

NORPHLET SCHOOL DISTRICT NO. 50

Norphlet, Arkansas

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2005**

**COBB AND SUSKIE, LTD.
Certified Public Accountants**

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Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report

The Board of Education
Norphlet School District No. 50
Norphlet, Arkansas

We have audited the accompanying basic financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the Norphlet School District No. 50 (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Norphlet School District No. 50's management. Our responsibility is to express an opinion on these basic 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 basic 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 Norphlet School District No. 50 as of June 30, 2005, and the respective changes in financial position 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 October 10, 2005, on our consideration of the Norphlet School District No. 50's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to

The Board of Education
Norphlet School District No. 50
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provide an opinion on the internal control over financial reporting or on compliance. 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.

Management's Discussion and Analysis on pages 3 - 11 and the budgetary information on page 35 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, consisting 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Norphlet School District No. 50. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in relation to the basic financial statements taken as a whole.

Cobb and Suskie, Ltd.

Certified Public Accountants
October 10, 2005

NORPHLET SCHOOL DISTRICT NO. 50
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2005

As management of the Norphlet School District No. 50 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying footnotes.

This is the second year for the District to present basic financial statements in accordance with the new financial reporting model required by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This reporting model includes "District-wide Financial Statements," which provide a broad, long-term overview of the District's financial position and results of operations; "Fund Financial Statements," which focus on the District's current financial resources and the use of those resources; and notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$985,997.
- In accordance with the District's long-range plan for facilities, it has continued to invest in plant management with the age and size of our facilities reflective of this need.
- The Board completed major construction projects for which bonds were issued in fiscal 2003/2004. No new debt was issued during the current year.
- The General Fund had \$3,546,088 in revenue, which primarily consisted of the state funding and property taxes. Excluding interfund transfers, there were \$3,306,368 in General Fund expenditures.

Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Arkansas Department of Education stringent compliance regulations. The District has

NORPHLET SCHOOL DISTRICT NO. 50
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2005

bonded debt as described in Note 4. All construction and renovations are paid for from general budget, surplus funds, and 12 mills to current expenditure fund.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: (1) district-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 12 - 13 of this report.

NORPHLET SCHOOL DISTRICT NO. 50
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2005

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Arkansas public school districts utilizing the APSCN administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the funds of the District can be divided into two categories: governmental and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 14 - 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 34 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$505,913 as of June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

NORPHLET SCHOOL DISTRICT NO. 50
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2005

Statement of Net Assets

Net Assets reflect the excess of the District's assets over its liabilities and is comprised of the following at June 30, 2005.

	June 30, <u>2005</u>	June 30, <u>2004</u>	Percentage <u>Change</u>
Current and Other Assets	\$ 1,186,952	\$ 1,092,196	+ 8.7 %
Capital Assets	<u>1,986,082</u>	<u>2,146,712</u>	- (7.5) %
Total Assets	<u>3,173,034</u>	<u>3,238,908</u>	- (2.0) %
Current Liabilities	263,003	203,566	+ 29.2 %
Other Liabilities	<u>2,404,118</u>	<u>2,531,029</u>	- (5.0) %
Total Liabilities	<u>2,667,121</u>	<u>2,734,595</u>	- (2.5) %
Net Assets	<u>\$ 505,913</u>	<u>\$ 504,313</u>	+ .1 %
Investment in Capital Assets (Net of Debt)	\$ (544,947)	\$ (511,228)	- (6.6) %
Restricted	47,556	61,117	- (22.2) %
Unreserved Fund Balances	<u>1,003,304</u>	<u>954,424</u>	+ 5.1 %
Total Net Assets	<u>\$ 505,913</u>	<u>\$ 504,313</u>	+ .1 %

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The increase in the District's current assets of \$94,756 is primarily attributable to an increase in deferred revenue collected.

Capital assets, net of accumulated depreciation decreased \$160,630 over the prior year. This decrease represents the net effect of \$38,840 of additions, \$42,238 of retirements, and current year depreciation expense of \$157,232.

Reductions of the District's long-term debt payable comprises the decrease in the District's total liabilities of \$67,474.

Statement of Activities

Net Assets at June 30, 2005 reflect an increase of \$1,600 from the June 30, 2004 balance. The District's total revenues for the fiscal year ended June 30, 2005, net of Interfund transfers, were \$4,040,159. The total cost of all programs and services was \$4,014,916 net of debt service.

The results of the District's operations as a whole are reported in the Statement of Activities presented on the following page.

NORPHLET SCHOOL DISTRICT NO. 50
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2005

Statement of Activities (Continued)

Revenues:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Program Revenues:		
Charges for Services	\$ 150,264	\$ 128,431
Grants and Contributions	436,995	339,952
General Revenues:		
Property Taxes	844,305	785,464
Unrestricted State Aid	2,560,992	2,174,517
Interest	4	14,384
Other	47,599	44,529
Total Revenues	<u>4,040,159</u>	<u>3,487,277</u>

Expenses:

Instructional Services	2,185,362	2,046,759
Pupil Services	157,702	132,876
Instructional Staff Services	158,363	108,141
General Administrative Services	187,726	174,041
School Administration	187,320	166,687
Business	34,365	34,057
Operations and Maintenance	412,901	489,785
Pupil Transportation	151,107	131,542
Central Services	105,445	29,341
Other Support Services	170,853	65,683
Food Service Operations	160,707	160,596
Interest on Long-Term Debt	103,065	107,172
Total Expenses	<u>4,014,916</u>	<u>3,646,680</u>

Loss of Disposition of Assets	<u>(23,643)</u>	<u>0</u>
Change in Net Assets	1,600	(159,403)
Net Assets, Beginning of Year	<u>504,313</u>	<u>663,716</u>
Net Assets, End of Year	<u>\$ 505,913</u>	<u>\$ 504,313</u>

As reflected above, the costs associated with the District's activities are not all borne by the taxpayers. During the year ended June 30, 2005, 3.7% or \$150,264, was paid by those who used or benefitted from the services rendered (e.g. charges for school lunches and summer school tuition), and 10.9%, or \$436,995, was paid through various federal grants. Consequently, after taking into consideration these fees and grants, general revenues, including state funding and local property taxes, of \$3,452,900 were available to offset the net cost of the District's programs of \$4,014,916 for the year ended June 30, 2005.

