

Sparkman School District No. 4

Dallas County, Arkansas

**Basic Financial Statements
and Other Reports
June 30, 2004**



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DALLAS COUNTY, ARKANSAS
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Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Lavery
Senate Co-Vice Chair
Rep. Sandra Prater
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Sparkman School District No. 4 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sparkman School District No. 4 (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position thereof 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 January 13, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

As described in Note 1, the District adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2003.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
January 13, 2005
EDSD10304

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
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Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE, INTERNAL CONTROL AND OTHER MATTERS

Sparkman School District No. 4 and School Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of the Sparkman School District No. 4 (the "District"), as of and for the year ended June 30, 2004, and have issued our report thereon dated January 13, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, laws and regulations, 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 opinions on the 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 basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the finding below to be a material weakness. Other matters involving compliance and/or internal control were reported to School District management in a separate letter.

AUDIT FINDING

Reportable Condition

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

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management and district management 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
January 13, 2005

**SPARKMAN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ending June 30, 2004**

The discussion and analysis of Sparkman School District's annual financial report provides a review of the district's financial activities for the fiscal year ending June 30, 2004. 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, which includes school districts. The district is required to use these reporting standards beginning with the fiscal year ending June 30, 2004. Comparative data is not required to be presented between the current year and previous year and not provided in this report. In future years the district will include comparative information in all aspects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The notes will explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

The Statement of Net Assets and Statement of Activities are considered district-wide statements. These provide information about the over-all or district-wide activities including short-term and long-term information and overall financial status. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

Fund financial statements provide the next level of detail and focus on individual parts of the district telling how services were financed in the short-term as well as what remains for future spending. The District is reporting two kinds of funds, governmental and fiduciary.

Governmental fund statements tell how basic services like regular and special education programs were financed and what remains for future spending. A comparison can be made as to the amount of funds spent in each area.

Fiduciary funds statements provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others. These would include the agency funds of the district activity funds and scholarship funds.

FINANCIAL ANALYSIS OF THE DISTRICT

District-Wide Statements

Statement of Net Assets

The Statement of Net Assets presents a picture of the district as of June 30, 2004. This document reports the district's assets, liabilities and net assets. The net assets are calculated by subtracting the liabilities from the assets. This change identifies whether the financial position of the district has improved or diminished.

Assets - The District's total current assets at June 30, 2004 were \$548,298. Current assets consisted of cash and cash equivalents of \$219,938, property taxes receivable of \$320,858 and accounts receivable of \$7,5026. Noncurrent assets consisted of capital assets, net of accumulated depreciation of \$1,094,207, of \$559,602. The total assets were \$1,107,900.

Liabilities - The District's total liabilities at June 30, 2004 were \$0.

Net Assets - The net assets consisted of the following at June 30, 2004:

Invested in capital assets, net of related debt - \$559,602
Restricted - \$34,460
Unrestricted - \$513,838
Net assets totaled \$1,107,900

Statement of Activities

The current year revenues and expenses are accounted for in the statement of activities. All of the district's activities are reported as governmental activities. Property taxes and state equalization funds constitute the major portion of revenue. This document also reports the changes in net assets and helps to answer the question, "Is the district better off or worse off as a result of the year's activities?"

Program Revenues - Program Revenues for the year ended June 30, 2004 were \$404,827. Such revenues consisted of \$343,249 operating grants and contributions, and \$61,578 charges for services.

General Revenues - General revenues for the year ended June 30, 2004 were \$2,011,055. Such revenues consisted of \$684,506 property taxes, \$85,382 property tax relief trust distribution, \$1,224,184 state aid not restricted to specific purposes, \$887 interest and investment earnings, \$7,111 debt service supplemental funding, and \$8,985 miscellaneous revenue.

Total Revenues - Total revenues, consisting of program and general revenues, were \$2,415,882.

Program expenses - Total expenses, primarily by function, were \$2,131,331.

The net (expense) revenue, which is a comparison of expenses to program revenues, reflected a deficiency of \$1,726,504 for the year ended June 30, 2004.

