

# Harmony Grove School District No. 1

Saline County, Arkansas

## General Purpose Financial Statements and Other Reports

June 30, 2003



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SALINE COUNTY, ARKANSAS  
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JUNE 30, 2003

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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

Harmony Grove School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements of the Harmony Grove School District No. 1 (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 September 3, 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  
September 3, 2004  
EDSD33303

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

Harmony Grove School District No. 1 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 Harmony Grove School District No. 1. 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 Harmony Grove School District No. 1 (the "District"), as of and for the year ended June 30, 2003, and have issued our report thereon dated September 3, 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 FINDINGS

### Reportable Condition

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 Harmony Grove School District No. 1 (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  
September 3, 2004

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE COUNTY, ARKANSAS  
COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2003

Exhibit A

	Governmental Fund Types				Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt	
ASSETS								
Cash	\$ 929,609	\$ 55,348	\$ 132,179	\$ 1,139,685	\$ 33,645			\$ 2,290,466
Investments	95,007							95,007
Due from other funds			12,964					12,964
Land						\$ 180,690		180,690
Buildings						4,171,091		4,171,091
Improvements other than buildings						511,558		511,558
Equipment						1,037,391		1,037,391
Construction in progress						980,148		980,148
Amount available in debt service funds							\$ 145,143	145,143
Amount to be provided for retirement of general long-term debt							4,899,695	4,899,695
<b>TOTAL ASSETS</b>	<b>\$ 1,024,616</b>	<b>\$ 55,348</b>	<b>\$ 145,143</b>	<b>\$ 1,139,685</b>	<b>\$ 33,645</b>	<b>\$ 6,880,878</b>	<b>\$ 5,044,838</b>	<b>\$ 14,324,153</b>
LIABILITIES AND FUND EQUITY								
Liabilities:								
Accounts payable	\$ 11,772	\$ 8,262		\$ 15,140				\$ 35,174
Due student groups					\$ 33,645			33,645
Due to other funds	12,964							12,964
Bonds payable						\$ 4,981,563		4,981,563
Capital leases							63,275	63,275
Total Liabilities	<u>24,736</u>	<u>8,262</u>		<u>15,140</u>	<u>33,645</u>		<u>5,044,838</u>	<u>5,126,621</u>
Fund Equity:								
Investment in general fixed assets						\$ 6,880,878		6,880,878
Fund balances:								
Unreserved:								
Designated:								
Debt service			\$ 145,143					145,143
Undesignated	999,880	47,086		1,124,545				2,171,511
Total Fund Equity	<u>999,880</u>	<u>47,086</u>	<u>145,143</u>	<u>1,124,545</u>		<u>6,880,878</u>		<u>9,197,532</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,024,616</b>	<b>\$ 55,348</b>	<b>\$ 145,143</b>	<b>\$ 1,139,685</b>	<b>\$ 33,645</b>	<b>\$ 6,880,878</b>	<b>\$ 5,044,838</b>	<b>\$ 14,324,153</b>

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

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE COUNTY, ARKANSAS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
REVENUES					
Property taxes	\$ 925,303				\$ 925,303
State assistance	3,536,349				3,536,349
Federal assistance		\$ 365,859			365,859
Activity revenues	152,726				152,726
Meal sales		80,523			80,523
Interest on investments	25,309	309		\$ 25,943	51,561
Other revenues	58,346	8,625			66,971
 TOTAL REVENUES	 4,698,033	 455,316		 25,943	 5,179,292
 EXPENDITURES					
Regular programs	1,896,295	48,248			1,944,543
Special education	256,987	100,472			357,459
Workforce education	230,643				230,643
Compensatory education		61,530			61,530
Other instructional programs	142,411				142,411
Support services	1,605,439	255,027			1,860,466
Non-programmed costs	20,420				20,420
Activity expenditures	152,379				152,379
Capital outlay				968,406	968,406
Debt service:					
Principal retirement	13,605		\$ 70,000		83,605
Interest and fiscal charges	9,299		142,724		152,023
 TOTAL EXPENDITURES	 4,327,478	 465,277	 212,724	 968,406	 5,973,885
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 370,555	 (9,961)	 (212,724)	 (942,463)	 (794,593)

