

Perry Casa School District No. 2

Perry County, Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE



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PERRY COUNTY, ARKANSAS
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Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
Senate Co-Vice Chair
Rep. 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

Perry Casa School District No. 2 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 Perry Casa School District No. 2 (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 March 7, 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, 2002.

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 that reads "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
March 7, 2005
EDSD28304

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Perry Casa School District No. 2 and School Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of Perry Casa School District No. 2 (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 7, 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.

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Finding 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic 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*.

AUDIT FINDING

Reportable Condition

To ensure the proper safeguarding of assets, financial accounting duties should be distributed among appropriate employees. The District, because of limited resources, does not have adequate staff to segregate these duties to sufficiently reduce the risks of fraud or error and properly safeguard the District's assets.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management and district management and are 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, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis, (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the district's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the district's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- 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.

The financial statements also include notes that 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.

District –wide Statements

The district-wide statements report information about the district as a whole using accounting methods similar to those used by private-sector companies. The statement of new 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.

The two district-wide statements report the District's net assets and how they have changed. New assets—the difference between the District's assets and liabilities—are one way to measure the District's financial health or position.

- Over time, increases or decreased in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the district, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the Districts' activities are classified as follows:

- Governmental activities: The Districts basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds—not the district as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on a particular program.

- Some funds are required by State law and bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like federal grants).

The District has two kinds of funds:

Governmental funds—Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

Fiduciary funds—The District is a trustee, or fiduciary, for assets that belong to others, such as the student's activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The financial statements have been prepared using the new format specified in the Governmental Accounting Standards Board (GASB) Statement number 34. The GASB Statement Number 34 does not require comparative information from the previous fiscal year in the year of implementation. Accordingly, the District has not provided comparative data from the fiscal year ended June 30, 2003. A comparative analysis of the district-wide data will be presented in future periods.

Assets—The total current assets of the former Perry-Casa School District at June 30, 2004 were \$587,594. Restricted cash and cash equivalents, reported as non-current Assets were \$240,616. Capital assets, net of accumulated depreciation of \$458,039, were \$745,120. The total assets were \$1,573,330.

Liabilities—The total liabilities of the former Perry-Casa School District at June 30, 2004 were \$600,562. The liabilities consisted of current liabilities of \$20,971 and long-term liabilities of \$579,591.

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

Invested in capital assets, net of related debt -	\$147,024
Restricted -	\$262,637
Unrestricted -	\$563,107
Net Assets totaled -	\$972,768

Program Revenues—Program revenues for the year ended June 30, 2004 were \$218,127. Such revenues consisted of \$165,819 operating grants and contributions, \$1,096 capital grants and contributions and \$51,212 charges for services.

General Revenues—General revenues for the year ended June 30, 2004 consisted primarily of \$216,840 property taxes, \$497,609 state aid not restricted for specific purposes, and \$70,829 property tax relief trust distribution.

Total Revenues—Total revenues, consisting of program and general revenues, were \$1,255,596.

Program Expenses—Total expenses, primarily by function, were \$1,236,100 for the year ended June 30, 2004.

The net (expense) revenue, which is a comparison of expenses to program revenues, reflected a deficiency of \$1,017,973 for the year ended June 30, 2004.

Special items primarily consisted of transactions pertaining to capital assets.

The change in net assets for the year ended June 30, 2004 was an increase of \$19,496.

Property taxes receivable (net) of \$168,112 was reported at June 30, 2004 in accordance with GASB Statement Number 33.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2004, the District has invested \$1,203,159 in a broad range of capital assets, including school buildings, athletic facilities, computer and audiovisual equipment, and administrative offices. Total depreciation expense for the year was \$43,040, and accumulated depreciation expense was \$458,039.

Long Term Debt

At year-end, the District had \$554,500 general obligation bonds, \$32,422 in certificates of indebtedness and \$11,174 in capital leases.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Perry-Casa School District consolidated with the Ola, Perry-Casa, and Fourche Valley School Districts as of July 1, 2004. As a result of this consolidation, we have received incentive funding in the amount of \$1,486,757. We will also be receiving \$367,679 in Isolated Funding, \$333,600 in National School Lunch Funds, \$54,987 in Professional Development, and \$302,751 in ABC Pre-School, as well as an increase in our other federal and state funding. We will also benefit from the new funding formula. Planning to increase shared services in the future to provide for student needs will reduce the cost per student.

