

Holly Grove School District No. 7

Monroe County, Arkansas

General Purpose Financial Statements and Other Reports June 30, 2000

LEGISLATIVE JOINT AUDITING COMMITTEE



HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
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Senate Co-Chair
Rep. Danny W. Ferguson
House Co-Chair
Sen. Henry "Hank" Wilkins, IV
Senate Co-Vice Chair
Rep. Tommy Roebuck
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Holly Grove School District No. 7 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements of the Holly Grove School District No. 7 (the "District"), as of and for the year ended June 30, 2000, 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, 2000, 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 March 15, 2001 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents, including the schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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
March 15, 2001
EDSD26000

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Holly Grove School District No. 7 and School Board Members
Legislative Joint Auditing Committee

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of the Holly Grove School District No. 7. This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), the United States Office of Management and Budget (OMB), the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. Section I of this letter is designed to satisfy certain requirements for compliance and internal control over financial reporting, whereas, Section II is designed to satisfy certain requirements for compliance requirements applicable to each major federal award program and internal control over compliance in accordance with OMB Circular A-133.

SECTION I: REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general purpose financial statements of the Holly Grove School District No. 7 (the "District"), as of and for the year ended June 30, 2000, and have issued our report thereon dated March 15, 2001. 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, state and federal laws and regulations, and federal contracts and grants, 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 matter(s) were reported to School District management in a separate letter.

AUDIT FINDING

Reportable Condition

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

SECTION II: REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Holly Grove School District No. 7 (the "District") with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2000. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs - Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, the federal awarding agencies and pass-through entities 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
March 15, 2001

HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS

Exhibit A

COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000

	Governmental Fund Types			Fiduciary	Account Groups		Totals
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt	(Memorandum Only)
ASSETS							
Cash	\$ 112,597	\$ 18,169	\$ 50,652	\$ 2,662			\$ 184,080
Investments	200,000						200,000
Accounts receivable		26,289					26,289
Land					\$ 14,530		14,530
Buildings					1,311,815		1,311,815
Improvements other than buildings					38,884		38,884
Equipment					491,129		491,129
Amount to be provided for retirement of general long-term debt						\$ 678,975	678,975
TOTAL ASSETS	\$ 312,597	\$ 44,458	\$ 50,652	\$ 2,662	\$ 1,856,358	\$ 678,975	\$ 2,945,702
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 4,591	\$ 4,276	\$ 17,377				\$ 26,244
Due student groups				\$ 2,662			2,662
Bonds payable						\$ 345,000	345,000
Certificates of indebtedness						9,584	9,584
Postdated warrants						242,084	242,084
Capital leases						76,307	76,307
Installment contracts						6,000	6,000
Total Liabilities	4,591	4,276	17,377	2,662		678,975	707,881
Fund Equity:							
Investment in general fixed assets					\$ 1,856,358		1,856,358
Fund balances:							
Unreserved:							
Undesignated	308,006	40,182	33,275				381,463
Total Fund Equity	308,006	40,182	33,275		1,856,358		2,237,821
TOTAL LIABILITIES AND FUND EQUITY	\$ 312,597	\$ 44,458	\$ 50,652	\$ 2,662	\$ 1,856,358	\$ 678,975	\$ 2,945,702

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

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2000

Exhibit B

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Current taxes	\$ 426,156				\$ 426,156
Delinquent taxes and land redemption	35,130				35,130
State assistance	1,078,094	\$ 1,728	\$ 8,138		1,087,960
Federal assistance	49,794	604,129			653,923
Activity revenues	34,857				34,857
Meal sales		4,593			4,593
Interest on investments	19,539				19,539
Other revenues	26,685	3,114			29,799
TOTAL REVENUES	1,670,255	613,564	8,138		2,291,957
EXPENDITURES					
Regular programs	699,782	16,932		\$ 108,585	825,299
Special education	85,832	14,779			100,611
Vocational education	119,789			3,523	123,312
Compensatory education	32,258	148,862			181,120
Other instructional programs	11,817	105,096			116,913
Support services	588,558	307,864			896,422
Community services		26,214			26,214
Non-program charges	18,775	980			19,755
Activity expenditures	37,806				37,806
Capital outlay				23,493	23,493
Debt service:					
Principal retirement	34,831		25,000		59,831
Interest and fiscal charges	11,219		21,698		32,917
TOTAL EXPENDITURES	1,640,667	620,727	46,698	135,601	2,443,693