NORPHLET SCHOOL DISTRICT NO. 50
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2005

Statement of Activities (Continued)

The table below shows the total program cost and the net cost (after deductions for services and grant revenue) of the various categories of expenses for the year ended June 30, 2005. The "net cost" presentation reflects the portion of total program cost which is ultimately borne by the District's taxpayers. This allows the taxpayer the opportunity to compare the cost of each function to the perceived benefits received.

	Total Cost Of Programs	Net Cost of Programs	Total Cost of Programs	Net Cost of Programs
Instructional Services	\$ 2,185,362	\$ 1,823,755	\$ 2,046,759	\$ 1,760,324
Pupil Services	157,702	147,143	132,876	129,817
Instructional Staff	158,363	131,117	108,141	98,200
General Administrative	187,726	182,587	174,041	171,021
School Administration	187,320	187,320	166,687	166,687
Business	34,365	34,365	34,057	34,057
Operation and Maintenance	412,901	412,901	489,785	489,785
Pupil Transportation	151,107	144,437	131,542	131,542
Central Services	105,445	105,445	29,341	29,341
Other Support Services	170,853	154,165	65,683	54,067
Food Service Operations	160,707	1,357	160,596	6,284
Interest on Long-Term Debt	103,065	103,065	107,172	107,172
	<u>\$ 4,014,916</u>	<u>\$ 3,427,657</u>	<u>\$ 3,646,680</u>	<u>\$ 3,178,297</u>

Funds Financial Analysis

The District uses fund accounting to control and manage money for particular purposes. The Fund Financial Statements allow the District to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. These statements also allow the reader to obtain additional insight into the financial workings of the District and further assess the District's financial condition.

The District completed the fiscal year ended June 30, 2005 with a combined fund balance for the District's governmental funds (as presented in the balance sheet on page 14) of \$1,186,952, as compared to a combined fund balance of \$1,092,196 as of June 30, 2004. The majority of the \$95,756 increase in total governmental fund balances is attributable to increased revenue.

The entire \$47,640 fund balance of the Capital Outlay Fund remains reserved for specific capital projects.

NORPHLET SCHOOL DISTRICT NO. 50
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2005

Funds Financial Analysis (Continued)

A major source of revenue for operations and debt service is local property taxes and property tax replacement revenues, which, for Fund Financial Statement reporting purposes, totaled \$831,865 for the fiscal year ending June 30, 2005 and \$785,464 for the fiscal year ending June 30, 2004. The amount of property taxes attributable to the District is derived from the District's operating levy of 25.0 mills and the debt service levy of 12.0 mills for a total levy of 37.0 mills applied to the assessed value of taxable property located within the District's boundaries.

State funding represents approximately 62.5% of total revenues for the year ended June 30, 2005 and 61.9% of total revenues for the year ended June 30, 2004 as presented in the Fund Financial Statements.

The U.S. Department of Education provides the largest amount of federal funding to the District, totaling \$320,922 and \$235,526 for the years ended June 30, 2005 and 2004, respectively, and represents approximately 70.6% and 75.7%, respectively, of total federal dollars expended each year. Other significant sources of federal funding include the U.S. Department of Agriculture, which provided \$103,279 and \$97,973 during the years ended June 30, 2005 and 2004, respectively, under the School Breakfast Program and the National School Lunch Program.

Total governmental funds expenditures were \$4,023,433 for the year ended June 30, 2005. Total expenditures for each fund and relative percentages are summarized as follows:

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
General	\$ 3,306,368	82.2%	\$ 3,045,883	73.7%
Special Revenue	494,421	12.3%	399,363	9.6%
Debt Service	207,921	5.2%	201,115	4.9%
Capital Projects	0	0.0%	407,450	9.9%
Capital Outlay	14,723	0.3%	80,931	1.9%
	<u>\$ 4,023,433</u>	<u>100.0%</u>	<u>\$ 4,134,742</u>	<u>100.0%</u>

General Fund Budgetary Highlights

Arkansas Code Annotated §6-17-914 states that each school district of the state shall prepare annually a budget of expenditures and receipts, which shall be filed with the Arkansas Department of Education (ADE) in an electronic format. Although no provision currently exists for revisions to be submitted to the ADE, management and the District's Board of Directors, over the course of the year, review the District's budget, taking into

NORPHLET SCHOOL DISTRICT NO. 50
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2004

General Fund Budgetary Highlights (Continued)

consideration unexpected changes in revenues and expenditures. If those changes are material in nature, internal budget revisions are submitted to the District's Board for approval. The District's Board approved the original budget in a legally held meeting on August 10, 2004. No formal revisions were made to the budget during the 2004-2005 fiscal year.

A schedule showing the General Fund's original budget compared with actual operating results (on a budgetary basis) is provided in this report on page 35.

