

Texarkana Arkansas School District No. 7

Miller County, Arkansas

General Purpose Financial Statements and Other Reports June 30, 2003



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MILLER COUNTY, ARKANSAS
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Senate Co-Chair
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Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Texarkana Arkansas School District No. 7 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements of the Texarkana Arkansas School District No. 7 (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 May 12, 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
May 12, 2004
EDSD24703

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
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Charles L. Robinson, CPA, CFE
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LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Texarkana Arkansas School District No. 7 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 Texarkana Arkansas School District No. 7. 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 Texarkana Arkansas School District No. 7 (the "District"), as of and for the year ended June 30, 2003, and have issued our report thereon dated May 12, 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 Texarkana Arkansas School District No. 7 (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
May 12, 2004

TEXARKANA ARKANSAS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ending June 30, 2003

The discussion and analysis of Texarkana Arkansas School District's annual financial report provides an overall review of the district's financial activities for the fiscal year ending June 30, 2003. The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance understanding of the district's financial performance.

In June of 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 to establish new requirements for the annual financial report of various governmental agencies, including school districts. Texarkana Arkansas School District wishes to make our financial statements easier to understand and, therefore, more useful to the patrons of our district as well as other entities which might use these reports. The district is required to use these reporting standards beginning with the fiscal year ending June 30, 2003. Certain comparative data is required to be presented between the current and previous year. However, GASB permits the omission of prior year data in the year of implementation. The district chooses to report current year data because of the many changes that occurred at the end of the 2001-2002 year and beginning the 2002-2003 year. Prior-year and current-year comparisons will be made where the reporting process permits. In future years the district will include comparative information in all aspects. The district will convert all financial accounting activities to the Arkansas Public School Computer Network effective July 1, 2003 to operate the accounting function similar to most other school districts in Arkansas.

The Texarkana Arkansas Board of Education is aware of the financial burden thrust upon taxpayers and works hard to utilize the monies entrusted to them to meet the educational needs of the students of the district. The board strives to do so in the most economical way possible without sacrificing quality. With this in mind, we take this opportunity to introduce you to the financial statement of Texarkana Arkansas School District and the useful information these statements contain.

FINANCIAL ANALYSIS OF THE DISTRICT

Statement of Net Assets

The Statement of Net Assets and Statement of Activities are considered district-wide statements. These provide information about the overall or district-wide activities including short-term and long-term information and overall financial status.

Assets – The district's total current assets at June 30, 2003, were \$13,816,157. Non-current assets consisting of capital assets, net of accumulated depreciation of \$17,048,099, were \$11,871,848. The total assets were \$25,688,005.

Liabilities – The district’s total liabilities at June 30, 2003, were \$7,453,554. The liabilities consisted of current liabilities of \$ 1,939,943 and long-term liabilities of \$5,513,611.

Net Assets – The net assets consisted of the following at June 30, 2003:

Invested in capital assets, net of related debt -	\$5,265,190
Restricted -----	2,647,112
Unrestricted -----	<u>10,322,149</u>
Net assets totaled-----	\$18,234,451

Statement of Activities

Program Revenues – Program revenues for the year ended June 30, 2003, were \$7,398,076. Such revenues consisted of \$6,109,721 operating grants and contributions, and \$1,288,355 charges for services.

General Revenues – General revenues for the year ended June 30, 2003, consisted primarily of \$13,220,507 property taxes, \$16,248,947 state aid not restricted to specific purposes, and \$1,357,490 property tax relief distribution.

Total Revenues – Total revenues, consisting of program and general revenues, were \$39,247,652.

Program expenses – Total expenses, primarily by function, were \$31,805,873 for the year ended June 30, 2003.

The net (expense) revenue, which is a comparison of expenses to program revenues, reflected a deficiency of \$24,407,797 for the year ended June 30, 2003.

Special items primarily consisted of corrections made to the valuation of fixed assets.

The change in net assets for the year ended June 30, 2003 was an increase of \$5,102,179.

