

Bruno-Pyatt School District No. 1

Marion County, Arkansas

**Regulatory Basis Financial Statements
And Other Reports**

June 30, 2004



BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2004

Independent Auditor's Report
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards*
Management Letter

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet – Regulatory Basis	A
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis	B
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis	C
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets	1

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Bruno-Pyatt School District No. 1 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Bruno-Pyatt School District No. 1 (the "District"), as of and for the year ended June 30, 2004, 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.

As described more fully in Note 1, the District has prepared the financial statements using accounting practices prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2004, or the changes in financial position thereof for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1) is presented for purposes of additional analysis and is not a required part of the regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT


Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
September 12, 2005
EDSD23904

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Bruno-Pyatt School District No. 1 and School Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Bruno-Pyatt School District No. 1 (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated September 12, 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. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below in the Audit Findings section of this letter as items 1, 2 and 3.

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 caused by error or fraud in amounts that would be material in relation to the regulatory basis 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 finding numbers 1, 2 and 3 below to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, 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 opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below in the Audit Findings section of this letter as items 2 and 3.

We also noted certain additional matters that we reported in a separate management letter.

AUDIT FINDINGS

Reportable Condition(s)

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

Financial accounting duties should be properly segregated among appropriate employees. Management personnel concur with the recommendation and will implement corrective procedures to the extent possible.

2. Proper internal controls require revenue be receipted and adequately safeguarded until deposited into appropriate district bank accounts. Ark. Code Ann. § 6-13-701 requires payroll disbursements conform to approved written employment contracts. During our review of District financial records, we found the former District Treasurer Linda Jones made the following improper transactions:

For the period July 1, 2003 through June 30, 2005, our review of Food Service Fund bank deposits revealed unreceipted revenue of \$2,126 was improperly deposited into the Food Service Fund. To conceal misappropriating Food Service Fund receipts, the former District Treasurer stated she did not properly receipt or deposit \$2,126 of revenue intended for the Activity and Operating Funds.

Without Board approval, the former District Treasurer prepared and signed a salary addendum to her employment contract and was paid an unauthorized salary of \$615.

Lack of adequate internal controls and management oversight resulted in the District Treasurer having the opportunity to make improper transactions. We recommend the former District Treasurer, who resigned on September 1, 2005, reimburse the District \$2,741 for the improper transactions. We also recommend management review the District Treasurer duties and segregate to the extent possible.

3. State ethics laws require contracts in excess of \$5,000 between the District and an employee to have Board approval evidenced by a written resolution, which shall be forwarded to the Department of Education for consent. On April 1, 2004, the District purchased a tractor for \$8,500 from an employee's spouse without following state ethical guidelines. Lack of management oversight resulted in the failure to properly obtain approval for the tractor purchase. We recommend the Fourteenth Judicial District Prosecuting Attorney and the District's Attorney review the ethical ramifications of the tractor transaction.

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, and other parties as required by Arkansas Code, and are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 12, 2005

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
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Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Bruno-Pyatt School District No. 1 and School Board Members
Legislative Joint Auditing Committee

As a management service, we would like to bring to your attention the following other item that came to our attention during this audit. The purpose of such comment is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and achieve adequate internal controls. This matter was discussed previously with district officials during the course of our audit fieldwork and at the exit conference.

The District's accounting records should be properly maintained and reflect all the financial activity for the year.

Bank reconciliations were not always prepared at the end of each month and at June 30, 2004, the deposit in-transit was unidentified and there was no outstanding checklist prepared. Our review of the District's accounting records revealed that all revenues and disbursements had not been properly recorded.

Lack of management oversight and inadequate internal controls contributed to the unreconciled accounting records. To improve internal controls, we recommend the District exercise adequate management oversight responsibility.