For the 2004-2005 fiscal year the General Fund's budgeted revenues were exceeded by the actual revenues (budgetary basis) by \$260,924. This favorable variance is attributable primarily to increased revenue from property taxes. A favorable variance of \$118,373 occurred in the expenditure portion of the budget. This favorable variance is a result of spending less for support services expenditures than budgeted.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2005, the District had \$1,986,082 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, furniture, buses and vehicles, computers, and other equipment. Increases during the year represent additions to those categories, while decreases represent retirements of assets and depreciation for the year.

During the current fiscal year \$38,840 of costs were capitalized and \$115,528 of capital assets with a net book value of \$42,238 were retired or disposed. Depreciation expense for the year ended June 30, 2005, amounted to \$157,232.

Capital assets at June 30, 2005 and 2004 are comprised of the following:

Capital Assets	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Land	\$ 42,938	\$ 42,938
Buildings and Improvements	3,034,954	3,034,954
Equipment	<u>1,238,009</u>	<u>1,314,696</u>
Total Capital Assets	<u>4,315,901</u>	<u>4,392,588</u>
Less Accumulated Depreciation		
Buildings and Improvements	1,462,810	1,417,306
Equipment	<u>867,009</u>	<u>828,570</u>
Total Accumulated Depreciation	<u>2,329,819</u>	<u>2,245,876</u>
Total Capital Assets, Net	<u>\$ 1,986,082</u>	<u>\$ 2,146,712</u>

NORPHLET SCHOOL DISTRICT NO. 50
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2005

Economic Factors and Next Year's Budget

On February 6, 2004, the Arkansas General Assembly concluded the longest special session in state history. Various legislation regarding the funding of school districts in Arkansas resulted from this legislative session. Under a newly developed funding formula, which went into effect for the 2004-05 school year, the District is slated to receive allocations for poverty programs, alternative placement programs, English language learners programs, and funding for employee salaries. The exact outcome or impact on next year's budget regarding how this anticipated money will be allocated has not yet been determined.

BUDGETARY IMPLICATIONS

In Arkansas the public school fiscal year is July 1-June 30; other programs, i.e. some federal, operate on a different fiscal calendar, but are reflected in the district overall budget. The District adopted a budget with zero contingency. The beginning cash balance for beginning the fiscal year was \$985,997.

Norphlet Public Schools received federal grants for the year 2004-2005 in the total amounts of \$496,932. The funds were awarded for the improvement of reading, math and science skills; these were mainly in the elementary areas. Funds were used in improving teacher skills in all areas, staff training, and classroom size reduction. The award period was for the current year.

Questions regarding this report should be directed to the Superintendent (870)546-2781 or by mail at P.O. Box 50, Norphlet, AR 71759.

NORPHLET SCHOOL DISTRICT NO. 50
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS

Cash and Cash Equivalents	\$ 895,068
Taxes Receivable (Net)	108,235
Restricted Cash and Cash Equivalents	183,649
Capital Assets, Net	<u>1,986,082</u>
 TOTAL ASSETS	 <u>3,173,034</u>

LIABILITIES

Accounts Payable and Other Current Liabilities	0
Deferred Revenue	136,092
Current Portion of Long-term Obligations	126,911
Noncurrent Portion of Long-term Obligations	<u>2,404,118</u>
 TOTAL LIABILITIES	 <u>2,667,121</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	(544,947)
Restricted for:	
Capital Outlay	47,556
Unrestricted	<u>1,003,304</u>
 TOTAL NET ASSETS	 <u>\$ 505,913</u>

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

NORPHLET SCHOOL DISTRICT NO. 50
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental Activities			
Instruction:			
Regular Instruction	\$ 1,605,370	\$ 87,524	\$ 61,300
Special Education	273,521		115,636
Vocational Education	102,453		
Compensatory Instruction	128,612		97,147
Other Instruction	75,406		
Total Instruction	<u>2,185,362</u>	<u>87,524</u>	<u>274,083</u>
Support Services:			
Pupil Services	157,702		10,559
Instructional Staff	158,363		27,246
General Administrative	187,726		5,139
School Administration	187,320		
Business	34,365		
Operations & Maintenance	412,901		
Pupil Transportation	151,107	6,670	
Central Services	105,445		
Other Support Services	170,853		16,688
Food Service Operations	160,707	56,070	103,280
Interest on Long-term Debt	103,065		
Depreciation - Unallocated	0		
Total Support Services	<u>1,829,554</u>	<u>62,740</u>	<u>162,912</u>
Total Governmental Activities	<u>4,014,916</u>	<u>150,264</u>	<u>436,995</u>
Total School District	<u>\$ 4,014,916</u>	<u>\$ 150,264</u>	<u>\$ 436,995</u>
General Revenues:			
Taxes:			
Property taxes, levied for general purposes			
Property taxes, levied for capital outlay			
Federal and State aid not restricted to specific purposes			
General			
Interest and investment earnings			
Miscellaneous			
Subtotal General Revenues			
Excess (Deficiency) of Revenues and Expenses Before Special Items			
Special Items:			
Loss on Disposition of Assets			
Total General Revenues and Special Items			
Change in Net Assets			
Net Assets - Beginning			
Net Assets - Ending			