The district’s improved financial position was primarily due to an increase in property taxes received. Property taxes receivable (net) of \$5,770,281 was reported at June 30, 2003, in accordance with GASB Statement Number 33.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital Assets – By the end of the 2003 school year, the district had invested \$28,919,947 in a broad range of capital investments, including school buildings, athletic facilities, computer and audiovisual equipment and administrative offices. Capital assets, net of accumulated depreciation of \$17,048,099, were \$11,871,848. This amount represents a net decrease of \$2,368,510 over last year, primarily due to deletions to fixed assets. Current year depreciation expense was \$997,522. Construction in progress for architect fees accounted for \$7,920 of the increase in capital assets. Another \$652,080 is expected to be spent in architect fees for the Texarkana Arkansas High School addition. As of June 30, 2003, the contract with the architect is the only contract entered into regarding the new high school classroom complex to be financed with a July, 2003 bond issue.

Long-term Debt

Long-term Debt - At the end of the fiscal year for 2003, the district has \$6,606,658 in general obligation bonds and other long-term debt outstanding.

THE DISTRICT'S FUTURE

At the time these financial statements were prepared, there were legislative issues pending that will determine the future of education finance in the State of Arkansas. The district budget for next year will be prepared using information available at the time. Although GASB 34 changes show a decline in the net assets due to depreciation, Texarkana Arkansas School District is fiscally sound and solvent due to the insightfulness of the patrons of the district in voting millage increases.

In May, 2003 the patrons of Texarkana Arkansas School District passed a millage reorganization that will allow Texarkana Arkansas School District to be in compliance with Arkansas Supreme Court ruled interpretations of minimum millage requirements. The July, 2003 bond issue and debt reorganization and will refund and consolidate prior bond issues and provide 12.9 million dollars for the construction of a new classroom complex and remodeling existing facilities at Arkansas High School.

If you have any questions concerning these financial statements, please contact the business office at Texarkana Arkansas School District's Education Center at (870) 772-3371.

Kathryn Newton, Business Manager

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003

Exhibit A

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 7,509,190
Investments	183,000
Property taxes receivable (net)	5,770,281
Accounts receivables	168,686
Notes receivable	185,000
Total current assets	<u>13,816,157</u>
Noncurrent Assets:	
Capital assets (net of accumulated depreciation of \$17,048,099)	<u>11,871,848</u>
Total Assets	<u><u>\$ 25,688,005</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 59,814
Deferred revenues	175,000
Payroll withholding	612,082
Long-term obligations:	
Due within one year:	
Bonds payable and post dated warrants	<u>1,093,047</u>
Total current liabilities	<u>1,939,943</u>
Noncurrent liabilities:	
Due beyond one year:	
Bonds payable and post dated warrants	<u>5,513,611</u>
Total Liabilities	<u><u>\$ 7,453,554</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 5,265,190
Restricted for:	
Debt service	594,888
Special programs	931,718
Capital projects	1,110,503
Permanent fund	10,003
Unrestricted	<u>10,322,149</u>
Total Net Assets	<u><u>\$ 18,234,451</u></u>

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

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Exhibit B

		Program Revenues		Net (Expenses) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Total Governmental Activities
Governmental Activities:				
Regular instruction	\$ 12,534,644	\$ 662,876	\$ 507,852	\$ (11,363,916)
Special education instruction	2,476,898	32,750	443,896	(2,000,252)
Workforce education instruction	1,359,263	120,485	580,290	(658,488)
Adult education	515,100		494,929	(20,171)
Compensatory education	1,250,665		1,469,931	219,266
Other instruction	1,243,120		37,613	(1,205,507)
Total instruction	19,379,690	816,111	3,534,511	(15,029,068)
Support Services:				
Student services	1,395,472	9,628	164,814	(1,221,030)
Instructional staff services	1,695,198		838,347	(856,851)
General administration services	737,062			(737,062)
School administration services	1,627,190			(1,627,190)
Fiscal services	423,523			(423,523)
Operation and maintenance of plant services	3,049,886	1,178	208,231	(2,840,477)
Student transportation services	792,628		98,891	(693,737)
Central services	577,286		86,806	(490,480)
Other support services	6,034			(6,034)
Total support services	10,304,279	10,806	1,397,089	(8,896,384)
Operation of Non-instructional Services:				
Food services operations	1,769,770	461,438	1,167,851	(140,481)
Community services	18,737		10,270	(8,467)
Total non-instructional services	1,788,507	461,438	1,178,121	(148,948)
Other Uses:				
Interest on long-term debt	333,397			(333,397)
Total School District	\$ 31,805,873	\$ 1,288,355	\$ 6,109,721	(24,407,797)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				8,679,070
Property taxes, levied for debt service				3,978,855
Property taxes, levied for capital outlay				562,582
Property tax relief trust distribution				1,357,490
State and federal aid not restricted to specific purposes				16,248,947
Interest and investment earnings				72,939
Debt service supplemental funding				270,324
Miscellaneous				679,369
Special item - deletions to fixed assets				(2,339,600)
Total general revenues, special items, and extraordinary items				29,509,976
Change in net Assets				5,102,179
Net Assets - beginning of year as originally reported				36,808,887
Cumulative effects of changes in accounting principles				(23,676,615)
Net Assets - beginning of year restated				13,132,272
Net Assets - ending of year				\$ 18,234,451

