

McRae School District No. 8

White County, Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE



MCRAE SCHOOL DISTRICT NO. 8
WHITE COUNTY, ARKANSAS
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JUNE 30, 2004

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

McRae School District No. 8 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McRae School District No. 8 (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that McRae School District will continue as a going concern. As discussed in Note 6 to the financial statements, the District was annexed with the Beebe School District.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1, the District adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2002.

The budgetary comparison information, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The McRae School District has not presented the management's discussion and analysis that the accounting principles generally accepted in the United States of America require to supplement, although not to be a part of, the basic financial statements.

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
September 16, 2004
EDSD40304

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. David Evans
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

McRae School District No. 8 and School Board Members
Legislative Joint Auditing Committee

We have audited the basic financial statements of the McRae School District No. 8 (the "District"), as of and for the year ended June 30, 2004, and have issued our report thereon dated September 16, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

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

AUDIT FINDINGS

Reportable Condition(s)

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

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management and district management and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "William R. Baum". The signature is written in a cursive, flowing style.

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 16, 2004

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 STATEMENT OF NET ASSETS
 AS OF JUNE 30, 2004

Exhibit A

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 436,030
Property taxes receivable (net)	266,494
Prepaid expenses	12,898
Total current assets	715,422
Noncurrent Assets:	
Capital assets (net of accumulated depreciation of \$1,112,626)	1,594,788
Total assets	2,310,210
LIABILITIES	
Current Liabilities:	
Accrued interest payable	16,348
Long-term obligations:	
Due within one year:	
Bonds payable, installment contract, revolving loan and post-dated warrants	56,304
Due beyond one year:	
Bonds payable, installment contract, revolving loan and post-dated warrants	1,022,013
Total liabilities	1,094,665
NET ASSETS	
Invested in capital assets, net of related debt	516,471
Restricted for:	
Debt service	50,254
Other purposes	25,729
Unrestricted	623,091
Total net assets	\$ 1,215,545

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

MCRAE SCHOOL DISTRICT NO. 8
WHITE COUNTY, ARKANSAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities
<u>Functions/Programs</u>				
<u>Governmental Activities:</u>				
Regular instruction	\$ 867,399	\$ 52,237	\$ 5,911	\$ (809,251)
Special education instruction	163,222		67,974	(95,248)
Workforce education instruction	128,793		4,245	(124,548)
Compensatory education services	105,773			(105,773)
Other instruction	31,371		152,585	121,214
Total instruction	1,296,558	52,237	230,715	(1,013,606)
Support services:				
Student services	64,531		1,007	(63,524)
Instructional staff services	81,505			(81,505)
General administration services	132,849			(132,849)
School administration services	162,967			(162,967)
Business support services	12			(12)
Operation and maintenance of plant services	313,950	175	9,103	(304,672)
Student transportation services	91,348			(91,348)
Central services	42,929			(42,929)
Total support services	890,091	175	10,110	(879,806)
Operation of non-instructional services:				
Food services operations	127,682	29,012	80,633	(18,037)
Community services	710	11,140		10,430
Other non-instructional services	8,224			(8,224)
Total non-instructional services	136,616	40,152	80,633	(15,831)
Other uses:				
Interest on long-term debt	32,961		25,428	(7,533)
Total school district	\$ 2,356,226	\$ 92,564	\$ 346,886	(1,916,776)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				273,987
Property taxes, levied for debt service				76,717
State and federal aid not restricted to specific purposes				1,368,038
Interest and investment earnings				9,191
Miscellaneous				11,153
Special item - Gain on sale of fixed assets				50
Net bond issuance costs				(35,236)
Payment to escrow agent, net				(21,514)
Total general revenues, special items, and extraordinary items				1,682,386
Change in net assets				(234,390)
Cumulative effects of changes in accounting principals				806,428
Net Assets - beginning of year				643,507
Net Assets - ending of year				\$ 1,215,545