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

<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenue and Changes in Net Assets</u>	<u>Government Activities</u>
\$	\$	(1,456,546)
		(157,885)
		(102,453)
		(31,465)
		<u>(75,406)</u>
<u>0</u>	<u>(1,823,755)</u>	
		(147,143)
		(131,117)
		(182,587)
		(187,320)
		(34,365)
		(412,901)
		(144,437)
		(105,445)
		(154,165)
		(1,357)
		<u>(103,065)</u>
		0
<u>0</u>	<u>(1,603,902)</u>	
<u>0</u>	<u>(3,427,657)</u>	
<u>\$ 0</u>	<u>(3,427,657)</u>	

843,305
1,000
2,560,992
4
47,599
<u>3,452,900</u>
<u>25,243</u>
<u>(23,643)</u>
<u>1,600</u>
1,600
<u>504,313</u>
<u>\$ 505,913</u>

NORPHLET SCHOOL DISTRICT NO. 50
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>
ASSETS			
Cash	\$ 879,012	\$ 152,149	\$ 47,556
Accounts Receivable	<u>108,151</u>	<u> </u>	<u>84</u>
TOTAL ASSETS	<u>\$ 987,163</u>	<u>\$ 152,149</u>	<u>\$ 47,640</u>
 LIABILITIES AND FUND BALANCES			
<u>Liabilities:</u>			
Accounts Payable and Accrued Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
 <u>Fund Balances:</u>			
Fund Balances	<u>987,163</u>	<u>152,149</u>	<u>47,640</u>
Total Fund Balances	<u>987,163</u>	<u>152,149</u>	<u>47,640</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 987,163</u>	<u>\$ 152,149</u>	<u>\$ 47,640</u>

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

Total
Governmental
Funds

\$ 1,078,717
108,235

\$ 1,186,952

\$ 0
0

1,186,952
1,186,952

\$ 1,186,952

NORPHLET SCHOOL DISTRICT NO. 50
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Special Revenue Fund	Other Governmental Funds
REVENUES:			
Property Taxes	\$ 830,865	\$	\$ 1,000
Other Local Sources	31,018	2,640	
Intermediate Sources	23,249		
State Sources	2,560,992		
Federal Sources		496,432	
Activity	87,524		
Interest	12,440		4
Food Services		53,430	
Total Revenues	3,546,088	552,502	1,004
EXPENDITURES:			
<u>Instruction</u>			
Regular Instruction	1,605,511	61,301	
Special Instruction	152,368	115,636	
Vocational Instruction	102,453		
Compensatory Instruction	37,965	97,147	
Other Instruction	68,906		
Total Instruction	1,967,203	274,084	0
<u>Support Services</u>			
Pupil Services	143,190	10,559	
Instructional Staff Services	121,838	27,246	
General Administration Services	182,587	5,139	
School Administration Services	186,581		
Business Services	34,365		
Operations and Maintenance	400,763		
Pupil Transportation	96,793		
Central Administration Services	105,445		
Principal and Interest	22,055		207,921
Other Support Services	23,396		
Food Services		160,705	
Building Acquisition			14,723
Capital Outlay	22,152	16,688	
Total Support Services	1,339,165	220,337	222,644
Total Expenditures	3,306,368	494,421	222,644
Excess (Deficiency) of			
Revenues Over Expenditures	239,720	58,081	(221,640)
OTHER FINANCING SOURCES (USES):			
Sale of Equipment	18,595		
Transfers In			207,921
Transfers Out	(207,921)		
Total Other Financing Sources (Uses)	(189,326)	0	207,921
Net Change in Fund Balances	50,394	58,081	(13,719)
Fund Balance, Beginning	936,769	94,068	61,359
Fund Balance, Ending	\$ 987,163	\$ 152,149	\$ 47,640

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

Total
Governmental
Funds

\$ 831,865
33,658
23,249
2,560,992
496,432
87,524
12,444
53,430
4,099,594

1,666,812
268,004
102,453
135,112
68,906
2,241,287

153,749
149,084
187,726
186,581
34,365
400,763
96,793
105,445
229,976
23,396
160,705
14,723
38,840
1,782,146

4,023,433

76,161

18,595
207,921
(207,921)

18,595

94,756

1,092,196

\$ 1,186,952

NORPHLET SCHOOL DISTRICT - NO. 50
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

Total Governmental Fund Balance	\$ 1,186,952
---------------------------------	--------------

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The Cost of Capital Assets is	\$ 4,315,901
Accumulated Depreciation	<u>2,329,819</u>

Total Capital Assets	1,986,082
----------------------	-----------

Federal assistance is collected this year, but is not available until the expenditures are incurred, and therefore, are deferred.

	\$ <u>136,092</u>
	(136,092)

Some liabilities are not due and payable in the current period and therefore are not reportable as liabilities in the funds.

Those liabilities consist of:

Bonded & Nonbonded Notes Payable	\$ <u>2,531,029</u>
----------------------------------	---------------------

Total Liabilities	<u>(2,531,029)</u>
-------------------	--------------------

Net Assets of Governmental Activities	\$ <u>505,913</u>
---------------------------------------	-------------------

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

NORPHLET SCHOOL DISTRICT - NO. 50
 RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 94,756

Amounts reported for governmental activities in the statement of activities are 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 as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$ 38,840	
Depreciation Expense	<u>157,232</u>	

Excess Depreciation over Capital Outlay		(118,392)
---	--	-----------

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The current year, these amounts consist of:

Bonded & Non-Bonded Note Payments	<u>\$ 126,911</u>	
-----------------------------------	-------------------	--

Total long-term debt repayment		126,911
--------------------------------	--	---------

In the Statement of Activities, the loss from disposition of assets is reported. Thus, the change in net assets differs from the change in fund balances by the net book value disposed.

