

Evening Shade School District No. 24

Sharp County, Arkansas

General Purpose Financial Statements and Other Reports June 30, 2003

LEGISLATIVE JOINT AUDITING COMMITTEE



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SHARP COUNTY, ARKANSAS
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JUNE 30, 2003

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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

Evening Shade School District No. 24 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements of the Evening Shade School District No. 24 (the "District"), as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of district management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 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.

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
February 23, 2004
EDSD35603

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

Evening Shade School District No. 24 and School Board Members
Legislative Joint Auditing Committee

We have audited the general purpose financial statements of the Evening Shade School District No. 24 (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated February 23, 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 general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

AUDIT FINDINGS

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

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

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

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 23, 2004

EVENING SHADE SCHOOL DISTRICT NO. 24

Exhibit A

SHARP COUNTY, ARKANSAS

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

JUNE 30, 2003

	Governmental Fund Types		Fiduciary	Account Groups		Totals
	General	Special Revenue	Fund Types	General Fixed Assets	General Long- Term Debt	(Memorandum Only)
			Trust and Agency			
ASSETS						
Cash	\$ 199,071	\$ 20,314	\$ 12,903			\$ 232,288
Accounts receivable	6,515		918			7,433
Land				\$ 35,300		35,300
Buildings				1,672,777		1,672,777
Improvements other than buildings				9,425		9,425
Equipment				501,359		501,359
Amount to be provided for retirement of general long-term debt					\$ 824,136	824,136
TOTAL ASSETS	\$ 205,586	\$ 20,314	\$ 13,821	\$ 2,218,861	\$ 824,136	\$ 3,282,718
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 21,129	\$ 2,564	\$ 1,137			\$ 24,830
Due student groups			12,684			12,684
Bonds payable					\$ 732,800	732,800
Certificates of indebtedness					53,140	53,140
Installment contracts					38,196	38,196
Total Liabilities	21,129	2,564	13,821		824,136	861,650

EVENING SHADE SCHOOL DISTRICT NO. 24
SHARP COUNTY, ARKANSAS

Exhibit A

COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long- Term Debt</u>	
LIABILITIES AND FUND EQUITY (Continued)						
Fund Equity:						
Investment in general fixed assets				\$ 2,218,861		\$ 2,218,861
Fund balances:						
Unreserved:						
Undesignated	\$ 184,457	\$ 17,750				202,207
Total Fund Equity	<u>184,457</u>	<u>17,750</u>		<u>2,218,861</u>		<u>2,421,068</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 205,586</u>	<u>\$ 20,314</u>	<u>\$ 13,821</u>	<u>\$ 2,218,861</u>	<u>\$ 824,136</u>	<u>\$ 3,282,718</u>

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

EVENING SHADE SCHOOL DISTRICT NO. 24
 SHARP COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2003

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
REVENUES					
Property taxes	\$ 182,998				\$ 182,998
State assistance	1,554,337	\$ 1,360	\$ 14,026		1,569,723
Federal assistance		227,301			227,301
Activity revenues	48,707				48,707
Meal sales		36,188			36,188
Interest on investments	4,901				4,901
Other revenues	52,295	39,616			91,911
TOTAL REVENUES	1,843,238	304,465	14,026		2,161,729
EXPENDITURES					
Regular programs	758,929	44,411			803,340
Special education	104,507	34,518			139,025
Workforce education	141,320				141,320
Compensatory education		39,521			39,521
Other instructional programs	31,624				31,624
Support services	725,045	202,344		\$ 9,263	936,652
Non-programmed costs	18,876				18,876
Activity expenditures	39,249				39,249
Debt service:					
Principal retirement	28,204		15,000		43,204
Interest and fiscal charges	6,473		42,995		49,468
TOTAL EXPENDITURES	1,854,227	320,794	57,995	9,263	2,242,279
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(10,989)	(16,329)	(43,969)	(9,263)	(80,550)

EVENING SHADE SCHOOL DISTRICT NO. 24
 SHARP COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2003

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
OTHER FINANCING SOURCES (USES)					
Transfers in		\$ 21,000	\$ 43,969	\$ 8,979	\$ 73,948
Transfers out	\$ (73,948)				(73,948)
Value of installment contract	45,465				45,465
TOTAL OTHER FINANCING SOURCES (USES)	(28,483)	21,000	43,969	8,979	45,465
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(39,472)	4,671		(284)	(35,085)
FUND BALANCES - JULY 1	223,929	13,079		284	237,292
FUND BALANCES - JUNE 30	<u>\$ 184,457</u>	<u>\$ 17,750</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 202,207</u>