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

Exhibit A

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 378,449
Property taxes receivable (net)	168,112
Accounts receivable	41,033
Total Current Assets	<u>587,594</u>
Noncurrent Assets:	
Cash and cash equivalents	240,616
Capital assets (net of accumulated depreciation of \$458,039)	745,120
Total Noncurrent Assets	<u>985,736</u>
Total Assets	<u>1,573,330</u>
LIABILITIES	
Current Liabilities:	
Accrued interest payable	2,466
Long-term obligations:	
Due within one year:	
Bonds payable, certificates of indebtedness and capital leases	18,505
Total Current Liabilities	<u>20,971</u>
Noncurrent Liabilities:	
Long-term obligations:	
Due beyond one year:	
Bonds payable, certificates of indebtedness and capital leases	579,591
Total Liabilities	<u>600,562</u>
NET ASSETS	
Invested in capital assets, net of related debt	147,024
Restricted for:	
Special programs	22,021
Capital projects	240,616
Unrestricted	563,107
Total Net Assets	<u>\$ 972,768</u>

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

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities:					
Regular instruction	\$ 402,503	\$ 43,963			\$ (358,540)
Special education instruction	59,112		\$ 22,129		(36,983)
Workforce education instruction	81,050				(81,050)
Compensatory education services	36,916		43,146		6,230
Other instruction	37,697		10,270		(27,427)
Total Instruction	<u>617,278</u>	<u>43,963</u>	<u>75,545</u>		<u>(497,770)</u>
Support Services:					
Student services	18,991				(18,991)
Instructional staff services	62,943		34,811		(28,132)
General administration services	105,350				(105,350)
School administration services	115,282				(115,282)
Business support services	41,558				(41,558)
Operation and maintenance of plant services	123,605			\$ 1,096	(122,509)
Student transportation services	46,332		6,828		(39,504)
Central services	15,545		1,283		(14,262)
Total Support Services	<u>529,606</u>		<u>42,922</u>	<u>1,096</u>	<u>(485,588)</u>
Operation of Non-instructional Services:					
Food services operations	62,636	7,249	36,735		(18,652)
Other non-instructional services	8,753		10,617		1,864
Total Non-instructional Services	<u>71,389</u>	<u>7,249</u>	<u>47,352</u>		<u>(16,788)</u>
Other Uses:					
Interest on long-term debt	17,827				(17,827)
Total School District	<u>\$ 1,236,100</u>	<u>\$ 51,212</u>	<u>\$ 165,819</u>	<u>\$ 1,096</u>	<u>(1,017,973)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					196,051
Property taxes, levied for debt service					20,789
Property tax relief trust distribution					70,829
State and federal aid not restricted to specific purposes					497,609
Debt service supplemental funding					1,421
Interest and investment earnings					1,228
Other					7,888
Special Items:					
Disposal of fixed assets					(43,888)
Proceeds from sale of fixed assets					584
Net bond issue cost					(27,007)
Payment to escrow agent (net)					(6,877)
Extraordinary item:					
Compensation for loss of fixed assets					318,842
Total general revenues, special items, and extraordinary items					<u>1,037,469</u>
Change in net assets					<u>19,496</u>
Net Assets - beginning of year, as originally reported					1,630,971
Prior Year general long-term debt					(337,003)
Cumulative effects of changes in accounting principles					(340,696)
Net Assets - beginning of year, restated					<u>953,272</u>
Net Assets - ending of year					<u>\$ 972,768</u>