	<u>\$ 42,238</u>	(42,238)
--	------------------	----------

Some revenue that is collected before the District's fiscal year-end is not considered "available" revenue and is deferred in the governmental funds. Deferred revenue increased by this amount this year.

Federal Assistance	<u>\$ 59,437</u>	<u>(59,437)</u>
--------------------	------------------	-----------------

Change in Net Assets of Governmental Activities		<u>\$ 1,600</u>
---	--	-----------------

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

NORPHLET SCHOOL DISTRICT - NO. 50
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 45,922
Total Assets	<u>\$ 45,922</u>
LIABILITIES	
Due to Student Groups	\$ 45,922
Total Liabilities	<u>\$ 45,922</u>

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

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a group of five (5) permanent members, is the level of government which has governing responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Norphlet School District No. 50 (the District). The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board of Education is not included in any other governmental "reporting entity", since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

In defining the scope of the Norphlet School District No. 50 for financial reporting purposes, the District has adopted the criteria of NCGA Statement 3, Defining the Governmental Reporting Entity. More specifically, "oversight responsibility," determined on the District's ability to select the governing authority and significantly influence operations, and "scope of public service and special financing relationships" were used to determine whether entities were to be included in the reporting entity.

Based upon this criteria, only the accounts of the Norphlet School District No. 50 are included in these statements.

B. Basis of Presentation

The District's basic financial statements consist of district-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

- (1) District-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

(1) District-wide Financial Statements (Continued)

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as a general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

(2) Fund Financial Statements - During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and fiduciary.

(1) Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

(a) Major Governmental Funds - The following are the District's major governmental funds.

(i) General Fund - The general fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Arkansas.

(ii) Special Revenue Fund - Special revenue funds are used to account for specific revenue sources which are designated by law or contractual agreement for specified functions or activities and are legally required to be accounted for in separate funds.

(b) Other Governmental Funds - Other Governmental Funds consist of the following funds:

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Continued)

(1) Governmental Funds (Continued)

(b) Other Governmental Funds (Continued)

(i) Debt Service Fund - The debt service fund is used for accumulation of resources for payment of principal, interest and related costs on general long-term debt. Payments for retirement of principal and interest are remitted to independent fiscal paying agents.

(ii) Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for acquisition or construction of major capital facilities.

(iii) Capital Outlay Fund - The capital outlay fund receives two mills from collection of property taxes applicable to 1994 and years thereafter. These revenues are designated for maintenance of existing District facilities and for capital outlays.

(2) Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is made up of agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurements of results of operations. The District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus

- (1) District-wide Financial Statements - The district-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the Statement of Net Assets.
- (2) Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources management focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and used (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the district-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting, in which revenues, expenses, gains, losses, assets, and liabilities resulting from exchange or exchange-like transactions are recognized when the exchange occurs, regardless of when the 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*. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Continued)

- (1) Revenues-Exchange and Non-exchange Transactions - accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from the non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, grants, and student fees.

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Continued)

- (2) Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, there is no deferred revenue.

- (3) Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (Expenditures) rather than expenses.

Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation and amortization, are not recognized in governmental funds.

F. Property Taxes

Property taxes are levied in November based on property assessments made between January 1, and April 10, and are an enforceable lien as of January 1. The taxes are payable between January and October 10th of the following year. Taxes are collected by the county collector and remitted to the District, net of a collection fee. Taxes are delinquent after October 10th.

Remittances are made throughout the year, with a final settlement at December 31 for that calendar year. The District's fiscal year splits the tax paying period. Collections remitted during the period January through June are considered advance tax collections and are subject to the limitation of the 40% pullback of maintenance and operation millage allocation.

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

On district-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

I. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars.

The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except for land and land improvements, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and Improvements	15-50 years
Furniture and Equipment	5 years
Vehicles	5 years

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements.

In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the governmental funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.

The capital leases, and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due.

K. Net Assets

Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Balance Reserves (Continued)

Fund equity reserves have been established for encumbrances, inventory of supplies and materials, property taxes, budget stabilization and textbooks and instructional materials.

M. Fund Designations

Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the District's intentions and are subject to change. Designations are reported as part of unreserved fund balance. Designations represent amounts set-aside for budget stabilization which exceed the statutory required amount.

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund activity for the year ended June 30, 2005 consisted of transfers from the General Fund of \$207,921 to the Debt Service Fund.

O. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NORPHLET SCHOOL DISTRICT NO. 50
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2: CASH AND CERTIFICATES OF DEPOSIT

Arkansas statutes allow each local district the right to determine the depositories in which to deposit district funds and the amounts and type of investments in which to invest District funds, provided however, that investments are limited specifically to bonds or notes of the United States of America, general obligation bonds of the State of Arkansas or bank certificates of deposit. At June 30, 2005, the District's cash consisted of demand deposits and certificates of deposit at one local depository bank. The District did not have any investments.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law. Arkansas law requires collateralization of all deposits with federal depository insurance (FDIC); a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bonds or other obligations; the bonds of the State of Arkansas, or by bonds of a political subdivision thereof which has never defaulted on any of its obligations, in an amount at least equal to the amount of such deposit or by a bond executed by a surety company authorized to do business in the State of Arkansas.