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, and other parties as required by Arkansas Code, and are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 12, 2005

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2004

Exhibit A

	Governmental Funds			
	Major			
	General	Special Revenue	Other Aggregate	Fiduciary Fund Types
ASSETS				
Cash	\$ 311,204	\$ 93,200	\$ 178,727	\$ 22,137
Interfund receivable		2,674	2,148	148
TOTAL ASSETS	\$ 311,204	\$ 95,874	\$ 180,875	\$ 22,285
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due student groups				\$ 22,285
Interfund payable	\$ 4,970			
Total Liabilities	4,970			22,285
Fund Balances:				
Reserved:				
Debt service			\$ 2,148	
Capital projects			178,727	
Unreserved:				
Undesignated	306,234	\$ 95,874		
Total Fund Balances	306,234	95,874	180,875	
TOTAL LIABILITIES AND FUND BALANCES	\$ 311,204	\$ 95,874	\$ 180,875	\$ 22,285

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

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes	\$ 288,703		
Property tax relief trust distribution	105,139		
State assistance	1,272,944	\$ 1,082	\$ 14,962
Federal assistance	10,745	452,218	
Activity revenues	26,169		
Meal sales		33,977	
Investment income	1,896		2,934
Other revenues	28,304	6,266	
TOTAL REVENUES	1,733,900	493,543	17,896
EXPENDITURES			
Regular programs	792,236	138,024	
Special education	110,768	8,769	
Workforce education	119,432		
Compensatory education		122,068	
Other instructional programs	1,894		
Student support services	79,488	5,424	
Instructional staff support services	54,171		
General administration support services	147,576	12,009	
School administration support services	128,078		
Operation and maintenance of plant services	309,097		44,550
Student transportation services	169,446	3,602	
Other support services	4,730		
Food services operations		119,675	
Community services		315	
Non-programmed costs	86,675	25,589	
Activity expenditures	29,650		
Capital outlay	87,108	40,306	
Debt service:			
Principal retirement	26,336		40,000
Interest and fiscal charges	2,999		27,618
TOTAL EXPENDITURES	2,149,684	475,781	112,168
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(415,784)	17,762	(94,272)
OTHER FINANCING SOURCES (USES)			
Transfers in		4,997	46,112
Transfers out	(51,109)		
Proceeds from certificate of indebtedness	51,800		
Proceeds from Qualified Zone Academy Bonds	142,822		
Proceeds from bond issue			690,750
Net bond issuance cost			(33,430)
Early retirement of debt			(499,170)
Interest on early retirement of debt			(11,452)
TOTAL OTHER FINANCING SOURCES (USES)	143,513	4,997	192,810
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(272,271)	22,759	98,538
FUND BALANCES - JULY 1	578,505	73,115	82,337
FUND BALANCES - JUNE 30	\$ 306,234	\$ 95,874	\$ 180,875

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

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$ 287,861	\$ 288,703	\$ 842			
Property tax relief trust distribution	105,139	105,139				
State assistance	1,216,100	1,272,944	56,844	\$ 1,082	\$ 1,082	
Federal assistance		10,745	10,745	452,218	452,218	
Activity revenues		26,169	26,169			
Meal sales				33,977	33,977	
Investment income	15,000	1,896	(13,104)			
Other revenues		28,304	28,304	6,266	6,266	
TOTAL REVENUES	1,624,100	1,733,900	109,800	493,543	493,543	
EXPENDITURES						
Regular programs	759,823	792,236	(32,413)	\$ 70,163	138,024	(67,861)
Special education	108,534	110,768	(2,234)	10,900	8,769	2,131
Workforce education	172,675	119,432	53,243			
Compensatory education				173,774	122,068	51,706
Other instructional programs	2,500	1,894	606			
Student support services	80,830	79,488	1,342	16,446	5,424	11,022
Instructional staff support services	48,628	54,171	(5,543)			
General administration support services	129,759	147,576	(17,817)	19,000	12,009	6,991
School administration support services	109,139	128,078	(18,939)			
Operation and maintenance of plant services	151,778	309,097	(157,319)			
Student transportation services	148,925	169,446	(20,521)		3,602	(3,602)
Other support services	1,000	4,730	(3,730)			
Food services operations				62,964	119,675	(56,711)
Community services				1,200	315	885
Non-programmed costs	85,000	86,675	(1,675)	25,600	25,589	11
Activity expenditures		29,650	(29,650)			
Capital outlay	79,966	87,108	(7,142)	105,086	40,306	64,780
Debt service:						
Principal retirement	37,438	26,336	11,102			
Interest and fiscal charges	1,651	2,999	(1,348)			
TOTAL EXPENDITURES	1,917,646	2,149,684	(232,038)	485,133	475,781	9,352