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

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2003

Exhibit C

	Major Governmental Fund Types					Totals Governmental Funds
	General	Special Revenue Fund	Debt Service Fund	Capital Project Funds	Permanent Fund	
ASSETS						
Cash and cash equivalents	\$ 5,325,201	\$ 887,502	\$ 150,000	\$ 1,144,484	\$ 2,003	\$ 7,509,190
Investments	175,000				8,000	183,000
Property taxes receivable, net	5,325,393		444,888			5,770,281
Accounts receivable	119,688	48,998				168,686
Notes receivable				185,000		185,000
TOTAL ASSETS	\$ 10,945,282	\$ 936,500	\$ 594,888	\$ 1,329,484	\$ 10,003	\$ 13,816,157
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payables	\$ 11,051	\$ 4,782		\$ 43,981		\$ 59,814
Deferred revenue	4,881,570		\$ 407,811	175,000		5,464,381
Payroll withholding	612,082					612,082
Total Liabilities	5,504,703	4,782	407,811	218,981		6,136,277
Fund Equity:						
Fund balances:						
Reserved:						
Retirement of long-term debt			187,077			187,077
Unreserved, reported in:						
General fund	5,440,579					5,440,579
Special revenue		931,718				931,718
Capital project funds				1,110,503		1,110,503
Permanent fund					\$ 10,003	10,003
Total fund balances	5,440,579	931,718	187,077	1,110,503	10,003	7,679,880
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,945,282	\$ 936,500	\$ 594,888	\$ 1,329,484	\$ 10,003	\$ 13,816,157

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

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003

Exhibit D

Total fund balances for governmental funds:		\$	7,679,880
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	The cost of the assets is	\$ 28,919,947	
	The accumulated depreciation is	<u>(17,048,099)</u>	11,871,848
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds			5,289,381
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	Bonds payable	6,335,000	
	Post dated warrants	<u>271,658</u>	<u>(6,606,658)</u>
Total net assets - governmental activities		\$	<u><u>18,234,451</u></u>

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

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

Exhibit E

	Major Governmental Fund Types					Totals Governmental Funds
	General	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Permanent Fund	
REVENUES						
Property taxes	\$ 3,797,500		\$ 3,571,044	\$ 562,581		\$ 7,931,125
State assistance	19,121,470	\$ 15,834	237,197	127,797		19,502,298
Federal assistance		4,517,257				4,517,257
Activity revenues	658,546					658,546
Meal sales		457,572				457,572
Interest on investments	72,710				\$ 229	72,939
Other revenues	644,930	13,172		160,432		818,534
TOTAL REVENUES	24,295,156	5,003,835	3,808,241	850,810	229	33,958,271
EXPENDITURES						
Current:						
Regular programs	11,542,114	302,768		126,517		11,971,399
Special education	2,231,004	219,823				2,450,827
Workforce education	1,057,976	110,183				1,168,159
Adult education	406,554	105,973				512,527
Compensatory education	132,480	1,104,189				1,236,669
Other instructional programs	1,193,982	33,476		1,162		1,228,620
Support services	8,271,714	2,584,899		620,465		11,477,078
Community services	8,514	10,223				18,737
Activity expenditures	410,938					410,938
Capital outlay	266,163	432,706		269,743		968,612
Debt service:						
Principal retirement	60,056		969,097			1,029,153
Interest and fiscal charges	16,519		316,878			333,397
TOTAL EXPENDITURES	25,598,014	4,904,240	1,285,975	1,017,887		32,806,116
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,302,858)	99,595	2,522,266	(167,077)	229	1,152,155