The carrying amount of total deposits, amount of the total bank balances and the custodial credit risk at June 30, 2005 summarized as follows:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 1,124,639	\$ 1,416,885
Uninsured, Uncollateralized	<u>0</u>	<u>0</u>
TOTAL	<u>\$ 1,124,639</u>	<u>\$ 1,416,885</u>

The carrying value of the above-mentioned cash deposits at June 30, 2005 is included in the accompanying financial statements as follows:

Statement of Net Assets:

Cash and Cash Equivalents	\$ 895,068
Restricted Cash and Cash Equivalents	183,649

Statement of Fiduciary Net Assets:

Agency Cash and Cash Equivalents	<u>45,922</u>
----------------------------------	---------------

\$ 1,124,639

NORPHLET SCHOOL DISTRICT NO. 50
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

NOTE 3: CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2005 were as follows:

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Retirements/ Reclass- ifications</u>	<u>Balance</u> <u>6/30/05</u>
Governmental				
Activities				
Land	\$ 42,938	\$	\$	\$ 42,938
Building and Improvements	3,034,954			3,034,954
Equipment	<u>1,314,696</u>	<u>38,840</u>	<u>115,527</u>	<u>1,238,009</u>
Total Capital Assets, Being Depreciated	<u>4,392,588</u>	<u>38,840</u>	<u>115,527</u>	<u>4,315,901</u>
Less Accumulated Depreciation:				
Buildings and Improvements	1,417,306	45,504		1,462,810
Equipment	<u>828,570</u>	<u>111,728</u>	<u>73,289</u>	<u>867,009</u>
Total Accumulated Depreciation	<u>2,245,876</u>	<u>157,232</u>	<u>73,289</u>	<u>2,329,819</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,146,712</u>	<u>\$(118,392)</u>	<u>\$(42,238)</u>	<u>\$ 1,986,082</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 31,148
Pupil Services	3,953
Instructional Services	2,658
General Administration Services	6,621
School Administration Services	740
Operation and Maintenance of Plant Services	9,129
Pupil Transportation	54,313
Food Service Operations	3,009
Other Services	45,661
Total Depreciation Expense	<u>\$ 157,232</u>

NOTE 4: BONDED AND NON-BONDED DEBT

The long-term debt is payable out of future income of the District. In order to liquidate the principal and interest on the bonded debt, the District has pledged 12.0 mills of the total 37.0 mill levy of the District.

NORPHLET SCHOOL DISTRICT NO. 50
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

NOTE 4: BONDED AND NON-BONDED DEBT (CONTINUED)

The changes in long-term debt for the year ended June 30, 2005 are as follows:

	Balance June 30, <u>2004</u>	<u>Issued</u>	<u>Retired</u>	Balance June 30, <u>2005</u>	Due Within <u>One Year</u>
Bonds Payable	\$2,550,000	\$	\$ 110,000	\$2,440,000	\$110,000
Certificates of Indebtedness	<u>107,940</u>		<u>16,911</u>	<u>91,029</u>	<u>16,911</u>
TOTAL	<u>\$2,657,940</u>	<u>\$ 0</u>	<u>\$ 126,911</u>	<u>\$2,531,029</u>	<u>\$126,911</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 126,911	\$ 98,206	\$ 225,117
2007	126,911	93,777	220,688
2008	121,911	89,353	211,264
2009	120,075	85,282	205,357
2010	125,075	81,264	206,339
2011-2015	680,146	337,026	1,017,172
2016-2020	835,000	191,430	1,026,430
2021-2025	395,000	24,990	419,990
	<u>\$ 2,531,029</u>	<u>\$ 1,001,328</u>	<u>\$ 3,532,357</u>

Details of long-term debt are as follows:

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Debt Authorized and Issued</u>	<u>Debt Outstanding June 30, 2005</u>	<u>Maturities to June 30, 2005</u>
Bonds Payable:					
03/01/03	06/01/22	3.20 to 4.20	\$2,759,930	\$ 2,440,000	\$ 319,930
Certificates of Indebtedness:					
05/01/00	11/01/07	4.95 to 5.85	<u>155,434</u>	<u>91,029</u>	<u>64,405</u>
Total Long-Term Debt			<u>\$2,915,364</u>	<u>\$ 2,531,029</u>	<u>\$ 384,335</u>

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 5: RETIREMENT PLANS

A. Arkansas Teacher Retirement System

- (1) 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.
- (2) Funding Policy - ATRS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salary. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 13%. The employer contribution was paid by the Arkansas Department of Education from the public school fund, except for those employees paid from federal funding. Employer contributions for those employees were paid by the District. Beginning July 1, 1993, the employer contribution for nonfederally funded members became the lesser of the result of multiplying the applicable percent of active member payroll for the fiscal year by the total covered reported salaries of the previous fiscal year, including any prior year reported salaries, or the amount appropriated by the Arkansas General Assembly. The amount appropriated is limited to the amount funded. The Department of Education determines the amount funded. Effective July 1, 1996, the District began paying the employer contribution rate for any eligible employee in accordance with rules and regulations established by the Teacher Retirement Board of Directors.

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 5: RETIREMENT PLANS (CONTINUED)

A. Arkansas Teacher Retirement System (Continued)

- (2) Funding Policy (Continued) - The District's contribution to ATRS during the year ended June 30, 2005 was \$244,397, equal to 14% of the established rate. Contributions made during the years ended June 30, 2004 and 2003 were \$199,060 and \$182,071, respectively. The District's contributions for federally funded salaries for the years ended June 30, 2005, 2004 and 2003 were \$19,270, \$18,288, and \$15,187, respectively, equal to the required contributions for each year.

B. Arkansas Public Employees Retirement System

- (1) Plan Description - The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteaching Arkansas public school employees hired before July 1, 1989. APERS 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 APERS.
- (2) Funding Policy - APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salary. Each participating employer is required by code 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 APERS for the years ended June 30, 2005, 2004 and 2003 were \$718, \$614, and \$584, respectively, equal to the required contributions for each year.