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

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004

Exhibit C

	Major Governmental Fund Types			Totals Governmental Funds
	General	Special Revenue Fund	Capital Project Funds	
ASSETS				
Cash and cash equivalents	\$ 356,428	\$ 22,021	\$ 240,616	\$ 619,065
Property taxes receivable, net	168,112			168,112
Accounts receivable	41,033			41,033
	<u>41,033</u>			<u>41,033</u>
TOTAL ASSETS	<u>\$ 565,573</u>	<u>\$ 22,021</u>	<u>\$ 240,616</u>	<u>\$ 828,210</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred revenue	<u>\$ 155,277</u>			<u>\$ 155,277</u>
Fund Equity:				
Fund Balances:				
Unreserved	410,296			410,296
Unreserved, reported in:				
Special revenue		\$ 22,021		22,021
Capital project funds			\$ 240,616	240,616
Total Fund Balances	<u>410,296</u>	<u>22,021</u>	<u>240,616</u>	<u>672,933</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 565,573</u>	<u>\$ 22,021</u>	<u>\$ 240,616</u>	<u>\$ 828,210</u>

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

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY 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:			\$	672,933
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	\$ 1,203,159		
	The accumulated depreciation is	<u>(458,039)</u>		745,120
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.				155,277
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	Accrued interest payable			(2,466)
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	554,500		
	Certificates of indebtedness	32,422		
	Capital leases	<u>11,174</u>		<u>(598,096)</u>
Total net assets - governmental activities			\$	<u><u>972,768</u></u>

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

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY 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	
REVENUES					
Property taxes	\$ 228,538				\$ 228,538
State assistance	584,044	\$ 509			584,553
Federal assistance		152,221			152,221
Activity revenues	37,963				37,963
Meal sales		7,249			7,249
Interest on investments	1,228				1,228
Other revenues	13,888				13,888
TOTAL REVENUES	865,661	159,979			1,025,640
EXPENDITURES					
Current:					
Regular programs	356,175				356,175
Special education	38,407	20,205			58,612
Workforce education	80,226				80,226
Compensatory education		36,916			36,916
Other instructional programs	35,604	2,093			37,697
Support services - students	18,816				18,816
Instructional staff support services	41,264	21,679			62,943
General administrative support services	105,350				105,350
School administration support services	115,062				115,062
Business support services	41,558				41,558
Operation and maintenance of plant services	100,987				100,987
Student transportation services	28,648	6,235			34,883
Central support services	14,262	1,283			15,545
Non-instructional - food services operations		62,269			62,269
Non-programmed costs		8,753			8,753
Activity expenditures	39,441				39,441
Capital outlay	33,618	8,177		\$ 12,683	54,478
Debt service:					
Principal retirement			\$ 5,000	8,407	13,407
Interest and fiscal charges			14,539	2,403	16,942
TOTAL EXPENDITURES	1,049,418	167,610	19,539	23,493	1,260,060

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY 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	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (183,757)	\$ (7,631)	\$ (19,539)	\$ (23,493)	\$ (234,420)
OTHER FINANCING SOURCES (USES)					
Transfers in		18,285	19,539	4,257	42,081
Transfers out	(42,081)				(42,081)
Proceeds from sale of bonds				559,500	559,500
Bond issuance cost				(27,007)	(27,007)
Payment to escrow agent				(291,877)	(291,877)
Proceeds from sale of capital assets	584				584
Compensation for loss of fixed assets	318,842				318,842
TOTAL OTHER FINANCING SOURCES (USES)	277,345	18,285	19,539	244,873	560,042
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	93,588	10,654		221,380	325,622
FUND BALANCES - JULY 1	316,708	11,367		19,236	347,311
FUND BALANCES - JUNE 30	<u>\$ 410,296</u>	<u>\$ 22,021</u>	<u>\$ 0</u>	<u>\$ 240,616</u>	<u>\$ 672,933</u>

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

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY 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 \$ 325,622

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 capital outlays exceed depreciation in the current period.

Depreciation	\$	43,040	
Capital outlay		54,478	11,438

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.

Debt issued:			
Bonds issued		(559,500)	
Repayments:			
Bond refunding		285,000	
Bonds issued		5,000	
Certificates of indebtedness		6,485	
Capital lease		1,922	
Net adjustment for debt related transactions			(261,093)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest payable			(885)
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Adjustments to capital assets (i.e., write-off of equipment below capitalization level and adjustments to prior year equipment balance) that do not result from current year purchases are not reflected in governmental funds. However, such changes are reflected in the statement of activities.

(43,888)

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.

(11,698)

Change in net assets of governmental activities	\$	19,496
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The accompanying notes are an integral part of these financial statements.

