240,255	2,872	
Central support services	42,939		
Other support services	1,120		
Food services operations		265,111	
Non-programmed costs	90,150	21,065	
Activity expenditures	127,085		
Capital outlay	12,244	4,652	118,426
Debt service:			
Principal retirement	37,202		
Interest and fiscal charges	14,042		111,203
<b>TOTAL EXPENDITURES</b>	<b>3,040,705</b>	<b>812,590</b>	<b>304,728</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>229,952</b>	<b>(91,558)</b>	<b>(259,336)</b>
OTHER FINANCING SOURCES (USES)			
Transfers in			77,238
Transfers out	(76,973)	(265)	
Compensation for loss of fixed assets			70,000
Proceeds from sale of refunding and construction bonds			3,600,000
Payment to refund bond escrow agent			(1,710,300)
Net bond issue cost			(88,750)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(76,973)</b>	<b>(265)</b>	<b>1,948,188</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>152,979</b>	<b>(91,823)</b>	<b>1,688,852</b>
FUND BALANCES - JULY 1	832,342	164,011	142,587
FUND BALANCES - JUNE 30	<u>\$ 985,321</u>	<u>\$ 72,188</u>	<u>\$ 1,831,439</u>

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

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$ 722,495	\$ 640,803	\$ (81,692)			
Property tax relief trust distribution		136,938	136,938			
State assistance	2,285,324	2,304,018	18,694	\$ 68,600	\$ 2,377	\$ (66,223)
Federal assistance	49,047	49,047		588,719	653,224	64,505
Activity revenues		82,924	82,924			
Meal sales					63,997	63,997
Investment income	8,000	10,722	2,722			
Other revenues	6,000	46,205	40,205		1,434	1,434
<b>TOTAL REVENUES</b>	<b>3,070,866</b>	<b>3,270,657</b>	<b>199,791</b>	<b>657,319</b>	<b>721,032</b>	<b>63,713</b>
EXPENDITURES						
Regular programs	1,347,829	1,354,137	(6,308)	32,807	79,181	(46,374)
Special education	97,727	100,784	(3,057)	52,617	62,400	(9,783)
Workforce education	104,854	113,187	(8,333)			
Compensatory education				243,155	237,712	5,443
Other instructional programs	37,865	38,224	(359)			
Student support services	111,932	118,794	(6,862)	31,578	34,276	(2,698)
Instructional staff support services	97,891	109,960	(12,069)	84,054	97,632	(13,578)
General administration support services	195,176	211,245	(16,069)	6,000	6,000	
School administration support services	151,929	147,240	4,689			
Business support services	46,861	40,747	6,114			
Operation and maintenance of plant services	228,793	241,350	(12,557)	2,500	1,689	811
Student transportation services	211,250	240,255	(29,005)		2,872	(2,872)
Central supplies services	47,500	42,939	4,561			
Other support services	6,000	1,120	4,880			
Food services operations				238,861	265,111	(26,250)
Community services				400		400
Non-programmed costs	73,500	90,150	(16,650)	25,000	21,065	3,935
Activity expenditures		127,085	(127,085)			
Capital outlay	17,500	12,244	5,256	19,190	4,652	14,538
Debt service:						
Principal retirement	59,052	37,202	21,850			
Interest and fiscal charges	20,593	14,042	6,551			
<b>TOTAL EXPENDITURES</b>	<b>2,856,252</b>	<b>3,040,705</b>	<b>(184,453)</b>	<b>736,162</b>	<b>812,590</b>	<b>(76,428)</b>

HERMITAGE SCHOOL DISTRICT NO. 12  
 BRADLEY COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 214,614	\$ 229,952	\$ 15,338	\$ (78,843)	\$ (91,558)	\$ (12,715)
OTHER FINANCING SOURCES (USES)						
Transfers out		(76,973)	(76,973)		(265)	(265)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	214,614	152,979	(61,635)	(78,843)	(91,823)	(12,980)
FUND BALANCES - JULY 1	848,927	832,342	(16,585)	148,124	164,011	15,887
FUND BALANCES - JUNE 30	<u>\$ 1,063,541</u>	<u>\$ 985,321</u>	<u>\$ (78,220)</u>	<u>\$ 69,281</u>	<u>\$ 72,188</u>	<u>\$ 2,907</u>