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

EVENING SHADE SCHOOL DISTRICT NO. 24
SHARP COUNTY, ARKANSAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

Exhibit C

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Property taxes	\$ 285,322	\$ 182,998	\$ (102,324)				\$ 285,322	\$ 182,998	\$ (102,324)
State assistance	1,495,227	1,554,337	59,110	\$ 1,300	\$ 1,360	\$ 60	1,496,527	1,555,697	59,170
Federal assistance				195,391	227,301	31,910	195,391	227,301	31,910
Activity revenues		48,707	48,707					48,707	48,707
Meal sales				32,800	36,188	3,388	32,800	36,188	3,388
Interest on investments	7,000	4,901	(2,099)				7,000	4,901	(2,099)
Other revenues	24,400	52,295	27,895		39,616	39,616	24,400	91,911	67,511
TOTAL REVENUES	1,811,949	1,843,238	31,289	229,491	304,465	74,974	2,041,440	2,147,703	106,263
EXPENDITURES									
Regular programs	678,126	758,929	(80,803)	16,278	44,411	(28,133)	694,404	803,340	(108,936)
Special education	124,537	104,507	20,030	37,167	34,518	2,649	161,704	139,025	22,679
Workforce education	146,234	141,320	4,914				146,234	141,320	4,914
Compensatory education				43,118	39,521	3,597	43,118	39,521	3,597
Other instructional programs	31,526	31,624	(98)				31,526	31,624	(98)
Support services	650,058	725,045	(74,987)	139,861	202,344	(62,483)	789,919	927,389	(137,470)
Non-programmed costs	4,600	18,876	(14,276)				4,600	18,876	(14,276)
Activity expenditures		39,249	(39,249)					39,249	(39,249)
Debt service:									
Principal retirement	35,600	28,204	7,396				35,600	28,204	7,396
Interest and fiscal charges	5,400	6,473	(1,073)				5,400	6,473	(1,073)
TOTAL EXPENDITURES	1,676,081	1,854,227	(178,146)	236,424	320,794	(84,370)	1,912,505	2,175,021	(262,516)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	135,868	(10,989)	(146,857)	(6,933)	(16,329)	(9,396)	128,935	(27,318)	(156,253)
OTHER FINANCING SOURCES (USES)									
Transfers in	967,120		(967,120)		21,000	21,000	967,120	21,000	(946,120)
Transfers out	(967,120)	(73,948)	893,172				(967,120)	(73,948)	893,172
Value of installment contract		45,465	45,465					45,465	45,465
TOTAL OTHER FINANCING SOURCES (USES)	0	(28,483)	(28,483)		21,000	21,000	0	(7,483)	(7,483)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	135,868	(39,472)	(175,340)	(6,933)	4,671	11,604	128,935	(34,801)	(163,736)
FUND BALANCES - JULY 1	238,918	223,929	(14,989)	8,233	13,079	4,846	247,151	237,008	(10,143)
FUND BALANCES - JUNE 30	\$ 374,786	\$ 184,457	\$ (190,329)	\$ 1,300	\$ 17,750	\$ 16,450	\$ 376,086	\$ 202,207	\$ (173,879)

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

EVENING SHADE SCHOOL DISTRICT NO. 24
SHARP COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 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 Evening Shade School District (District). The District's financial statements reflect all funds and accounts directly under the control of the District. There are no component units.

B. Basis of Presentation - Fund Accounting

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

Governmental Funds

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

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

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Funds

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

Account Groups

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

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

C. Basis of Accounting

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

EVENING SHADE SCHOOL DISTRICT NO. 24
SHARP COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. General Fixed Assets

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

E. Property Taxes

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

F. Inventories

Inventories are considered expenditures when purchased.

G. Liability for Compensated Absences

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

H. Fund Equity

Fund Balance - Undesignated fund balance indicates that portion of fund equity 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 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.

J. Encumbrances

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

NOTE 2: Budget Versus Actual

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers because only interfund transfers are reported at the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types (Exhibit C).

EVENING SHADE SCHOOL DISTRICT NO. 24
SHARP COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 3: Public Fund Deposits

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured, Collateralized	132,088	222,945
Total Deposits	\$ 232,088	\$ 322,945

The above total deposits do not include cash on hand in the amount of \$200.

NOTE 4: Changes in General Fixed Assets

	Balance July 1, 2002	Additions	Deletions	Reclassi- fications	Balance June 30, 2003
Land	\$ 35,300	\$ 21,000	\$ 21,000		\$ 35,300
Buildings	1,677,919		5,142		1,672,777
Improvements other than buildings	9,425				9,425
Equipment	493,242	68,896	60,779		501,359
Totals	\$ 2,215,886	\$ 89,896	\$ 86,921	\$ 0	\$ 2,218,861

NOTE 5: Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2003	Maturities To June 30, 2003
11/1/99	6/1/26	5.1 - 6%	\$ 797,800	\$ 732,800	\$ 65,000
10/18/99	5/1/07	5.85%	20,000	10,000	10,000
6/19/00	11/1/04	5.85%	27,000	10,800	16,200
2/20/01	11/1/05	5.85%	22,650	13,590	9,060
6/25/01	11/1/08	5.85%	25,000	18,750	6,250
7/19/02	7/19/07	6.5%	45,465	38,196	7,269
Totals			\$ 937,915	\$ 824,136	\$ 113,779

EVENING SHADE SCHOOL DISTRICT NO. 24
SHARP COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6: Changes in Long-term Debt

	Balance July 1, 2002	Issued	Retired	Balance June 30, 2003
Bonds payable	\$ 747,800		\$ 15,000	\$ 732,800
Certificates of indebtedness	74,075		20,935	53,140
Installment contracts		\$ 45,465	7,269	38,196
Totals	\$ 821,875	\$ 45,465	\$ 43,204	\$ 824,136

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

Year Ended June 30,	Principal	Interest	Total
2004	\$ 41,792	\$ 46,832	\$ 88,624
2005	44,563	44,437	89,000
2006	39,766	42,061	81,827
2007	35,880	39,934	75,814
2008	24,010	38,168	62,178
To Maturity	638,125	411,017	1,049,142
Totals	\$ 824,136	\$ 622,449	\$ 1,446,585

NOTE 7: Retirement Plan

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 12%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$120,032, \$108,919 and \$101,578, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$8,377, \$5,333 and \$6,245, respectively, equal to the required contributions for each year.

EVENING SHADE SCHOOL DISTRICT NO. 24
SHARP COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 8: Subsequent Events

- (a) On July 1, 2003, the District received proceeds of \$144,000 from certificates of indebtedness to purchase three (3) buses.
- (b) On August 1, 2003, the District issued refunding and construction bonds of \$1,105,600.
- (c) On November 12, 2003, the District issued construction bonds of \$130,881 under the guidelines of the Qualified Zone Academy Bonds program.