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

Exhibit E

	Major Governmental Fund Types					Totals Governmental Funds
	General	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Permanent Fund	
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 2,517,550	\$ 240,000				\$ 2,757,550
Transfers out	(240,000)		\$ (2,517,550)			(2,757,550)
TOTAL OTHER FINANCING SOURCES (USES)	2,277,550	240,000	(2,517,550)			0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	974,692	339,595	4,716	\$ (167,077)	\$ 229	1,152,155
FUND BALANCES - JULY 1	4,465,887	592,123	182,361	1,277,580	9,774	6,527,725
FUND BALANCES - JUNE 30	\$ 5,440,579	\$ 931,718	\$ 187,077	\$ 1,110,503	\$ 10,003	\$ 7,679,880

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

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS

Exhibit F

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Net change in fund balances -- total governmental funds \$ 1,152,155

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period.

Depreciation	\$	997,522		
Capital outlay		968,612		(28,910)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:				
Bonds issued		969,097		
Post dated warrants		60,056		
Net adjustment for debt related transactions				1,029,153

Equipment and vehicles that were removed from inventory due to obsolescence. (2,339,600)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead, recognized as deferred tax revenues. They are, however, recorded as revenues in the statement of activities.

5,289,381

Change in net assets of governmental activities \$ 5,102,179

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

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2003

Exhibit G

	Private Purpose Trust	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 81,691	\$ 129,510
Investments	15,135	
Total Assets	\$ 96,826	\$ 129,510
LIABILITIES		
Due to student groups		\$ 129,510
NET ASSETS		
Reserved for endowment	15135	
Reserved for scholarships	36667	
Unreserved	45024	
Total Net Assets	\$ 96,826	

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

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
AS OF JUNE 30, 2003

Exhibit H

	Private-Purpose Trust
ADDITIONS	
Private donations	\$ 25,773
Interest	355
Total additions	26,128
DEDUCTIONS	
Scholarships awarded	10,709
Change in net assets	15,419
Net assets - beginning	81,407
Net assets - ending	\$ 96,826

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

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

This financial report has been prepared in conformity with GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999.

B. REPORTING ENTITY

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the District is considered a primary government, since it is a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the District may, without the approval or consent of another governmental entity, determine or modify its own budget, propose its own taxes or set rates or charges, and issue bonded debt. The District also has no component units; defined by GASB Statement No. 14 as other legally separate organizations for which the elected District members are financially accountable. There are no other primary governments with which the District has a significant relationship.

C. FUNDS

The District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions and activities. A fund is defined as a separate fiscal and accounting entity with a self-balancing set of accounts.

Funds of the District are classified into two categories: governmental and fiduciary, as follows:

Governmental Funds

Governmental funds account for all or most of the District's general activities. These funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be used. Current liabilities are assigned to the fund from which they will be paid. The difference between a governmental fund's assets and liabilities is reported as fund balance. In general, fund balance represents the accumulated expendable resources, which may be used to finance future period programs or operations of the District. The following are the District's governmental funds:

General funds – account for all non-restricted funds of the District and is the primary operating fund of the District. The General Fund is available for any purpose provided it is expended or transferred in accordance with state and federal laws and according to District policy.

Special revenue funds - account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, or designated by the District to be accounted for separately.

Debt service funds - account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital projects funds - account for financial resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental funds.

Permanent funds – account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. FUNDS (Continued)

Fiduciary Funds

Fiduciary funds include agency funds and private purpose trust funds. The agency fund accounts for assets held by the District as an agent for other parties, such as school organizations. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are reported using the accrual basis of accounting. Private purpose trust funds report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Fiduciary fund reporting focuses on net assets and changes in net assets.

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Government-Wide Financial Statements (GWFS)

The Statement of Net Assets (Exhibit A) and the Statement of Activities (Exhibit B) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary fund. Fiduciary funds activities are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

The GWFS were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange-like transactions are recognized when the exchange occurs (regardless of when cash is received or disbursed). Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The effects of indirect costs charged to certain grants have been removed from the Statement of Activities (Exhibit B).

Program Revenues - Program revenues included in the Statement of Activities (Exhibit B) derive directly from parties outside the District's taxpayers or citizenry. As a whole, program revenues reduce the net cost of the function to be financed from the District's general revenues. Such revenues include operating state and federal grants restricted for specific purposes and charges for services.

Allocation of Indirect Expenses - The District reports all direct expenses by function in the Statement of Activities (Exhibit B). Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense, which can be specifically identified by function, is included in the direct expenses of each. Depreciation on buildings is assigned to the "general administration" function due to the fact that school buildings serve multiple purposes. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities (Exhibit B).