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

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2004

Exhibit C

	(Major) Governmental Fund Types			Totals Governmental Funds
	General	Special Revenue Fund	Debt Service Fund	
ASSETS				
Cash and cash equivalents	\$ 360,047	\$ 25,729	\$ 50,254	\$ 436,030
Property taxes receivable, net	266,494			266,494
TOTAL ASSETS	\$ 626,541	\$ 25,729	\$ 50,254	\$ 702,524
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred revenue	\$ 243,630			\$ 243,630
Fund Equity:				
Fund balances:				
Unreserved	382,911			382,911
Unreserved, reported in:				
Special revenue		\$ 25,729		25,729
Debt service			\$ 50,254	50,254
Total fund balances	382,911	25,729	50,254	458,894
TOTAL LIABILITIES AND FUND BALANCES	\$ 626,541	\$ 25,729	\$ 50,254	\$ 702,524

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

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Exhibit D

Total fund balances for governmental funds:		\$	458,894
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	The cost of the assets is	\$ 2,707,414	
	The accumulated depreciation is	<u>(1,112,626)</u>	1,594,788
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.			243,630
Prepaid expenses are expensed as paid in the governmental funds but are amortized as earned in the statement of net assets.			12,898
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
	Bonds payable	885,000	
	Revolving loan	80,000	
	Post-dated warrants	90,000	
	Installment contracts payable	23,317	
	Accrued interest	<u>16,348</u>	<u>(1,094,665)</u>
Total net assets - governmental activities			<u>\$ 1,215,545</u>

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

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit E

	Major Governmental Fund Types			Totals Governmental Funds
	General	Special Revenue Fund	Debt Service Fund	
REVENUES				
Property taxes	\$ 309,331			\$ 309,331
State assistance	1,388,879	\$ 1,462	\$ 25,428	1,415,769
Federal assistance		298,148		298,148
Activity revenues	52,237			52,237
Meal sales		28,962		28,962
Interest on investments	7,440		1,751	9,191
Other revenues	23,475	50		23,525
TOTAL REVENUES	1,781,362	328,622	27,179	2,137,163
EXPENDITURES				
Current:				
Regular programs	773,276	23,484		796,760
Special education	106,374	57,833		164,207
Workforce education	126,812	1,640		128,452
Compensatory education	12,116	101,566		113,682
Other instructional programs	31,371			31,371
Support services - students	55,030	10,213		65,243
Instructional staff support services	49,313	34,172		83,485
General administrative support services	133,456			133,456
School administration support services	161,799			161,799
Business support services	12			12
Operation and maintenance of plant services	234,529	3,025	\$ 34,712	272,266
Student transportation services	123,728			123,728
Other support services	42,929			42,929
Non-instructional - food services operations		127,115		127,115
Community services		710		710
Non-programmed costs	2,286	5,938		8,224
Activity expenditures	61,275			61,275
Capital outlay			6,788	6,788

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit E

	Major Governmental Fund Types			Totals Governmental Funds
	General	Special Revenue Fund	Debt Service Fund	
EXPENDITURES (Continued)				
Debt service:				
Principal retirement	\$ 14,047		\$ 41,750	\$ 55,797
Interest and fiscal charges	5,545		28,982	34,527
	<hr/>		<hr/>	<hr/>
TOTAL EXPENDITURES	1,933,898	\$ 365,696	70,732	\$ 41,500
	<hr/>		<hr/>	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(152,536)	(37,074)	(43,553)	(41,500)
	<hr/>		<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)				
Transfers in		17,470		17,470
Transfers out	(17,470)			(17,470)
Proceeds from sale of bonds			926,750	926,750
Special item	50			50
Miscellaneous nonrevenue	48,500			41,500
Payment to escrow agent			(891,514)	(891,514)
Net bond issuance cost			(35,236)	(35,236)
	<hr/>		<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	31,080	17,470	0	41,500
	<hr/>		<hr/>	<hr/>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(121,456)	(19,604)	(43,553)	(184,613)
	<hr/>		<hr/>	<hr/>
FUND BALANCES - JULY 1	504,367	45,333	93,807	643,507
	<hr/>		<hr/>	<hr/>
FUND BALANCES - JUNE 30	\$ 382,911	\$ 25,729	\$ 50,254	\$ 0
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