NORPHLET SCHOOL DISTRICT NO. 50
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005

NOTE 6: TRUST AND AGENCY FUND

The Trust and Agency fund consisted of receipts and disbursements as follows for the year ended June 30, 2005:

	<u>Balance</u> June 30, 2004	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> June 30, 2005
Agency	\$ 52,493	\$ 95,196	\$ 101,767	\$ 45,922
TOTAL	<u>\$ 52,493</u>	<u>\$ 95,196</u>	<u>\$ 101,767</u>	<u>\$ 45,922</u>

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District has joined with other school districts to form the Arkansas School Board Association Self-Insurance Program, a public entity risk pool currently operating as a common risk management and insurance program for its members. The District pays an annual premium to the Pool for its liability coverage and property insurance. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.

NORPHLET SCHOOL DISTRICT NO. 50
 BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND (SCHEDULE 1)
 FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts <u>Original And Final</u>	Actual <u>(GAAP Basis)</u>	Variances- Positive <u>(Negative)</u>
Revenues:			
Property Taxes	\$ 723,902	\$ 830,865	\$ 106,963
Other Local Sources	20,000	31,018	11,018
Intermediate Sources	13,000	23,249	10,249
State Sources	2,518,212	2,560,992	42,780
Other Sources	0	87,524	87,524
Interest	10,000	12,440	2,440
Total Revenues	<u>3,285,114</u>	<u>3,546,088</u>	<u>260,974</u>
Expenditures:			
Instruction:			
Regular Instruction	1,515,139	1,605,511	(90,372)
Special Instruction	149,719	152,368	(2,649)
Vocational Instruction	102,576	102,453	123
Comprehensive Education	58,139	37,965	20,174
Instruction	60,740	68,906	(8,166)
Total Instruction	<u>1,886,313</u>	<u>1,967,203</u>	<u>(80,890)</u>
Support Services:			
Pupil Services	146,202	143,190	3,012
Instructional Staff			
Services	135,245	121,838	13,407
General Administration			
Services	177,013	182,587	(5,574)
School Administration			
Services	190,784	186,581	4,203
Business Services	35,622	34,365	1,257
Operations &			
Maintenance	479,379	400,763	78,616
Pupil Transportation	103,841	96,793	7,048
Central Administration			
Services	137,585	105,445	32,140
Other Support Services	46,000	23,396	22,604
Food Services	30,000	0	30,000
Principal and Interest	22,257	22,055	202
Building Acquisition	0	0	0
Capital Outlay	34,500	22,152	12,348
Total Support	<u>1,538,428</u>	<u>1,339,165</u>	<u>199,263</u>
Services	<u>1,538,428</u>	<u>1,339,165</u>	<u>199,263</u>
Total Expenditures	<u>3,424,741</u>	<u>3,306,368</u>	<u>118,373</u>
Excess (Deficiency) of			
Revenues over			
Expenditures			
	<u>(139,627)</u>	<u>239,720</u>	<u>379,347</u>
Other Financing Sources (Uses):			
Sale of Equipment	0	18,595	18,595
Transfer Out	0	(207,921)	(207,921)
Total Other Financing			
Sources (Uses):	<u>0</u>	<u>(189,326)</u>	<u>(189,326)</u>
Net Change in Fund			
Balances			
	(139,627)	50,394	190,021
Fund Balance - Beginning	801,341	936,769	135,428
Fund Balance - Ending	<u>\$ 661,714</u>	<u>\$ 987,163</u>	<u>\$ 325,449</u>

See independent auditors' report on required supplementary information.

NORPHLET SCHOOL DISTRICT NO. 50
 BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL
 REVENUE FUND (SCHEDULE 2)
 FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts <u>Original And Final</u>	Actual (GAAP Basis)	Variances- Positive (Negative)
Revenues:			
Other Local Sources	\$ 0	\$ 2,640	\$ 2,640
Federal Sources	229,048	496,432	267,384
Food Service	0	53,430	53,430
Total Revenues	<u>229,048</u>	<u>552,502</u>	<u>323,454</u>
Expenditures:			
Instruction:			
Regular Instruction	6,180	61,301	(55,121)
Special Instruction	144,057	115,636	28,421
Vocational Instruction	0	0	0
Comprehensive Education Instruction	103,141	97,147	5,994
Total Instruction	<u>253,378</u>	<u>274,084</u>	<u>(20,706)</u>
Support Services:			
Pupil Services	11,142	10,559	583
Instructional Staff Services	29,653	27,246	2,407
General Administration Services	4,500	5,139	(639)
School Administration Services	0	0	0
Business Services	0	0	0
Operations & Maintenance	0	0	0
Pupil Transportation	0	0	0
Central Administration Services	0	0	0
Other Support Services	0	0	0
Food Services	0	160,705	(160,705)
Building Acquisition	0	0	0
Capital Outlay	16,359	16,688	(329)
Total Support Services	<u>61,654</u>	<u>220,337</u>	<u>(158,683)</u>
Total Expenditures	<u>315,032</u>	<u>494,421</u>	<u>(179,389)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(85,984)</u>	<u>58,081</u>	<u>144,065</u>
Other Financing Sources (Uses):	0	0	0
Net Change in Fund Balances	(85,984)	58,081	144,065
Fund Balance - Beginning	94,068	94,068	0
Fund Balance - Ending	<u>\$ 8,084</u>	<u>\$ 152,149</u>	<u>\$ 144,065</u>

See independent auditors' report on required supplementary information.

