

Stone County School District No. 1

Stone County, Arkansas

General Purpose Financial Statements and Other Reports June 30, 2001

LEGISLATIVE JOINT AUDITING COMMITTEE



STONE COUNTY SCHOOL DISTRICT NO. 1
STONE COUNTY, ARKANSAS
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Senate Co-Chair
Rep. Danny W. Ferguson
House Co-Chair
Sen. Henry "Hank" Wilkins, IV
Senate Co-Vice Chair
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House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Stone County School District No. 1 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements of the Stone County School District No. 1 (the "District"), as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of district management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2002 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.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
May 14, 2002
EDSD36801

Sen. Kevin A. Smith
Senate Co-Chair
Rep. Danny W. Ferguson
House Co-Chair
Sen. Henry "Hank" Wilkins, IV
Senate Co-Vice Chair
Rep. Tommy Roebuck
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Stone County School District No. 1 and School Board Members
Legislative Joint Auditing Committee

We have audited the general purpose financial statements of the Stone County School District No. 1 (the "District") as of and for the year ended June 30, 2001, and have issued our report thereon dated May 14, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, 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 opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the finding below to be a material weakness.

AUDIT FINDINGS

As a management service, we would like to bring to your attention the following compliance and/or internal control matter(s) that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and achieve adequate internal controls. These matters were discussed previously with district officials during the course of our audit fieldwork and at the exit conference.

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

This report is 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
May 14, 2002

STONE COUNTY SCHOOL DISTRICT NO. 1
 STONE COUNTY, ARKANSAS

Exhibit A

COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	Governmental Fund Types		Fiduciary	Account Groups		Totals
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
ASSETS						
Cash	\$ 472,582	\$ 35,133	\$ 15,679			\$ 523,394
Investments	719,698					719,698
Land				\$ 91,430		91,430
Buildings				845,984		845,984
Improvements other than buildings				30,337		30,337
Equipment				538,515		538,515
Amount to be provided for retirement of general long-term debt					\$ 51,632	51,632
TOTAL ASSETS	\$ 1,192,280	\$ 35,133	\$ 15,679	\$ 1,506,266	\$ 51,632	\$ 2,800,990
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 5,155	\$ 821				\$ 5,976
Due student groups			\$ 15,679			15,679
Certificates of indebtedness					\$ 13,575	13,575
Installment contracts					38,057	38,057
Total Liabilities	5,155	821	15,679		51,632	73,287

STONE COUNTY SCHOOL DISTRICT NO. 1

Exhibit A

STONE COUNTY, ARKANSAS

COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2001

	Governmental Fund Types		Fiduciary	Account Groups		Totals
	General	Special Revenue	Trust and	General Fixed Assets	General Long- Term Debt	(Memorandum Only)
			Agency			
LIABILITIES AND FUND EQUITY (Continued)						
Fund Equity:						
Investment in general						
fixed assets				\$ 1,506,266		\$ 1,506,266
Fund balances:						
Undesignated	\$ 1,187,125	\$ 34,312				1,221,437
Total Fund Equity	<u>1,187,125</u>	<u>34,312</u>		<u>1,506,266</u>		<u>2,727,703</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,192,280</u>	<u>\$ 35,133</u>	<u>\$ 15,679</u>	<u>\$ 1,506,266</u>	<u>\$ 51,632</u>	<u>\$ 2,800,990</u>

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

STONE COUNTY SCHOOL DISTRICT NO. 1
 STONE COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

Exhibit B

	General	Special Revenue	Totals (Memorandum Only)
REVENUES			
Property taxes	\$ 225,760		\$ 225,760
State assistance	1,183,212	\$ 6,508	1,189,720
Federal assistance	6,160	216,898	223,058
Activity revenues	19,455		19,455
Meal sales		15,412	15,412
Interest on investments	56,381		56,381
Other revenues	10,665	10,264	20,929
TOTAL REVENUES	1,501,633	249,082	1,750,715
EXPENDITURES			
Regular programs	648,744	7,717	656,461
Special education	35,026	19,567	54,593
Workforce education	119,646	2,500	122,146
Compensatory education		83,626	83,626
Other instructional programs	10,970	1,398	12,368
Support services	546,583	144,442	691,025
Community services	4,524		4,524
Non-programmed costs	46,216		46,216
Activity expenditures	22,946		22,946
Debt service:			
Principal retirement	8,036		8,036
Interest and fiscal charges	3,302		3,302
TOTAL EXPENDITURES	1,445,993	259,250	1,705,243
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	55,640	(10,168)	45,472
OTHER FINANCING SOURCES (USES)			
Compensation for loss of fixed assets	2,540		2,540
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	58,180	(10,168)	48,012
FUND BALANCES - JULY 1	1,128,945	44,480	1,173,425
FUND BALANCES - JUNE 30	\$ 1,187,125	\$ 34,312	\$ 1,221,437