The change in net assets for the year ended June 30, 2004, was an increase of \$284,551.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2004 school year, the district had invested \$1,653,809 in a broad range of capital assets, including school buildings, computer and audiovisual equipment, school buses, and athletic facilities. Capital assets, net of accumulated depreciation of \$1,094,207 were \$559,602. Total depreciation expense for the year was \$45,538. Projects included completion of a visitor parking lot at the middle school gymnasium, new fencing around the baseball field, additional bleachers, signs, scoreboards and roof repairs. The District also maintained it's bus fleet by purchasing two buses.

Long-term Debt

At the end of the fiscal year for 2004, the district had \$0 in general obligation bonds and other long-term debt outstanding.

SUMMARY AND ECONOMIC OUTLOOK

Sparkman school district consolidated with the Harmony Grove School District on July 1, 2004.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sparkman Campus, Harmony Grove School District, P.O. Box 37, Sparkman, AR, 71763 or telephone (870) 678-2243.

Jerry Moore, Assistant Superintendent, Harmony Grove School District

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

Exhibit A

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 219,938
Property taxes receivable (net)	320,858
Accounts receivables	7,502
Total current assets	548,298
Noncurrent assets:	
Capital assets (net of accumulated depreciation of \$1,094,207)	559,602
Total assets	1,107,900
NET ASSETS	
Invested in capital assets, net of related debt	559,602
Restricted for:	
Special programs	34,460
Unrestricted	513,838
Total net assets	\$ 1,107,900

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

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

<u>Functions/Programs</u>	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Regular instruction	\$ 982,823	\$ 29,151	\$ 47,154	\$ (906,518)
Special education instruction	123,121	5,563	40,593	(76,965)
Workforce education instruction	159,854			(159,854)
Other instruction	96,291		158,643	62,352
Total instruction	1,362,089	34,714	246,390	(1,080,985)
Support services:				
Student services	62,381		4,231	(58,150)
Instructional staff services	49,818		3,730	(46,088)
General administration services	125,105			(125,105)
School administration services	91,342			(91,342)
Business support services	24,057			(24,057)
Operation and maintenance of plant services	160,665		8,159	(152,506)
Student transportation services	96,643		2,484	(94,159)
Central services	33,027			(33,027)
Other support services	1,363		2,797	1,434
Total support services	644,401		21,401	(623,000)
Operation of non-instructional services:				
Food services operations	106,591	26,864	75,458	(4,269)
Other non-instructional services	11,261			(11,261)
Total non-instructional services	117,852	26,864	75,458	(15,530)
Interest on long-term debt	6,989			(6,989)
Total school district	\$ 2,131,331	\$ 61,578	\$ 343,249	(1,726,504)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				684,506
Property tax relief trust distribution				85,382
State and Federal aid not restricted to specific purposes				1,224,184
Interest and investment earnings				887
Debt service supplemental funding				7,111
Other				8,985
Total general revenues, special items, and extraordinary items				2,011,055
Change in net assets				284,551
Net Assets - beginning of year				1,983,018
Prior Year general long-term debt				(111,000)
Cumulative effect of changes in accounting principles				(1,048,669)
Net Assets - beginning of year restated				823,349
Net Assets - ending of year				\$ 1,107,900

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

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004

Exhibit C

	(Major) Governmental Fund Types		Totals
	General	Special Revenue Fund	Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 185,478	\$ 34,460	\$ 219,938
Property taxes receivable, net	320,858		320,858
Accounts receivable	7,502		7,502
TOTAL ASSETS	\$ 513,838	\$ 34,460	\$ 548,298
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenue	\$ 301,147		\$ 301,147
Fund Equity:			
Fund balances:			
Unreserved:			
Unreserved, reported in:			
General fund	212,691		212,691
Special revenue		\$ 34,460	34,460
Total fund balances	212,691	34,460	247,151
TOTAL LIABILITIES AND FUND BALANCES	\$ 513,838	\$ 34,460	\$ 548,298

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

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Exhibit D

Total fund balances for governmental funds:		\$	247,151
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	\$ 1,653,809	
	The accumulated depreciation is	<u>(1,094,207)</u>	559,602
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.			<u>301,147</u>
Total net assets - governmental activities		\$	<u><u>1,107,900</u></u>