Fund Financial Statements (FFS)

Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Exhibit E) reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the GWFS are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the GWFS and the FFS.

FFS report detailed information about the District. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (Continued)

Fund Financial Statements (FFS) (Continued)

Governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for interest and principal payments on general long-term debt which are recognized when due.

Restricted/Unrestricted Resources

The District has no formal policy addressing which resources to use when both restricted and unrestricted net assets are available for the same purpose. District personnel decide which resources to use at the time funds are expended.

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.

Other Financing Sources (Uses)

Transfers between funds that are not expected to be repaid are accounted for as other financing sources (uses). Other financing sources (uses) also include certain debt related transactions and a refund to grantor. Such transactions are recognized at the time the underlying events occur.

Deferred Revenues

The District reports deferred revenues on its FFS balance sheet. Deferred revenues primarily consist of property taxes due at June 30, 2003 but not available to pay current year liabilities.

E. BUDGETS

The District uses the following budget practices:

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.

F. INVESTMENTS

Investments are limited by the District's investment policy. Investments consist of certificates of deposit classified as nonparticipating contracts and are reported at cost. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

G. CAPITAL ASSETS

Capital assets are capitalized at historical cost or estimated historical cost if the actual data is not available. Donated capital assets are reported at fair market value when received. The District maintains a threshold level of \$500 for capitalizing equipment. Library holdings are not capitalized.

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. CAPITAL ASSETS (Continued)

Capital assets are reported in the GWFS, but are not reported in the FFS. No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Life in Years
Improvements / Infrastructure	20
Buildings	50
Machinery and Equipment	5-15

H. RESTRICTED NET ASSETS

For GWFS, net assets are reported as restricted when constraints placed on net asset use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments, imposed by law through constitutional provisions or enabling legislation.

I. FUND EQUITY

In the FFS, undesignated fund balance indicates that portion of fund equity not reserved or designated for a specific purpose. Funds reserved for the retirement of long-term debt are reported in the FFS.

J. SPECIAL ITEMS

Special items are transactions or events within the control of the school board, which are either unusual in nature or infrequent in occurrence.

K. ACCOUNTING CHANGES

As a result of the adoption of GASB Statement No. 34, the District was required to make certain changes in accounting principles, specifically, the adoption of depreciation on capital assets.

2. CASH AND CASH EQUIVALENTS

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)	\$ 100,000	\$ 100,000
Uninsured, Collateralized	7,620,096	9,348,137
Total Deposits	\$ 7,720,096	\$ 9,448,137

The above total deposits do not include cash on hand in the amount of \$295.

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

3. 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 District or its agent, in the District's name, holds the securities. 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	\$ 198,135	\$ 0	\$ 0	\$ 198,135	\$ 198,135

4. RECEIVABLES

The receivables of \$6,123,967 at June 30, 2003 are as follows:

Class of Receivable	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
Taxes:					
Local	\$ 5,325,393		\$ 444,888		\$ 5,770,281
Intergovernmental - grants:					
Federal		\$ 36,450			36,450
State	116,735				116,735
Accounts	2,953	12,548			15,501
Notes				\$ 185,000	185,000
Totals	\$ 5,445,081	\$ 48,998	\$ 444,888	\$ 185,000	\$ 6,123,967

5. CAPITAL ASSETS

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
<i>Capital assets not being depreciated:</i>				
Land	\$ 588,107			\$ 588,107
Construction in progress		\$ 7,920		7,920
Total Not Depreciated	588,107	7,920		596,027
<i>Capital assets being depreciated:</i>				
Buildings	22,433,974		\$ 407,099	22,026,875
Site Improvements/Infrastructure	287,002			287,002
Machinery and equipment	6,981,852	960,692	1,932,501	6,010,043
Total Depreciated	29,702,828	960,692	2,339,600	28,323,920

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

5. CAPITAL ASSETS

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Less accumulated depreciation for:				
Buildings	\$ 13,118,646	\$ 365,014		\$ 13,483,660
Site Improvements/Infrastructure	69,691	14,350		84,041
Machinery and equipment	2,862,240	618,158		3,480,398
Total accumulated depreciation	16,050,577	997,522		17,048,099
Total capital assets depreciated, net	13,652,251	(36,830)	\$ 2,339,600	11,275,821
Governmental activity capital assets, net	\$ 14,240,358	\$ (28,910)	\$ 2,339,600	\$ 11,871,848