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

STONE COUNTY SCHOOL DISTRICT NO. 1
STONE COUNTY, ARKANSAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

Exhibit C

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 235,000	\$ 225,760	\$ (9,240)
State assistance	1,147,197	1,189,720	42,523
Federal assistance	164,818	223,058	58,240
Activity revenues		19,455	19,455
Meal sales		15,412	15,412
Interest on investments	29,200	56,381	27,181
Other revenues	3,100	20,929	17,829
TOTAL REVENUES	1,579,315	1,750,715	171,400
EXPENDITURES			
Regular programs	671,178	656,461	14,717
Special education	56,226	54,593	1,633
Workforce education	121,161	122,146	(985)
Compensatory education	87,323	83,626	3,697
Other instructional programs	22,724	12,368	10,356
Support services	624,362	691,025	(66,663)
Community services	3,828	4,524	(696)
Non-programmed costs	49,651	46,216	3,435
Activity expenditures		22,946	(22,946)
Debt service:			
Principal retirement	30,000	8,036	21,964
Interest and fiscal charges	5,000	3,302	1,698
TOTAL EXPENDITURES	1,671,453	1,705,243	(33,790)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(92,138)	45,472	137,610
OTHER FINANCING SOURCES (USES)			
Compensation for loss of fixed assets		2,540	2,540
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(92,138)	48,012	140,150
FUND BALANCES - JULY 1	1,138,101	1,173,425	35,324
FUND BALANCES - JUNE 30	\$ 1,045,963	\$ 1,221,437	\$ 175,474

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

STONE COUNTY SCHOOL DISTRICT NO. 1
STONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Board of Education, a 7 member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Stone County School District (District). The District's financial statements reflect all funds and accounts directly under the control of the District. There are no component units.

B. Basis of Presentation - Fund Accounting

The accounts are maintained in accordance with the principles of fund accounting. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The following types of funds and account groups are recognized in the accompanying financial statements.

Governmental Funds

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the entity in a trustee capacity or as an agent for individuals, other governmental units, and other funds.

Account Groups

General Fixed Assets - to account for all fixed assets of the entity.

General Long-term Debt - to account for all long-term debt of the entity.

C. Basis of Accounting

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are generally recognized when the related fund liability is incurred. Exceptions include: (1) unmatured principal and interest on general long-term debt which is recognized when due; and (2) prepaid expenses, which are not recorded.

D. General Fixed Assets

General fixed assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Such assets are reported at cost or estimated historical cost, if actual data is not available, in the general fixed assets account group. Donated fixed assets are reported at fair market value when received in the general fixed assets account group. Library holdings and textbooks are not capitalized. In accordance with generally accepted accounting principles applicable to governmental entities, no provision for depreciation is reported.

STONE COUNTY SCHOOL DISTRICT NO. 1
STONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year.

F. Investments

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

G. Inventories

Inventories are considered expenditures when purchased.

H. Liability for Compensated Absences

The accompanying financial statements do not include a liability for compensated absences as the amount is not material.

I. Fund Equity

Fund Balance - Undesignated fund balance - indicates that portion of fund equity not reserved or designated.

J. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

K. Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods or services. The District does not record encumbrances in its accounting system and none are reported in the accompanying financial statements.

NOTE 2: Budget Versus Actual

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Governmental Fund Types (Exhibit C) includes revenues and expenditures of the activity and food service funds and certain transfers among funds. However, the District does not budget these activities.

STONE COUNTY SCHOOL DISTRICT NO. 1
STONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 3: Public Fund Deposits

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured, Collateralized	423,394	518,336
Total Deposits	\$ 523,394	\$ 618,336

NOTE 4: Public Fund Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of deposit	\$ 719,698	\$ 0	\$ 0	\$ 719,698	\$ 719,698

NOTE 5: Changes in General Fixed Assets

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 91,430			\$ 91,430
Buildings	845,984			845,984
Improvements other than buildings	30,337			30,337
Equipment	574,130	\$ 29,064	\$ 64,679	538,515
Totals	\$ 1,541,881	\$ 29,064	\$ 64,679	\$ 1,506,266

STONE COUNTY SCHOOL DISTRICT NO. 1
STONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 6: Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2001	Maturities To June 30, 2001
06/13/96	05/01/04	7.00%	\$ 36,175	\$ 13,575	\$ 22,600
09/07/99	09/07/09	5.00%	43,200	38,057	5,143
Totals			<u>\$ 79,375</u>	<u>\$ 51,632</u>	<u>\$ 27,743</u>

NOTE 7: Changes in Long-term Debt

	Balance July 1, 2000	Issued	Retired	Balance June 30, 2001
Certificates of indebtedness	\$ 18,095		\$ 4,520	\$ 13,575
Installment contracts	41,573		3,516	38,057
Totals	<u>\$ 59,668</u>	<u>\$ 0</u>	<u>\$ 8,036</u>	<u>\$ 51,632</u>

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

Year Ended June 30,	Principal	Interest	Total
2002	\$ 8,219	\$ 2,808	\$ 11,027
2003	8,406	2,304	10,710
2004	8,599	1,795	10,394
2005	4,284	1,268	5,552
2006	4,501	1,051	5,552
To Maturity	<u>17,623</u>	<u>1,809</u>	<u>19,432</u>
Totals	<u>\$ 51,632</u>	<u>\$ 11,035</u>	<u>\$ 62,667</u>

STONE COUNTY SCHOOL DISTRICT NO. 1
STONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 8: 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 12%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2001, 2000 and 1999 were \$106,902, \$100,939 and \$92,339, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2001, 2000 and 1999 were \$10,436, \$8,847 and \$7,665, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2001, 2000 and 1999 were \$2,108, \$1,997 and \$1,930, respectively, equal to the required contributions for each year.