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

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit E

	Major Governmental Fund Types			Totals Governmental Funds
	General	Special Revenue Fund	Debt Service Fund	
REVENUES				
Property taxes	\$ 383,359			\$ 383,359
State assistance	1,368,815	\$ 1,234		1,370,049
Federal assistance		289,877		289,877
Activity revenues	29,151			29,151
Meal sales		23,871		23,871
Interest on investments	887			887
Other revenues	8,985	8,556		17,541
TOTAL REVENUES	1,791,197	323,538		2,114,735
EXPENDITURES				
Current:				
Regular programs	874,754	47,141		921,895
Special education	87,008	36,113		123,121
Workforce education	159,390	96		159,486
Compensatory education		92,994		92,994
Other instructional programs	3,297			3,297
Support services - students	58,617	3,764		62,381
Instructional staff support services	46,508	3,310		49,818
General administrative support services	121,273			121,273
School administration support services	91,342			91,342
Business support services	24,057			24,057
Operation and maintenance of plant services	159,344			159,344
Student transportation services	87,723	2,210		89,933
Central services	33,027			33,027
Other support services	1,363			1,363
Non-instructional - food services operations	3,951	102,640		106,591
Non-programmed costs		11,261		11,261
Activity expenditures	27,621			27,621

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit E

	Major Governmental Fund Types				Totals Governmental Funds
	General	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	
EXPENDITURES (Continued)					
Debt service:					
Principal retirement			\$ 111,000		\$ 111,000
Interest and fiscal charges			6,989		6,989
TOTAL EXPENDITURES	\$ 1,779,275	\$ 299,529	117,989		2,196,793
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	11,922	24,009	(117,989)		(82,058)
OTHER FINANCING SOURCES (USES)					
Transfers in	53,357	2,650	117,989		173,996
Transfers out				\$ (173,996)	(173,996)
TOTAL OTHER FINANCING SOURCES (USES)	53,357	2,650	117,989	(173,996)	0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	65,279	26,659	0	(173,996)	(82,058)
FUND BALANCES - JULY 1	147,412	7,801		173,996	329,209
FUND BALANCES - JUNE 30	\$ 212,691	\$ 34,460	\$ 0	\$ 0	\$ 247,151

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

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS 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, 2004

Net change in fund balances -- total governmental funds \$ (82,058)

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	\$	45,538	
Capital outlay		<u>0</u>	(45,538)

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.

301,147

Change in net assets of governmental activities: \$ 173,551

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

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2004

Exhibit G

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 8,900</u>
LIABILITIES	
Due to student groups	<u>\$ 8,900</u>

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

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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, as amended, *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.

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

C. **FUNDS (Continued)**

Governmental Funds (Continued)

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.

Fiduciary Funds

The fiduciary fund includes 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 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*.

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 "regular instruction" 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).

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (Continued)

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 statements 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.

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 consist of property taxes due at June 30 but not available to pay current year liabilities.

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Budgetary Comparison Schedule for Governmental Funds (Schedule 1) because only interfund transfers are reported at the Statement of revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

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

F. CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Arkansas law, or under the laws of the United States.

G. CAPITAL ASSETS

Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Donated capital assets are reported at fair market value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

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:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements /infrastructure	20
Buildings	50
Equipment	5-20

H. RESTRICTED NET ASSETS

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

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

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. FUND EQUITY

In the FFS, governmental funds report reservations of fund balance for amounts that are not available for general used. Funds reserved for the retirement of long-term debt are reported in the FFS.

J. 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)	\$ 11,796	\$ 12,148

The above total deposits do not include cash in the amount of \$216,620 which was held in the Dallas County Treasury and cash on hand in the amount of \$422.