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE COUNTY, ARKANSAS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
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			\$ 314,000	\$ 75,000	\$ 389,000
Transfers out	\$ (314,000)		(75,000)		(389,000)
Proceeds from revolving loan				250,000	250,000
Refund of prior year expenditures	862		751		1,613
Value of capital lease	69,388				69,388
Proceeds from sale of bonds			3,951,563		3,951,563
Advanced refunding of bonds			(3,447,204)		(3,447,204)
Payment to escrow agent			(398,109)		(398,109)
Other bond issue cost			(118,285)		(118,285)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(243,750)</b>		<b>227,716</b>	<b>325,000</b>	<b>308,966</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>126,805</b>	<b>\$ (9,961)</b>	<b>14,992</b>	<b>(617,463)</b>	<b>(485,627)</b>
FUND BALANCES - JULY 1	873,075	57,047	130,151	1,742,008	2,802,281
FUND BALANCES - JUNE 30	<u>\$ 999,880</u>	<u>\$ 47,086</u>	<u>\$ 145,143</u>	<u>\$ 1,124,545</u>	<u>\$ 2,316,654</u>

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

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE 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	\$ 842,065	\$ 925,303	\$ 83,238				\$ 842,065	\$ 925,303	\$ 925,303
State assistance	3,581,863	3,536,349	(45,514)				3,581,863	3,536,349	(45,514)
Federal assistance				\$ 305,662	\$ 365,859	\$ 60,197	305,662	365,859	60,197
Activity revenues		152,726	152,726					152,726	152,726
Meal sales				94,000	80,523	(13,477)	94,000	80,523	(13,477)
Interest on investments	45,000	25,309	(19,691)	550	309	(241)	45,550	25,618	(19,932)
Other revenues	67,200	58,346	(8,854)		8,625	8,625	67,200	66,971	(229)
<b>TOTAL REVENUES</b>	<b>4,536,128</b>	<b>4,698,033</b>	<b>161,905</b>	<b>400,212</b>	<b>455,316</b>	<b>55,104</b>	<b>4,936,340</b>	<b>5,153,349</b>	<b>217,009</b>
EXPENDITURES									
Regular programs	2,081,398	1,896,295	185,103	34,462	48,248	(13,786)	2,115,860	1,944,543	171,317
Special education	270,285	256,987	13,298	72,300	100,472	(28,172)	342,585	357,459	(14,874)
Workforce education	236,300	230,643	5,657				236,300	230,643	5,657
Compensatory education				75,234	61,530	13,704	75,234	61,530	13,704
Other instructional programs	32,875	142,411	(109,536)				32,875	142,411	(109,536)
Support services	1,549,851	1,605,439	(55,588)	232,397	255,027	(22,630)	1,782,248	1,860,466	(78,218)
Non-programmed costs	29,500	20,420	9,080	202		202	29,702	20,420	9,282
Activity expenditures		152,379	(152,379)					152,379	(152,379)
Debt service:									
Principal retirement	30,000	13,605	16,395				30,000	13,605	16,395
Interest and fiscal charges	8,000	9,299	(1,299)				8,000	9,299	(1,299)
<b>TOTAL EXPENDITURES</b>	<b>4,238,209</b>	<b>4,327,478</b>	<b>(89,269)</b>	<b>414,595</b>	<b>465,277</b>	<b>(50,682)</b>	<b>4,652,804</b>	<b>4,792,755</b>	<b>(139,951)</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	297,919	370,555	72,636	(14,383)	(9,961)	4,422	283,536	360,594	77,058
OTHER FINANCING SOURCES (USES)									
Transfers out	(298,975)	(314,000)	(15,025)				(298,975)	(314,000)	(15,025)
Refund of prior year expenditures		862	862					862	862
Value of capital lease		69,388	69,388					69,388	69,388
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(298,975)</b>	<b>(243,750)</b>	<b>55,225</b>				<b>(298,975)</b>	<b>(243,750)</b>	<b>55,225</b>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,056)	126,805	127,861	(14,383)	(9,961)	4,422	(15,439)	116,844	132,283
FUND BALANCES - JULY 1	873,075	873,075		57,047	57,047		930,122	930,122	
FUND BALANCES - JUNE 30	\$ 872,019	\$ 999,880	\$ 127,861	\$ 42,664	\$ 47,086	\$ 4,422	\$ 914,683	\$ 1,046,966	\$ 132,283

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

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Board of Education, a five (5) 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 Harmony Grove 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.

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE 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. Interest costs incurred during the period of construction are not capitalized.

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

1. Designated fund balance - represents that portion of fund equity which indicates tentative plans for financial resource utilization in a future period.
2. 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.

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.

NOTE 2: Commitments

The District was contractually obligated for the following at June 30, 2003:

Construction Contracts		
Project Name	Estimated Completion Date	Contract Balance
New High School Gymnasium	January 15, 2004	\$ 350,000

NOTE 3: 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 4: 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)	\$ 51,817	\$ 112,859

The above total deposits do not include cash in the amount of \$2,238,499 which was held in the Saline County Treasury and cash on hand in the amount of \$150.