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (293,546)	\$ (415,784)	\$ (122,238)	\$ (485,133)	\$ 17,762	\$ 502,895
OTHER FINANCING SOURCES (USES)						
Transfers in	870,560		(870,560)	12,000	4,997	(7,003)
Transfers out	(985,997)	(51,109)	934,888			
Proceeds from Qualified Zone Academy Bonds		142,822	142,822			
Proceeds from certificate of indebtedness		51,800	51,800			
TOTAL OTHER FINANCING SOURCES (USES)	(115,437)	143,513	258,950	12,000	4,997	(7,003)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(408,983)	(272,271)	136,712	(473,133)	22,759	495,892
FUND BALANCES - JULY 1	574,555	578,505	3,950	73,115	73,115	
FUND BALANCES - JUNE 30	\$ 165,572	\$ 306,234	\$ 140,662	\$ (400,018)	\$ 95,874	\$ 495,892

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

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five (5) member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Bruno-Pyatt School District (District). There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

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

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Other governmental funds consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Fund types include the following:

Agency Funds - Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an *Other Comprehensive Basis of Accounting* (OCBOA). This basis of accounting is prescribed by Arkansas Code Annotated §10-4-412(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Life in Years
Buildings	50
Equipment	5-20

F. 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. Property taxes that are due at the end of the fiscal year and collected within 60 days are accrued. Deferred property taxes are not recognized.

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. Fund Balance Designations

1. Reserved fund balance - represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Undesignated fund balance - indicates that portion of the fund balance not reserved or designated.

I. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The 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. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

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

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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	486,968	584,792
Total Deposits	\$ 586,968	\$ 684,792

The above total deposits do not include deposit with paying agent in the amount of \$18,300.

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

3: COMMITMENTS

The District was contractually obligated for the following at June 30, 2004:

Long-Term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2004</u>	<u>Maturities To June 30, 2004</u>
10/1/2003	6/1/2023	3.5-4.25%	\$ 690,750	\$ 690,750	
11/12/2003	11/12/2017	None	142,822	142,822	
5/4/2004	5/1/2009	4.95%	51,800	51,800	
4/4/2002	10/1/2006	4.90%	46,501	360	\$ 46,141
Totals			\$ 931,873	\$ 885,732	\$ 46,141

Changes in Long-Term Debt

	<u>Balance July 1, 2003</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2004</u>
Bonds payable	\$ 420,000	\$ 833,572	\$ 420,000	\$ 833,572
Certificates of indebtedness	85,500	51,800	85,500	51,800
Installment contracts	60,366		60,006	360
Totals	\$ 565,866	\$ 885,372	\$ 565,506 *	\$ 885,732

* Includes \$499,170 early retirement of debt - See Note 4.

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 49,456	\$ 28,702	\$ 78,158
2006	31,926	27,160	59,086
2007	31,926	25,942	57,868
2008	32,676	24,726	57,402
2009	36,926	23,480	60,406
2010-2014	175,000	98,083	273,083
2015-2019	337,822	65,095	402,917
2020-2024	190,000	20,590	210,590
Totals	\$ 885,732	\$ 313,778	\$ 1,199,510