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2000

Exhibit B

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 29,588	\$ (7,163)	\$ (38,560)	\$ (151,736)
OTHER FINANCING SOURCES (USES)				
Transfers in			38,560	38,560
Transfers out	(38,560)			(38,560)
Sale of fixed assets	500			500
Compensation for loss of fixed assets	3,240			3,240
Proceeds from postdated warrants				152,500
Proceeds from installment contracts	6,000			6,000
TOTAL OTHER FINANCING SOURCES (USES)	(28,820)		38,560	162,240
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	768	(7,163)		16,899
FUND BALANCES - JULY 1	307,238	47,345		370,959
FUND BALANCES - JUNE 30	\$ 308,006	\$ 40,182	\$ 0	\$ 381,463

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

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS

Exhibit C

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2000

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Current taxes	\$ 427,118	\$ 426,156	\$ (962)
Delinquent taxes and land redemption	33,000	35,130	2,130
State assistance	1,062,499	1,087,960	25,461
Federal assistance	219,846	653,923	434,077
Activity revenues		34,857	34,857
Meal sales		4,593	4,593
Interest on investments	20,000	19,539	(461)
Other revenues	2,800	29,799	26,999
	<u>1,765,263</u>	<u>2,291,957</u>	<u>526,694</u>
TOTAL REVENUES			
EXPENDITURES			
Regular programs	693,998	825,299	(131,301)
Special education	86,240	100,611	(14,371)
Vocational education	119,441	123,312	(3,871)
Compensatory education	154,077	181,120	(27,043)
Other instructional programs	13,817	116,913	(103,096)
Support services	627,638	896,422	(268,784)
Community services		26,214	(26,214)
Non-program charges	3,370	19,755	(16,385)
Activity expenditures		37,806	(37,806)
Capital outlay	11,238	23,493	(12,255)
Debt service:			
Principal retirement	60,028	59,831	197
Interest and fiscal charges	13,501	32,917	(19,416)
Scholarships awarded			
TOTAL EXPENDITURES	<u>1,783,348</u>	<u>2,443,693</u>	<u>660,345</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(18,085)</u>	<u>(151,736)</u>	<u>(133,651)</u>

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS

Exhibit C

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2000

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES)			
Transfers in		\$ 38,560	\$ 38,560
Transfers out		(38,560)	(38,560)
Sale of fixed assets		500	500
Compensation for loss of fixed assets		3,240	3,240
Proceeds from postdated warrants		152,500	152,500
Proceeds from installment contracts		<u>6,000</u>	<u>6,000</u>
 TOTAL OTHER FINANCING SOURCES (USES)		 <u>162,240</u>	 <u>162,240</u>
 EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	 \$ (18,085)	 10,504	 28,589
 FUND BALANCES - JULY 1	 <u>366,091</u>	 <u>370,959</u>	 <u>4,868</u>
 FUND BALANCES - JUNE 30	 <u>\$ 348,006</u>	 <u>\$ 381,463</u>	 <u>\$ 33,457</u>

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

HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

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 Holly Grove School District (District). The District is a member of the Great Rivers Educational Cooperative located in Helena, Arkansas.

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 accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. 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 - This group of accounts is established to account for all fixed assets of the entity.

General Long-term Debt - This group of accounts is established to account for all long-term debt of the entity.

HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of Accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are generally recognized under the modified accrual basis when the related fund liability is incurred. Exceptions to the general rule include: (1) principal and interest on general long-term debt which is recognized when due; and (2) prepaid expenses, which are not recorded. Federal grants and entitlements are recognized as revenues when received, with the unearned, unexpended balance recognized as a fund balance for financial statement presentation purposes, except for federal grants that are recognized as revenues when earned.

D. General Fixed Assets

General fixed assets purchased are recorded as expenditures at the time of purchase. Such assets are capitalized at cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs and installation costs) in the general fixed assets group of accounts. Gifts or contributions are generally recorded in the general fixed assets group of accounts at fair market value at the time received. Library holdings and textbooks are not capitalized by the District. No depreciation has been provided on general fixed assets.

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. No accrual or recognition of taxes receivable is reflected in the financial statements as the amount measurable and available is considered to be immaterial.

F. Investments

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

G. Inventories

Inventory items are considered expenditures when purchased. This is an acceptable alternative due to the insignificant amounts involved.

H Liability for Compensated Absences

Generally accepted accounting principles require an employer to accrue a liability for employees' rights to receive compensation for future absences if certain conditions are met. The accompanying financial statements do not provide for this liability as the small number of district personnel eligible for compensated absences indicates an immaterial obligation on the part of the District.

HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Fund Equity

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

J. Budget and Budgetary Accounting

The District is required by the State Department of Education to prepare a budget. The budget is prepared on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles. The District also is required to budget certain portions of local taxes, which are collected in the succeeding fiscal year. This procedure, while not in accordance with generally accepted accounting principles, does not have a material effect on the financial statements taken as a whole.

The following policies and procedures are established by the State Department of Education for preparing and utilizing the annual budget:

1. Prior to September 15, the District is required to submit a proposed budget for the upcoming year.
2. Upon approval by the State Department of Education, the District adopts the budget and integrates it into their accounting and reporting system as a management control device.
3. The District is legally required to have a budget although it is not intended to be legally restrictive.
4. Budget amendments are not required to be submitted for approval to the Department of Education.
5. The District is not required to budget the revenues and expenditures of the food services funds and the activity funds. Certain transfers among funds are also not budgeted.

K. Encumbrances

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

NOTE 2: Memorandum Totals

Combined financial statements of fund types and account groups have a "total" column that aggregates the columnar statements by fund type and account group. The total column is captioned "Memorandum Only" because the total column on a combined financial statement is not comparable to a consolidation.

NOTE 3: Budget Versus Actual - Exhibit C

Exhibit C includes revenues and expenditures of the activity and food services funds and certain transfers among funds. However, the District does not budget these activities.

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2000

NOTE 4: 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/FSLIC)	\$ 110,720	\$ 111,695
Uninsured, Collateralized	73,360	208,491
Total Deposits	\$ 184,080	\$ 320,186

NOTE 5: Public Fund Investments

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

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of deposit	\$ 200,000	\$ 0	\$ 0	\$ 200,000	\$200,000

NOTE 6: Changes in General Fixed Assets

A summary of changes in general fixed assets is as follows:

	Balance July 1, 1999	Additions	Deletions	Balance June 30, 2000
Land	\$ 14,530			\$ 14,530
Buildings	1,301,134	\$ 10,681		1,311,815
Improvements other than buildings	26,072	12,812		38,884
Equipment	474,459	35,560	\$ 18,890	491,129
Totals	\$ 1,816,195	\$ 59,053	\$ 18,890	\$ 1,856,358

HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 7: Long-term Debt Issued and Outstanding