NOTE 5: 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		
Certificate of deposit	\$ 95,007	\$ 0	\$ 0	\$ 95,007	\$ 95,007

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 6: Changes in General Fixed Assets

	Balance July 1, 2002	Additions	Deletions	Reclassi- fications	Balance June 30, 2003
Land	\$ 180,690				\$ 180,690
Buildings	3,745,729			\$ 425,362	4,171,091
Improvements other than buildings	487,123	\$ 24,435			511,558
Equipment	1,037,230	21,534	\$ 21,373		1,037,391
Construction in progress	465,261	940,249		(425,362)	980,148
<b>Totals</b>	<b>\$ 5,916,033</b>	<b>\$ 986,218</b>	<b>\$ 21,373</b>	<b>\$ 0</b>	<b>\$ 6,880,878</b>

NOTE 7: 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
8/1/1998	6/1/2015	3.90 to 4.35%	\$ 255,550	\$ 200,000	\$ 55,550
12/1/1999	6/1/2015	5.10 to 5.25%	269,993	230,000	39,993
7/1/2000	6/1/2015	4.75 to 5.40%	712,400	600,000	112,400
5/1/2003	6/1/2025	3.25 to 4.20%	3,951,563	3,951,563	
1/20/2003	11/20/2007	6.22%	69,388	63,275	6,112
<b>Totals</b>			<b>\$ 5,258,894</b>	<b>\$ 5,044,838</b>	<b>\$ 214,055</b>

NOTE 8: Changes in Long-term Debt

	Balance July 1, 2002	Issued	Retired	Balance June 30, 2003
Bonds payable	\$ 4,215,495	\$ 3,951,563	\$ 3,185,495	\$ 4,981,563
Certificates of indebtedness		250,000	250,000	
Capital leases	89,201	69,388	95,314	63,275
<b>Totals</b>	<b>\$ 4,304,696</b>	<b>\$ 4,270,951</b>	<b>\$ 3,530,809</b>	<b>\$ 5,044,838</b>

Includes \$3,447,204 early retirement of debt - See Note 11.

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 8: Changes in Long-term Debt (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2004	\$ 137,583	\$ 220,885	\$ 358,468
2005	169,947	202,253	372,200
2006	174,235	195,280	369,515
2007	180,143	188,141	368,284
2008	177,930	180,662	358,592
To Maturity	<u>4,205,000</u>	<u>1,743,793</u>	<u>5,948,793</u>
Totals	<u>\$ 5,044,838</u>	<u>\$ 2,731,014</u>	<u>\$ 7,775,852</u>

NOTE 9: Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2003
Minolta copiers (2)	<u>\$ 69,388</u>
	June 30, 2003
Total Minimum Lease Payments	\$ 73,030
Less: Amount Representing Interest	<u>9,755</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 63,275</u>

NOTE 10: 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.

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 10: Retirement Plans (Continued)

Arkansas Teacher Retirement System (Continued)

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 \$308,895, \$298,120 and \$261,055, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$17,968, \$14,029 and \$12,073, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

The District has had no employees participating in this system since June 30, 2001.

NOTE 11: Refunding Bond Issue

On May 1, 2003, the District issued refunding bonds in the amount of \$3,951,563 to restructure its debt service requirements and reallocate its operational millage to comply with mandates issued by the Arkansas Department of Education. The new issue advance refunded \$3,115,495 of 2002 series bonds, \$250,000 of a revolving loan from ADE and \$81,709 of a capital lease held by Metropolitan Bank. The proceeds of the new bond issue were used to purchase U. S. Treasury Notes and Bills. These securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded debt. As a result, the bonds and other debt items are considered to be defeased and the liabilities have been removed from the General Long-term Debt account group. The District received \$12,964 to be used to retire the new bond issue dated May 1, 2003.

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE 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	63-04-001	\$ 17,261
National School Lunch Program	10.555	63-04-001	79,397
Total State Department of Education			<u>96,658</u>
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	63-04-001	<u>17,162</u>
TOTAL CHILD NUTRITION CLUSTER			<u>113,820</u>
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	63-04	66,585
Special Education - Grants to States	84.027	63-04	108,182
Safe and Drug-Free Schools and Communities - State Grants	84.186	63-04	10,724
Goals 2000-State and Local Education Systemic Improvement Grants	84.276	63-04	2,384
Innovative Education Program Strategies	84.298	63-04	4,771
Title IID-Education Technology Grant	84.318	63-04	900
Class Size Reduction	84.340	63-04	130
Title IIA-Improving Teacher Quality	84.367	63-04	<u>28,746</u>
TOTAL OTHER PROGRAMS			<u>222,422</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 336,242</u></u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Harmony Grove School District No.1 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.

HARMONY GROVE SCHOOL DISTRICT NO. 1  
 SALINE 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 1 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

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE 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.

HARMONY GROVE SCHOOL DISTRICT NO. 1  
SALINE 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.