MCRAE SCHOOL DISTRICT NO. 8
WHITE COUNTY, ARKANSAS

Exhibit F

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances -- total governmental funds \$ (184,613)

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

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

Depreciation	\$	88,891	
Capital outlay		88,043	(848)

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

Debt issued:			
Bonds issued	(926,750)		
Post dated warrants	(90,000)		
Repayments:			
Bonds payable	55,797		
Bonds refunded in advance	870,000		
Net adjustment for debt related transactions			(90,953)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest is recognized as the interest accrues, regardless of when it is due.

1,566

In the statement of activities, certain operating expenses-prepaid items-are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

(915)

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

41,373

Change in net assets of governmental activities \$ (234,390)

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

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 STATEMENT OF FIDUCIARY NET ASSETS
 AS OF JUNE 30, 2004

Exhibit G

	Private Purpose Trust	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 1,000	\$ 15,573
LIABILITIES		
Due to student groups		\$ 15,573
NET ASSETS		
Reserved for scholarships	\$ 1,000	

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

MCRAE SCHOOL DISTRICT NO. 8
WHITE COUNTY, ARKANSAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
AS OF JUNE 30, 2004

Exhibit H

	<u>Private-Purpose Trust</u>
ADDITIONS	
Private donations	\$ 1,000
DEDUCTIONS	
Scholarships awarded	<u>1,000</u>
Change in net assets	0
Net assets - beginning	<u>1,000</u>
Net assets - ending	<u><u>\$ 1,000</u></u>

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

MCRAE SCHOOL DISTRICT NO. 8
WHITE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

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

B. REPORTING ENTITY

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

C. FUNDS

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

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

Governmental Funds

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

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

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

MCRAE SCHOOL DISTRICT NO. 8
WHITE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. FUNDS (Continued)

Governmental Funds (Continued)

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

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

Fiduciary Funds

Fiduciary funds include Agency Funds and Private Purpose trust funds. The agency fund accounts for assets held by the District as an agent for schools, and school organizations. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Consequently, the agency fund has no measurement focus, but does use the modified accrual basis of accounting. Private Purpose trust funds report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Fiduciary fund reporting focuses on net assets and changes in net assets.

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Government-Wide Financial Statements (GWFS)

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

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

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

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

MCRAE SCHOOL DISTRICT NO. 8
WHITE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (Continued)

Fund Financial Statements (FFS)

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

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

Governmental funds and the agency fund use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for interest and principal payments on general long-term debt which are recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. The governmental funds use the following practices in recording revenues and expenditures:

Restricted/Unrestricted Resources

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

Property Taxes

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

Other Financing Sources (Uses)

Transfers between funds that are not expected to be repaid (or any other types, such as capital lease transactions, sale of fixed assets, debt extinguishments, long-term debt proceeds, et cetera) are accounted for as other financing sources (uses). Other financing sources (uses) also include certain debt related transactions and a refund to grantor. Such transactions are recognized at the time the underlying events occur.

MCRAE SCHOOL DISTRICT NO. 8
WHITE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (Continued)

Fund Financial Statements (FFS) (Continued)

Deferred Revenues

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

E. BUDGETS

The District uses the following budget practices:

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis.

F. CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits and interest-bearing demand deposits. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Arkansas law, or under the laws of the United States.

G. PREPAID ITEMS

Prepaid expenses in the GWFS consist of the unamortized portion of insurance premiums.