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2004

Exhibit G

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 1,692</u>
LIABILITIES	
Due to student groups	<u>\$ 1,692</u>

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

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY 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 are 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.

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

C. **FUNDS** (Continued)

Governmental Funds (Continued)

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

Fiduciary funds include Agency Funds. The agency fund accounts for assets held by the District as an agent for schools, and school organizations. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Consequently, the agency fund has no measurement focus, but does use the modified accrual basis of accounting. 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 "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 statements FFS.

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY 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) (Continued)

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

Governmental funds and the agency fund 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, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. The governmental funds use the following practices in recording revenues and expenditures:

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 (or any other types, such as capital lease transactions, sale of fixed assets, debt extinguishments, long-term debt proceeds, et cetera) 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.

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's expenditure budget does not represent a formal appropriation. 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.

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. BUDGETS (Continued)

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. 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:

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

G. 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.

H. FUND EQUITY

In the FFS, governmental funds report reservations of fund balance for amounts that are not available for general use.

I. EXTRAORDINARY AND SPECIAL ITEMS

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

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.

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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	520,757	627,246
Uninsured, Uncollateralized		18,480
	\$ 620,757	\$ 745,726

3. RECEIVABLES

The receivables of \$209,145 at June 30, 2004, are as follows:

Class of Receivable	General Fund
Taxes:	
Local	\$ 168,112
Accounts	
Property tax relief	6,351
Other	34,682
	\$ 209,145

4. CAPITAL ASSETS

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<i>Capital assets not being depreciated:</i>				
Land	\$ 17,263			\$ 17,263
<i>Capital assets being depreciated:</i>				
Buildings	970,875		\$ 36,357	934,518
Site improvements/infrastructure	11,517			11,517
Machinery and equipment	284,005	\$ 54,478	98,622	239,861
Total Depreciated	1,266,397	54,478	134,979	1,185,896
Less accumulated depreciation for:				
Buildings	325,080	19,158	18,782	325,456
Site improvements/infrastructure	4,610	535		5,145
Machinery and equipment	176,400	23,347	72,309	127,438
Total accumulated depreciation	506,090	43,040	91,091	458,039
Total capital assets depreciated, net	760,307	11,438	43,888	727,857
Governmental activity capital assets, net	\$ 777,570	\$ 11,438	\$ 43,888	\$ 745,120

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

4. CAPITAL ASSETS (Continued)

Depreciation was charged to functions as follows:

Regular instruction	\$	6,887
Special education		500
Workforce education		824
Support services - students		175
School administration support		220
Operation and maintenance of plant		22,618
Student transportation		11,449
Non-instructional - food services		367
		<u>367</u>
Total Allocated Depreciation	<u>\$</u>	<u>43,040</u>

5. LEASES

The District records items under capital leases as an asset and an obligation in the accompanying financial statements. The following is an analysis of capital leases:

<u>Type</u>	<u>Recorded Amount</u>
Lighting fixtures	<u>\$ 19,902</u>

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of June 30, 2004:

Fiscal Year Ending June 30,	
2005	\$ 2,553
2006	2,553
2007	2,553
2008	2,553
2009	2,553
Total Minimum Lease Payments	<u>12,765</u>
Less: Amount Representing Interest	<u>1,591</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 11,174</u>

6A. LONG-TERM OBLIGATIONS

The District is presently paying on the following long-term debt:

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2004</u>	<u>Maturities to June 30, 2004</u>
11/1/2003	6/1/2028	4.0 to 5.0%	\$ 559,500	\$ 554,500	\$ 5,000
4/15/2002	11/1/2008	4.95%	45,392	32,422	12,970
3/1/1999	3/1/2009	5.01%	19,902	11,174	8,728
Totals			<u>\$ 624,794</u>	<u>\$ 598,096</u>	<u>\$ 26,698</u>

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

6A. LONG-TERM OBLIGATIONS (Continued)

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Bonds payable	\$ 285,000	\$ 559,500	\$ 290,000	\$ 554,500
Certificates of indebtedness	38,907		6,485	32,422
Capital leases	13,096		1,922	11,174
Totals	\$ 337,003	\$ 559,500	\$ 298,407	\$ 598,096

Reductions include \$285,000 in advance refunding of debt. See Note 6B.