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2005

NOTE A: BUDGETS

Budgets for the District are prepared on the modified accrual basis.

NOTE B: BUDGETARY COMPARISONS

The accompanying schedules of budgetary comparison for the year ended June 30, 2005 report the budgeted and actual amounts for the General Fund and Special Revenue Fund on the basis of accounting referred to in Note A, which is the same basis used in the accompanying Fund Financial Statements; therefore, no further reconciliation of budgetary basis to GAAP is required.

NORPHLET SCHOOL DISTRICT NO. 50
 SCHEDULE OF BILLABLE UNITS
 SCHOOL BREAKFAST PROGRAM AND NATIONAL SCHOOL
 LUNCH PROGRAM (SCHEDULE 3)
 FOR THE YEAR ENDED JUNE 30, 2005

<u>Description</u>	<u>Number of Units</u>	<u>Rate</u>	<u>Total Income</u>
Meals Rendered in Accordance with U.S. Department of Agriculture Child Nutrition Program:			
Breakfast			
Paid	7,359	\$.23	\$ 1,693
Free	13,423	1.23	16,510
Reduced Price	<u>1,371</u>	.93	<u>1,275</u>
Total Breakfast	<u>22,153</u>		<u>19,478</u>
Lunch			
Paid	34,417	.21	7,228
Free	25,127	2.24	56,284
Reduced Price	<u>4,391</u>	1.84	<u>8,079</u>
Total Lunch	<u>63,935</u>		<u>71,591</u>
TOTAL	<u>86,088</u>		<u>\$ 91,069</u>

See independent auditors' report on supplementary schedules.

NORPHLET SCHOOL DISTRICT, NO. 50
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SCHEDULE 4)
 FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Total Disbursements Expenditures
<u>U.S. Department of Education:</u>		
Passed-Through the Arkansas Department of Education:		
Title I, LEA	84.010	\$ 109,586
Title I, School Improvement Special Education - Grants to States	84.010A	25,351
Title V	84.027	102,841
Safe and Drug Free Schools	84.298	14,407
Title II D	84.168A	2,392
Title II, Part A	84.318	3,290
Rural Education Achievement Program	84.367	19,219
	84.358	43,836
		320,922
 <u>U.S. Department of Agriculture:</u>		
Child Nutrition Cluster:		
Passed-Through the Arkansas Department of Education:		
School Breakfast Program	10.553	19,478
National School Lunch Program	10.555	71,591
Total Arkansas Department of Education		91,069
 Passed-Through Arkansas Department of Human Services:		
Food Distribution	10.550	12,210
Total Child Nutrition Cluster		103,279
 TOTAL		\$ 424,201

See independent auditors' report on supplementary schedules.

NORPHLET SCHOOL DISTRICT NO. 50
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is a summary of the activity of the District's federal awards program. The Schedule has been prepared on the modified accrual basis of accounting. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the presentation of the basic financial statements.

NOTE 2: NUTRITION CLUSTER

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. For the year ended June 30, 2005 the District received \$12,210 in food commodities.

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

Anne Suskie Pinyan

Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Education
Norphlet School District No. 50
Norphlet, Arkansas

We have audited the financial statements of Norphlet School District No. 50 as of and for the year ended June 30, 2005, and have issued our report thereon dated October 10, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Norphlet School District No. 50's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Norphlet School District No. 50's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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

The Board of Education
Norphlet School District No. 50
Page Two

opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the School Board, the Arkansas Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cobb and Suskie, Ltd.

Certified Public Accountants
October 10, 2005

COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report on Compliance
With Arkansas State Requirements

The Board of Education
Norphlet School District No. 50
Norphlet, Arkansas

We have examined management's assertions that Norphlet School District No. 50 substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2005. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, Norphlet School District No. 50 complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2005.

This report is intended solely for the information and use of the School Board, and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Cobb and Suskie, Ltd.

Certified Public Accountants
October 10, 2005

NORPHLET SCHOOL DISTRICT NO. 50
 SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
 TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
 FOR THE YEAR ENDED JUNE 30, 2005

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding & Purchasing Commodities	6-13-628; 6-21-301 - 6-21-303; 19-11-229 - 19-11-234, 19-11-259
Board of Directors	6-13-604 - 6-13-620; 6-24-101 et seq.
Bonded & Non-bonded Debt	6-20-402; 6-20-1201 et seq.
Bonding Requirements of Contractors	18-44-503
Certification Requirements	6-17-309; 6-17-401
Collateralization & Investments	6-20-222; 19-1-504
Contracts	6-17-801 et seq.
Deposit of Funds	19-8-104; 19-8-106
Election Requirements	6-13-622; 6-13-630; 6-13-631; 6-14-102; 6-14-106; 6-14-109 6-14-118
Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
Nonrecurring Salary Payments	6-20-412
Personnel Policies	6-17-201 et seq.; 6-17-301
Petty Cash	6-20-409
Revolving Loan Fund	6-19-114; 6-20-801 - 6-20-802
Salary Laws	6-17-1001; 6-17-2101 et seq.; 6-17-2201 et seq.; 6-20-319
Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
Signatures on Warrants	6-13-701; 6-17-918
Teacher Salary Fund	6-17-908
Trust Funds	6-5-307
Use of Architect	17-15-302
Use of Contractors	22-9-201 - 22-9-204
Use of DM&O Millage	26-80-110
Use of General Facilities Funding	6-20-309