H. CAPITAL ASSETS

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

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

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

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. RESTRICTED NET ASSETS

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

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

J. FUND EQUITY

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

K. SPECIAL ITEMS

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

L. ACCOUNTING CHANGES

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

2. CASH AND CASH EQUIVALENTS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured, Collateralized	352,603	435,377
Total Deposits	\$ 452,603	\$ 535,377

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

3. CAPITAL ASSETS

	Balance July 1, 2003	Additions	Balance June 30, 2004
<i>Capital assets not being depreciated:</i>			
Land	\$ 27,359		\$ 27,359
<i>Capital assets being depreciated:</i>			
Buildings	1,926,821		1,926,821
Site improvements/infrastructure	194,798		194,798
Machinery and equipment	470,393	\$ 88,043	558,436
Total Depreciated	<u>2,592,012</u>	<u>88,043</u>	<u>2,680,055</u>
Less accumulated depreciation for:			
Buildings	620,396	34,348	654,744
Site improvements/infrastructure	8,947	9,740	18,687
Machinery and equipment	394,392	44,803	439,195
Total accumulated depreciation	<u>1,023,735</u>	<u>88,891</u>	<u>1,112,626</u>
Total capital assets depreciated, net	<u>1,568,277</u>	<u>(848)</u>	<u>1,567,429</u>
Governmental activity capital assets, net	<u>\$ 1,595,636</u>	<u>\$ (848)</u>	<u>\$ 1,594,788</u>

Depreciation was charged to functions as follows:

Regular instruction	\$ 17,158
Special education	1,788
Workforce education	341
Compensatory education	1,858
Support services - students	850
Instructional staff support	930
General administrative support	845
School administration support	2,711
Operation and maintenance of plant	45,723
Student transportation	16,120
Non-instructional - food services	<u>567</u>
Total allocated depreciation	<u>\$ 88,891</u>

MCRAE SCHOOL DISTRICT NO. 8
WHITE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

4-A. LONG-TERM OBLIGATIONS

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2004	Maturities to June 30, 2004
11/1/2003	2/1/2021	2.95 - 3.95	\$ 926,750	\$ 885,000	\$ 41,750
5/1/1999	5/10/2009	5	41,857	23,317	18,540
4/15/2002	11/1/2011	4.95	100,000	80,000	20,000
12/18/2003	12/18/2013	5.3	90,000	90,000	
Totals			<u>\$ 1,158,607</u>	<u>\$ 1,078,317</u>	<u>\$ 80,290</u>

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Bonds payable	\$ 870,000	\$ 926,750	\$ 911,750	\$ 885,000
Postdated warrants		90,000		90,000
Installment contracts	27,364		4,047	23,317
Revolving loans	90,000		10,000	80,000
Total	<u>\$ 987,364</u>	<u>\$ 1,016,750</u>	<u>\$ 925,797</u> *	<u>\$ 1,078,317</u>

* Includes advance refunding of bonds of \$870,000. See Note 4-B.

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of June 30, 2004:

	Current	Long-term	Total
Bonds payable	\$ 35,000	\$ 850,000	\$ 885,000
Postdated warrants	7,056	82,944	90,000
Installment contracts	4,248	19,069	23,317
Revolving loan	10,000	70,000	80,000
Total	<u>\$ 56,304</u>	<u>\$ 1,022,013</u>	<u>\$ 1,078,317</u>

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

4-A. LONG-TERM OBLIGATIONS (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2005	\$ 56,304	\$ 41,130	\$ 97,435
2006	61,894	39,013	100,907
2007	62,513	36,719	99,232
2008	63,164	34,398	97,562
2009	63,664	32,031	95,695
2010 - 2014	325,778	123,862	449,640
2015 - 2019	305,000	64,343	369,343
2020 - 2024	140,000	8,295	148,295
Totals	<u>\$ 1,078,317</u>	<u>\$ 379,792</u>	<u>\$ 1,458,109</u>

4-B. ADVANCE REFUNDING OF DEBT

On November 1, 2003, the District issued \$926,750 in general obligation bonds with interest rates from 2.95 to 3.95 percent to advance refund \$891,514 of outstanding bonds dated 1994 and 1998, with interest rates from 3.9 to 5.25 percent. The net proceeds of \$883,933 were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 and 1998 bonds. As a result, the 1994 and 1998 bonds are considered to be defeased and the liability for these bonds has been removed from the long-term debt. An additional \$5,327 was received as a result of the refunding to be used for debt service on the new issue. The District advance refunded the 1994 and 1998 bonds to reduce its total debt service payments of the next seventeen (17) years by \$45,361. The 1994 and 1998 bonds were called for redemption on February 1, 2004.