Depreciation was charged to functions as follows:

Regular instruction	\$ 152,307
Special education instruction	26,071
Workforce education instruction	191,104
Adult education instruction	2,573
Compensatory education instruction	13,996
Other instructional programs	14,500
Support services	596,971
Total allocated depreciation	\$ 997,522

6. COMMITMENTS

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

Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
High School Facility (Architect Fees)	December 1, 2005	\$ 652,080
Roofing projects	October 1, 2003	490,147

7. ACCOUNTS, SALARIES AND OTHER PAYABLES

The payables of \$671,896 at June 30, 2003, are as follows:

	General Fund	Special Revenue Funds	Capital Projects Funds	Total
Salary Withholdings	\$ 612,082			\$ 612,082
Accounts	11,051	\$ 4,782	\$ 43,981	59,814
Totals	\$ 623,133	\$ 4,782	\$ 43,981	\$ 671,896

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

8. LEASES

The school board has operating leases as follows:

The minimum annual commitments under noncancelable operating leases are as follows:

General description of lease and leasing arrangements:

The District entered into an operating lease with IBM for the year ended June 30, 1995 for the use of the administration computer system and maintenance agreement on the system.

Future minimum rental payments (aggregate) at June 30, 2003: \$47,006

Year Ended June 30,	Amount
2004	\$ 47,006

9. LONG-TERM OBLIGATIONS

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
8/1/1996	2/1/2009	4.4 - 5.0%	\$ 1,520,310	\$ 1,010,000	\$ 510,310
11/1/1995	2/1/2004	3.9 - 4.5%	720,400	100,000	620,400
9/1/1999	2/1/2009	4.0 - 4.65%	2,781,126	2,005,000	776,126
1/9/2002	2/1/2009	2.625 - 3.5%	631,302	550,000	81,302
12/17/2001	2/1/2009	2.8 - 3.65%	3,042,795	2,670,000	372,795
8/12/1999	6/1/2007	4.98%	500,000	271,658	228,342
Totals			\$ 9,195,933	\$ 6,606,658	\$ 2,589,275

The following is a summary of the long-term obligation transactions for the year ended June 30, 2003:

	Balance July 1, 2002	Retired	Balance June 30, 2003
Bonds payable	\$ 7,304,097	\$ 969,097	\$ 6,335,000
Postdated warrants	331,714	60,056	271,658
Totals	\$ 7,635,811	\$ 1,029,153	\$ 6,606,658

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

9. LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of June 30, 2003:

	Current	Long-term	Total
Bonds payable	\$ 1,030,000	\$ 5,305,000	\$ 6,335,000
Postdated warrants	63,047	208,611	271,658
Total	\$ 1,093,047	\$ 5,513,611	\$ 6,606,658

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

Year Ended June 30,	Principal	Interest	Total
2004	\$ 1,093,047	\$ 264,465	\$ 1,357,512
2005	1,036,186	223,545	1,259,731
2006	1,084,482	183,444	1,267,926
2007	1,132,943	140,271	1,273,214
2008	1,105,000	93,980	1,198,980
2009-2013	1,155,000	47,323	1,202,323
Totals	\$ 6,606,658	\$ 953,028	\$ 7,559,686

In accordance with Ark. Code Ann. 6-20-1202, the District is legally restricted from incurring long-term bonded debt in excess of 27% of the assessed value of their real and personal property in the district less the outstanding bonded indebtedness. At June 30, 2003, the statutory limit is \$66,755,227, and outstanding bonded debt totals \$6,335,000.

10. INTERFUND TRANSFERS

The FFS reflects interfund transfers of \$2,517,550 from the debt service fund to the general fund for funds in excess of short-term debt retirement. An interfund transfer of \$240,000 is also reported from the general fund to the special revenue fund to supplement the District's food service operation.

11. 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.

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

11. 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 \$1,909,056, \$1,873,849 and \$1,887,081, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$126,379, \$166,247 and \$161,558, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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

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 \$10,917, \$12,633 and \$16,410, respectively, equal to the required contributions for each year.

12. SUBSEQUENT EVENTS

On July 1, 2003, the District issued construction and refunding bonds in the amount of \$2,930,000. On July 15, 2003, the District issued construction and refunding bonds in the amount of \$16,310,000.