3. RECEIVABLES

The receivables of \$328,360 at June 30, 2004, are as follows:

Class of Receivable	General Fund
Taxes:	
Local	\$ 320,858
Accounts	7,502
Total	\$ 328,360

4. CAPITAL ASSETS

	Balance July 1, 2003	Additions	Balance June 30, 2004
<i>Capital assets not being depreciated:</i>			
Land	\$ 30,900		\$ 30,900
<i>Capital assets being depreciated:</i>			
Buildings	1,316,170		1,316,170
Machinery and equipment	306,739		306,739
Total depreciated	1,622,909		1,622,909

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

4. CAPITAL ASSETS (Continued)

	Balance <u>July 1, 2003</u>	Additions	Balance <u>June 30, 2004</u>
Less accumulated depreciation for:			
Buildings	\$ 826,108	\$ 23,137	\$ 849,245
Machinery and equipment	<u>222,561</u>	<u>22,401</u>	<u>244,962</u>
Total accumulated depreciation	<u>1,048,669</u>	<u>45,538</u>	<u>1,094,207</u>
Total capital assets depreciated, net	<u>574,240</u>	<u>(45,538)</u>	<u>528,702</u>
 Governmental activity capital assets, net	 <u>\$ 605,140</u>	 <u>\$ (45,538)</u>	 <u>\$ 559,602</u>

Depreciation was charged to functions as follows:

Regular instruction	\$ 33,307
Workforce education	368
General administrative support	3,832
Operation and maintenance of plant	1,321
Student transportation	<u>6,710</u>
 Total allocated depreciation	 <u>\$ 45,538</u>

5. LONG-TERM OBLIGATIONS

The following is a summary of the long-term obligation transactions for the year ended June 30, 2004:

	Balance <u>July 1, 2003</u>	Reductions	Balance <u>June 30, 2004</u>
Bonds payable	<u>\$ 111,000</u>	<u>\$ 111,000</u>	<u>\$ 0</u>

6. RETIREMENT PLANS

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 13%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$127,910, \$102,538 and \$96,468, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$13,672, \$8,908 and \$10,586, respectively, equal to the required contributions for each year.

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

6. RETIREMENT PLANS (Continued)

Arkansas Public Employees Retirement System

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

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2004, 2003 and 2002 were \$387, \$754 and \$714, respectively, equal to the required contributions for each year.

7. SUBSEQUENT EVENTS

Act 60 of the 2nd Extraordinary Session of the 84th General Assembly of the State of Arkansas, which became effective January 29, 2004, provides for the consolidation of school districts with fewer than 350 students. Isolated school districts will consolidate administratively but will retain their campus. Sparkman School District consolidated with the Harmony Grove School District effective July 1, 2004.

SPARKMAN SCHOOL DISTRICT NO. 4
DALLAS COUNTY, ARKANSAS
BUDGETARY COMPARISON SCHEDULE FOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 498,225	\$ 383,359	\$ (114,866)
State assistance	1,289,478	1,370,049	80,571
Federal assistance	225,462	289,877	64,415
Activity revenues		29,151	29,151
Meal sales	51,000	23,871	(27,129)
Interest on investments		887	887
Other revenues		17,541	17,541
TOTAL REVENUES	2,064,165	2,114,735	50,570
EXPENDITURES			
Regular programs	936,957	921,895	15,062
Special education	143,385	123,121	20,264
Workforce education	158,895	159,486	(591)
Compensatory education	106,131	92,994	13,137
Other instructional programs	3,500	3,297	203
Support services - students	64,308	62,381	1,927
Instructional staff support services	51,305	49,818	1,487
General administrative support services	130,312	121,273	9,039
School administration support services	91,542	91,342	200
Business support services	52,211	24,057	28,154
Operation and maintenance of plant services	173,428	159,344	14,084
Student transportation services	98,966	89,933	9,033
Central services		33,027	(33,027)
Other support services		1,363	(1,363)
Non-instructional - food services operations	53,570	106,591	(53,021)
Community services	500		500
Non-programmed costs	14,009	11,261	2,748
Activity expenditures		27,621	(27,621)
Debt service:			
Principal retirement	111,000	111,000	
Interest and fiscal charges	9,000	6,989	2,011
TOTAL EXPENDITURES	2,199,019	2,196,793	2,226
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(134,854)	(82,058)	52,796
OTHER FINANCING SOURCES (USES)			
Transfers in	1,188,845	173,996	(1,014,849)
Transfers out	(1,188,845)	(173,996)	1,014,849
TOTAL OTHER FINANCING SOURCES (USES)	0	0	0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(134,854)	(82,058)	52,796
FUND BALANCES - JULY 1	365,633	329,209	(36,424)
FUND BALANCES - JUNE 30	\$ 230,779	\$ 247,151	\$ 16,372