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, 2004

**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). There are no component units.

B. Description of Funds

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

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

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

Other governmental funds consist of the following:

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an *Other Comprehensive Basis of Accounting* (OCBOA). This basis of accounting is prescribed by Arkansas Code Annotated §10-4-412(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus and Basis of Accounting (Continued)**

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

**D. Revenue Recognition Policies**

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

**E. Capital Assets**

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

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

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	7-30
Buildings	25-50
Equipment	5-20

**F. Property Taxes**

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes that are due at the end of the fiscal year and collected within 60 days are accrued. Deferred property taxes are not recognized.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

G. Fund Balance Designations

1. Reserved fund balance - represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Undesignated fund balance - indicates that portion of the fund balance not reserved or designated.

H. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

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

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 128,255	\$ 169,830
Uninsured, Collateralized	854,557	965,676
Total Deposits	\$ 982,812	\$ 1,135,506

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

**3: INVESTMENTS**

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

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**3: INVESTMENTS (Continued)**

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of deposit	\$ 1,881,566	\$ 0	\$ 0	\$ 1,881,566	\$ 1,881,566

**4: RECEIVABLES**

The receivables of \$63,741 at June 30, 2004, are as follows:

Class of Receivable	General Fund	Special Revenue Fund	Total
Taxes:			
Local	\$ 23,220		\$ 23,220
Grants:			
Federal		\$ 26,179	26,179
Accounts	1,661		1,661
State assistance	12,681		12,681
Totals	<u>\$ 37,562</u>	<u>\$ 26,179</u>	<u>\$ 63,741</u>

**5: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2004:

A. 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, 2004
12/1/2003	12/1/2028	3.60%-4.95%	\$ 3,600,000	\$ 3,600,000
6/18/2003	6/8/2013	0.00%	141,175	141,175
Totals			<u>\$ 3,741,175</u>	<u>\$ 3,741,175</u>

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

5: **COMMITMENTS** (Continued)

A. Long-term Debt Issued and Outstanding (Continued)

Changes in Long-term Debt

	Balance July 1, 2003	Issued	Retired	Balance June 30, 2004
Bonds payable	\$ 1,335,000	\$ 3,600,000	\$ 1,335,000	\$ 3,600,000
Postdated warrants	359,110		217,935	141,175
Capital leases	70,250		70,250	
Installment contracts	85,557		85,557	
<b>Totals</b>	<b>\$ 1,849,917</b>	<b>\$ 3,600,000</b>	<b>\$ 1,708,742</b>	<b>\$ 3,741,175</b>

Includes \$1,671,540 early retirement of debt - See Note 7.

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

Year Ended June 30,	Principal	Interest	Total
2005	\$ 85,000	\$ 152,471	\$ 237,471
2006	90,000	149,411	239,411
2007	95,000	146,171	241,171
2008	100,000	142,751	242,751
2009	105,000	139,151	244,151
2010-2014	726,175	635,997	1,362,172
2015-2019	730,000	516,281	1,246,281
2020-2024	910,000	390,944	1,300,944
2025-2028	900,000	112,645	1,012,645
<b>Totals</b>	<b>\$ 3,741,175</b>	<b>\$ 2,385,822</b>	<b>\$ 6,126,997</b>

B. Qualified Zone Academy Bond (QZAB)

The District issued Qualified Zone Academy Bonds (QZAB's) during the year ended June 30, 2003. 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 \$13,037 for ten years, depositing a total of \$130,367 into the sinking fund. This amount plus interest will be used to retire the debt on June 18, 2013, the maturity date. The balance in the sinking fund, including interest, was \$13,037 at June 30, 2004.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**6: ACCOUNTS PAYABLE**

The payables of \$55,147 at June 30, 2004, are as follows:

	General Fund	Special Revenue Fund	Fiduciary Fund Types	Total
Accounts	\$ 44,808	\$ 6,235	\$ 4,104	\$ 55,147