4-C. QUALIFIED ZONE ACADEMY BONDS (QZAB)

The District issued Qualified Zone Academy Bonds (QZAB's) during the period. This is a new financing vehicle created by the Tax Relief Act of 1997. QZAB's do not generally require interest payments from the borrower. The eligible financial institution holding the bond receives a tax credit in lieu of interest payments. The principal is not due until the end of the term. The borrower makes deposits into a sinking fund account annually and the sinking fund will earn interest. The District borrowed \$90,000 using this method by issuing post-dated warrants. The District will deposit into a sinking fund at Allied Bank of Little Rock, Arkansas, \$11,826 for ten years, depositing a total of \$118,260 into the sinking fund. This amount plus interest will be used to retire the debt when due.

MCRAE SCHOOL DISTRICT NO. 8
WHITE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

5. RETIREMENT PLANS

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 13%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$140,290, \$138,298 and \$142,163, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$12,210, \$12,264 and \$9,023, 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, 2004, 2003 and 2002 were \$1,469, \$1,426 and \$1,380, respectively, equal to the required contributions for each year.

6. SUBSEQUENT EVENTS

Annexation of McRae School District with Beebe School District

Pursuant to Act 60 of 2003, effective July 1, 2004, McRae School District annexed with Beebe School District. The annexed school district shall be known as Beebe School District.

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 BUDGETARY COMPARISON SCHEDULE FOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 407,278	\$ 309,331	\$ (97,947)
State assistance	1,311,952	1,415,769	103,817
Federal assistance	295,832	298,148	2,316
Activity revenues		52,237	52,237
Meal sales	34,000	28,962	(5,038)
Interest on investments		9,191	9,191
Other revenues	18,000	23,525	5,525
TOTAL REVENUES	2,067,062	2,137,163	70,101
EXPENDITURES			
Regular programs	863,450	796,760	66,690
Special education	188,866	164,207	24,659
Workforce education	126,349	128,452	(2,103)
Compensatory education	120,405	113,682	6,723
Other instructional programs	31,780	31,371	409
Support services - students	62,667	65,243	(2,576)
Instructional staff support services	78,948	83,485	(4,537)
General administrative support services	156,803	133,456	23,347
School administration support services	154,704	161,799	(7,095)
Business support services		12	(12)
Operation and maintenance of plant services	295,460	272,266	23,194
Student transportation services	99,328	123,728	(24,400)
Other support services	42,589	42,929	(340)
Non-instructional - food services operations	110,265	127,115	(16,850)
Community services		710	(710)
Non-programmed costs	83,638	8,224	75,414
Activity expenditures		61,275	(61,275)
Capital outlay	111,000	6,788	104,212
Debt service:			
Principal retirement		55,797	(55,797)
Interest and fiscal charges		34,527	(34,527)
TOTAL EXPENDITURES	2,526,252	2,411,826	114,426
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(459,190)	(274,663)	184,527

MCRAE SCHOOL DISTRICT NO. 8
 WHITE COUNTY, ARKANSAS
 BUDGETARY COMPARISON SCHEDULE FOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Budget	Actual	Variance Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 985,538	\$ 17,470	\$ (968,068)
Transfers out	(985,538)	(17,470)	968,068
Proceeds from sale of bonds		926,750	926,750
Special item		50	50
Miscellaneous nonrevenue		90,000	90,000
Payment to escrow agent		(891,514)	(891,514)
Net bond issuance cost		(35,236)	(35,236)
	0	90,050	90,050
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(459,190)	(184,613)	274,577
FUND BALANCES - JULY 1	653,830	643,507	(10,323)
FUND BALANCES - JUNE 30	\$ 194,640	\$ 458,894	\$ 264,254