13. On-Behalf Payments

The accompanying financial statements reflected on-behalf payments for health insurance premiums paid by the Arkansas Department of Education in the amount of \$14,934. Additionally, these financial statements include on-behalf payments for retirement matching paid to the Arkansas Department of Education totaling \$43,696.

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
BUDGETARY COMPARISON SCHEDULE FOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 1

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 9,248,950	\$ 7,931,125	\$ (1,317,825)
State assistance	18,237,505	19,502,298	1,264,793
Federal assistance	1,088,244	4,517,257	3,429,013
Activity revenues		658,546	658,546
Meal sales	471,992	457,572	(14,420)
Interest on investments	125,000	72,939	(52,061)
Other revenues	506,059	818,534	312,475
	<u>29,677,750</u>	<u>33,958,271</u>	<u>4,280,521</u>
EXPENDITURES			
Regular programs	11,810,704	11,971,399	(160,695)
Special education	2,170,270	2,450,827	(280,557)
Workforce education	1,247,237	1,168,159	79,078
Adult education	479,200	512,527	(33,327)
Compensatory education	15,155	1,236,669	(1,221,514)
Other instructional programs	1,353,536	1,228,620	124,916
Support services	10,308,339	11,477,078	(1,168,739)
Community services	8,185	18,737	(10,552)
Non-programmed costs	60,000		60,000
Activity expenditures		410,938	(410,938)
Capital outlay	908,382	968,612	(60,230)
Debt service:			
Principal retirement	1,052,003	1,029,153	22,850
Interest and fiscal charges	333,549	333,397	152
	<u>29,746,560</u>	<u>32,806,116</u>	<u>(3,059,556)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(68,810)</u>	<u>1,152,155</u>	<u>1,220,965</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	542,130	2,757,550	2,215,420
Transfers out	(620,000)	(2,757,550)	(2,137,550)
	<u>(77,870)</u>	<u>0</u>	<u>77,870</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(146,680)</u>	<u>1,152,155</u>	<u>1,298,835</u>
FUND BALANCES - JULY 1	<u>6,208,144</u>	<u>6,527,725</u>	<u>319,581</u>
FUND BALANCES - JUNE 30	<u>\$ 6,061,464</u>	<u>\$ 7,679,880</u>	<u>\$ 1,618,416</u>

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	46-05-000	\$ 306,689
National School Lunch Program	10.555	46-05-000	758,463
Total State Department of Education			1,065,152
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	46-05	86,864
TOTAL CHILD NUTRITION CLUSTER			1,152,016
 OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Impact Aid	84.041	Note 3	7,476
Comprehensive School Reform Demonstration	84.332	Note 3	15,373
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	46-05	1,725,515
Special Education - Grants to States	84.027	46-05	673,926
Vocational Education - Basic Grants to States	84.048	L46-05-000	127,228
Safe and Drug-Free Schools and Communities - State Grants	84.186	46-05	72,733
Eisenhower Professional Development State Grants	84.281	46-05	11,818
Innovative Education Program Strategies	84.298	46-05	34,856
Advanced Placement Incentive Program	84.330	46-05	4,000
Literacy Programs for Prisoners	84.255	46-05	29,177
Improving Teacher Quality State Grants	84.367	46.05	277,280
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	46.05	2,390
Technology Literacy Challenge Fund Grants	84.318	Note 3	50,004
Passed Through State Department of Workforce Education:			
Adult Education State Grant Program	84.002	46-05	76,797
Total U. S. Department of Education			3,108,573
 <u>U.S. Department of Defense</u>			
ROTC	12.Unknown	Note 3	33,476
 <u>U.S. Department of Labor</u>			
Passed Through State Department of Workforce Education:			
Employment Services and Job Training Pilot Demonstration and Research	17.249	L46-05-000	9,999
TOTAL OTHER PROGRAMS			3,152,048
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,304,064

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 2

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 Texarkana Arkansas School District No. 7 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.
- Note 3: The Agency or Pass-Through Number was not available.

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 3

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 - LEA
84.027	Special Education - Grants to States

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

Auditee qualified as low-risk auditee? yes no

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
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Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITION

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.

TEXARKANA ARKANSAS SCHOOL DISTRICT NO. 7
MILLER COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 4

There were no findings in the prior audit.