**7: DEBT REFUNDING AND CONSTRUCTION BOND**

On December 1, 2003, the District issued \$3,600,000 in refunding and construction bonds with interest rates from 3.60 to 4.95 percent to advance refund \$1,335,000 of outstanding bonds dated November 1, 1999, with interest rates from 4.85 to 5.5 percent, \$40,494 of lease-purchase agreement dated July 5, 2001, with an interest rate of 5.9875 percent, \$25,894 of lease-purchase agreement dated December 1, 2002, with an interest rate of 4.875 percent, \$83,840 of post-dated warrants dated July 21, 1999, with an interest rate of 4.93 percent, \$105,753 of post-dated warrants dated July 19, 2000, with an interest rate of 6.00 percent, and \$80,559 of installment contracts dated March 10, 2000, with an interest rate of 6.005 percent, respectively. As a result, the bond, capital leases, post-dated warrants, and installment contract is considered to be defeased and the liability for these have been removed from the District's general ledger. The District received \$1,800,950 of net bond proceeds to be used for construction projects.

**8: INTERFUND TRANSFERS**

The Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis (Exhibit B) reflects \$77,238 of funds transferred from General Fund to Debt Service Fund for debt related payment and \$265 of funds transferred from Special Revenue to General Fund to close an inactive account.

**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 13%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$186,162, \$162,706 and \$174,216, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$28,307, \$22,142 and \$18,237, respectively, equal to the required contributions for each year.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**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, 2004, 2003 and 2002 were \$941, \$869 and \$880, respectively, equal to the required contributions for each year.

**10: SUBSEQUENT EVENTS**

On May 31, 2005, the District issued \$200,000 in Qualified Zone Academy Bonds.

**11. COMPENSATING FOR LOSS OF FIXED ASSETS**

The District received insurance proceeds of \$70,000 as a result of a house fire.

HERMITAGE SCHOOL DISTRICT NO. 12  
 BRADLEY COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<i>Nondepreciable capital assets:</i>				
Land	\$ 42,785			\$ 42,785
<i>Depreciable capital assets:</i>				
Buildings	2,702,118	\$ 45,016	\$ 39,534	2,707,600
Improvements/infrastructure	51,078	22,319		73,397
Equipment	798,070	94,652	135,271	757,451
Total depreciable capital assets	<u>3,551,266</u>	<u>161,987</u>	<u>174,805</u>	<u>3,538,448</u>
Less accumulated depreciation for:				
Buildings	1,439,726	37,978	39,534	1,438,170
Improvements/infrastructure	17,403	2,808		20,211
Equipment	601,151	25,779	62,224	564,706
Total accumulated depreciation	<u>2,058,280</u>	<u>66,565</u>	<u>101,758</u>	<u>2,023,087</u>
Total depreciable capital assets, net	<u>1,492,986</u>	<u>95,422</u>	<u>73,047</u>	<u>1,515,361</u>
Capital assets, net	<u>\$ 1,535,771</u>	<u>\$ 95,422</u>	<u>\$ 73,047</u>	<u>\$ 1,558,146</u>

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 2

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	\$ 51,599
National School Lunch Program	10.555	06-01	131,406
Total State Department of Education			183,005
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	06-01	12,454
<b>TOTAL CHILD NUTRITION CLUSTER</b>			<b>195,459</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	242,759
Special Education - Grants to States	84.027	06-01	92,803
Safe and Drug-Free Schools and Communities - State Grants	84.186	06-01	3,553
State Grants For Innovative Programs	84.298	06-01	3,355
Education Technology State Grants	84.318	06-01	3,298
Comprehensive School Reform Demonstration	84.332	06-01	50,000
Reading First State Grants	84.357	06-01	94,118
Improving Teacher Quality State Grants	84.367	06-01	32,807
Total U. S. Department of Education			522,693
<u>U.S. Department of Health and Human Services</u>			
Passed Through State Department of Health and Human Services:			
Promoting Safe and Stable Families	93.556	06-01	17,015
<b>TOTAL OTHER PROGRAMS</b>			<b>539,708</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 735,167</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 Hermitage School District No. 12 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the 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, 2004

Schedule 3

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

FINANCIAL STATEMENTS

Type of auditor's report issued: GAAP presentation- Adverse  
 Regulatory OCBOA presentation (opinion units) - 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, 2004

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

2004-1. 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.

Context - Our review of internal control revealed deficiencies in segregation of duties.

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.

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

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

No findings and questioned costs noted.

HERMITAGE SCHOOL DISTRICT NO. 12  
BRADLEY COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 4

There were no findings in the prior audit.