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

4: DEBT REFUNDINGS

On October 1, 2003, the District issued \$690,750 in Advance Refunding and Construction General Obligation Bonds with interest rates from 3.5 to 4.25 percent to advance refund \$380,000 of outstanding 1996 Series bonds with interest rates from 3.625 to 4.625 percent, \$85,500 Certificate of Indebtedness with an interest rate of 4.95 percent and \$33,670 for an installment contract with an interest rate of 4.95 percent. Net proceeds of \$510,622 (after bond issuance cost of \$33,430) were used to refund the 1996 Series bonds on January 1, 2004 in the amount of \$389,170, the Certificate of Indebtedness in the amount of \$87,634 on October 1, 2003 and the installment contract in the amount of \$33,818 on October 1, 2003. A net additional amount of \$146,698 was deposited into the District's Capital Projects Fund to be used for construction and renovation projects.

5: INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The Debt Service Fund (Other Aggregate) is due \$2,148 from the General Fund for accrued interest on bond proceeds deposited into the General Fund in error, and the Private-Purpose Trust (Fiduciary Fund Types) account had a \$148 deficit cash balance due to over expenditure of scholarship awards and was reimbursed from the General Fund. The federal funds (Special Revenue) had a \$2,674 deficit cash balance and was reimbursed from the General Fund.

The District transferred \$51,109 from the General Fund to the Debt Service Fund in the amount of \$46,112 and to Special Revenue Funds in the amount of \$4,997 for debt related payments and to supplement operations, respectively.

6: RELATED-PARTY TRANSACTIONS

The District purchased a tractor on April 1, 2004 for \$8,500 from Tony Whitsel, the spouse of a district employee.

7: RETIREMENT PLANS

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 13%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$130,358, \$120,308 and \$111,836, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$13,629, \$11,986 and \$6,816, respectively, equal to the required contributions for each year.

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

7: RETIREMENT PLANS (CONTINUED)

Arkansas Public Employees Retirement System

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

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2004, 2003 and 2002 were \$1,108, \$930 and \$971, respectively, equal to the required contributions for each year.

8: CONSOLIDATION

On July 1, 2004, the Bruno-Pyatt School District was administratively consolidated with the St. Joe School District and Western Grove School District, resulting in the Ozark Mountain School District being formed. The administration office is located at the St. Joe school campus. The consolidation was required by Act 60 of the 2nd Extraordinary Session of the 84th General Assembly of the State of Arkansas. The Act required school districts with fewer than three hundred fifty (350) students to consolidate with another school district. Isolated school districts will consolidate administratively but will retain their campus.

9: PRIVATE-PURPOSE TRUST

The Private-Purpose Trust Fund consists of a scholarship fund with revenues derived from contributions by local individuals and businesses. Scholarships are awarded upon the recommendations of the scholarship committee. The scholarship committee includes the high school principal, counselor and the high school English Teacher.

10: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 1,380
DEDUCTIONS	
Scholarships	<u>2,752</u>
CHANGE IN FUND BALANCE	(1,372)
FUND BALANCE - JULY 1	<u>1,372</u>
FUND BALANCE - JUNE 30	<u><u>\$ 0</u></u>

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

11: 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 \$142,822 using this method. The District will deposit into a sinking fund at Bank of America, N.A. \$9,128 (less interest earned on the sinking fund) a year for fourteen years. The amount deposited plus the interest earned on the sinking fund will be used to retire the debt of \$142,822 when due.

BRUNO-PYATT SCHOOL DISTRICT NO. 1
MARION COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<i>Nondepreciable capital assets:</i>				
Land	\$ 34,137			\$ 34,137
<i>Depreciable capital assets:</i>				
Buildings	1,109,297			1,109,297
Equipment	605,899	\$ 127,414		733,313
Total depreciable capital assets	1,715,196	127,414		1,842,610
Less accumulated depreciation for:				
Buildings	619,553	22,186		641,739
Equipment	281,831	82,070		363,901
Total accumulated depreciation	901,384	104,256		1,005,640
Total depreciable capital assets, net	813,812	23,158		836,970
Capital assets, net	\$ 847,949	\$ 23,158	\$ 0	\$ 871,107