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, 2004:

	Current	Long-term	Total
Bonds payable	\$ 10,000	\$ 544,500	\$ 554,500
Certificates of indebtedness	6,485	25,937	32,422
Capital leases	2,020	9,154	11,174
Totals	\$ 18,505	\$ 579,591	\$ 598,096

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

Year Ended June 30,	Principal	Interest	Total
2005	\$ 18,505	\$ 26,532	\$ 45,037
2006	23,607	25,709	49,316
2007	23,714	24,680	48,394
2008	28,327	23,647	51,974
2009	28,943	22,427	51,370
2010-2014	100,000	98,862	198,862
2015-2019	105,000	78,623	183,623
2020-2024	135,000	53,063	188,063
2025-2029	135,000	17,175	152,175
Totals	\$ 598,096	\$ 370,718	\$ 968,814

6B. ADVANCE REFUNDING OF DEBT

On November 1, 2003, the District issued \$559,500 in general obligation bonds with interest rates from 4.0 to 5.0 percent to advance refund \$285,000 of outstanding bonds dated November 1, 1998, with interest rates from 3.85 to 4.75 percent. The net proceeds of \$291,877 (after bond issuance costs of \$27,007) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 series bonds. An additional \$240,616 was received as a result of the refunding to be used for construction. The 1998 series bonds were called for redemption on June 1, 2004.

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

7. 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 \$80,903, \$67,505 and \$76,491, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$3,753, \$4,353 and \$4,344, respectively, equal to the required contributions for each year.

8. SUBSEQUENT EVENTS

Pursuant to Act 60 of 2003, effective July 1, 2004, Perry Casa School District No. 2 consolidated with Ola School District, Plainview Rover School District and Fourche Valley School District to form the Two Rivers School District.

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY 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	\$ 279,500	\$ 228,538	\$ (50,962)
State assistance	486,535	584,553	98,018
Federal assistance	153,469	152,221	(1,248)
Activity revenues		37,963	37,963
Meal sales	7,500	7,249	(251)
Interest on investments	1,000	1,228	228
Other revenues	6,000	13,888	7,888
	934,004	1,025,640	91,636
EXPENDITURES			
Regular programs	319,529	356,175	(36,646)
Special education	70,397	58,612	11,785
Workforce education	75,642	80,226	(4,584)
Compensatory education	48,919	36,916	12,003
Other instructional programs	51,735	37,697	14,038
Support services - students	23,617	18,816	4,801
Instructional staff support services	59,952	62,943	(2,991)
General administrative support services	91,636	105,350	(13,714)
School administration support services	109,011	115,062	(6,051)
Business support services	34,110	41,558	(7,448)
Operation and maintenance of plant services	84,746	100,987	(16,241)
Student transportation services	43,952	34,883	9,069
Central support services	17,552	15,545	2,007
Non-instructional - food services operations	67,837	62,269	5,568
Non-programmed costs		8,753	(8,753)
Activity expenditures		39,441	(39,441)
Capital outlay		54,478	(54,478)
Debt service:			
Principal retirement	11,155	13,407	(2,252)
Interest and fiscal charges	8,407	16,942	(8,535)
	1,118,197	1,260,060	(141,863)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(184,193)	(234,420)	(50,227)

PERRY CASA SCHOOL DISTRICT NO. 2
PERRY COUNTY, ARKANSAS
BUDGETARY COMPARISON SCHEDULE FOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Budget	Actual	Variance Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 541,458	\$ 42,081	\$ (499,377)
Transfers out	(416,780)	(42,081)	374,699
Proceeds from sale of bonds		559,500	559,500
Bond issuance cost		(27,007)	(27,007)
Payment to escrow agent		(291,877)	(291,877)
Proceeds from sale of capital assets		584	584
Compensation for loss of fixed assets		318,842	318,842
	124,678	560,042	435,364
 EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	 (59,515)	 325,622	 385,137
 FUND BALANCES - JULY 1	 356,119	 347,311	 (8,808)
 FUND BALANCES - JUNE 30	 \$ 296,604	 \$ 672,933	 \$ 376,329