Long-term liabilities are payable out of future income of the District. In order to liquidate the principal and interest on the bonded debt, the District has pledged 7.8 mills of the total 28 mill tax levy of the District. 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, 2000</u>	<u>Maturities To June 30, 2000</u>
12/01/94	06/01/10	5.25-6.25%	\$ 483,150	\$ 345,000	\$ 138,150
06/14/96	11/01/00	7.00%	47,884	9,584	38,300
02/25/97	12/13/02	5.98%	55,000	29,474	25,526
05/07/98	11/07/05	5.47%	9,300	7,143	2,157
08/06/98	08/06/06	5.15%	100,000	89,584	10,416
08/17/98	11/01/05	5.30%	41,480	31,356	10,124
11/12/98	11/02/08	5.20%	9,475	8,334	1,141
09/15/99	09/15/02	5.50%	6,000	6,000	
02/08/00	02/08/08	5.80%	152,500	152,500	
Totals			<u>\$ 904,789</u>	<u>\$ 678,975</u>	<u>\$ 225,814</u>

NOTE 8: Changes in Long-term Debt

The changes in long-term debt are as follows:

	<u>Balance July 1, 1999</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2000</u>
Bonds payable	\$ 370,000		\$ 25,000	\$ 345,000
Certificates of indebtedness	19,159		9,575	9,584
Postdated warrants	100,000	\$ 152,500	10,416	242,084
Capital leases	91,147		14,840	76,307
Installment contracts		6,000		6,000
Totals	<u>\$ 580,306</u>	<u>\$ 158,500</u>	<u>\$ 59,831</u>	<u>\$ 678,975</u>

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>
2001	\$ 78,631	\$ 38,578	\$ 117,209
2002	76,509	34,455	110,964
2003	79,110	30,234	109,344
2004	68,610	25,838	94,448
2005	75,729	22,010	97,739
To Maturity	<u>300,386</u>	<u>48,326</u>	<u>348,712</u>
Totals	<u>\$ 678,975</u>	<u>\$ 199,441</u>	<u>\$ 878,416</u>

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2000

NOTE 9: Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2000
School renovations, security alarm and intercom system	\$ 55,000
School renovations	9,300
Lighting equipment	9,475
(1) 1998 bus	41,480
Total	\$ 115,255
	June 30, 2000
Total Minimum Lease Payments	\$ 89,391
Less: Amount Representing Interest	13,084
Total Present Value of Net Minimum Lease Payments	\$ 76,307

NOTE 10: 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 code to contribute 6% of their salary. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 12%. Effective July 1, 1996, the District paid the employer contribution rate for any eligible employee in accordance with rules and regulations established by the Teacher Retirement Board of Directors. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2000, 1999 and 1998 were \$106,579, \$109,101 and \$100,856, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2000, 1999, and 1998 were \$26,871, \$19,482 and \$20,541, respectively, equal to the required contributions for each year.

HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 10: 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 code to contribute 6% of their salary. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2000, 1999 and 1998 were \$814, \$1,626 and \$1,685, respectively, equal to the required contributions for each year.

NOTE 11: Prior Year Restatement

The fund balance at July 1, 1999 was increased in the General Fund and decreased in the Capital Projects Fund by \$34,002 because of a misstatement in cash in the prior audit.

MONROE COUNTY, ARKANSAS
HOLLY GROVE SCHOOL DISTRICT NO. 7
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000

Schedule 1

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	48-03	\$ 55,276
National School Lunch Program	10.555	48-03	105,680
Special Milk Program for Children	10.556	48-03	<u>160,956</u>
Total State Department of Education			<u>160,956</u>
Passed Through State Department of Human Services:			
Summer Food Service Program for Children	10.559	48-03	9,505
National School Lunch Program (Note 2)	10.555	48-03	8,036
Total State Department of Human Services			<u>17,541</u>
TOTAL CHILD NUTRITION CLUSTER			<u>178,497</u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - LEA	84.010	48-03	164,989
Special Education - Grant to States	84.027	48-03	16,533
Safe and Drug Free School and Communities- Professional Development	84.186	48-03	17,450
Vocational Education - Basic Grants to States	84.048		
Eisenhower Professional Development State Grants	84.281	48-03	1,000
Innovative Education Program Strategies	84.298	48-03	2,393
Goals 2000 - State and Local Educational Systemic Improvement Grants	84.276	48-03	12,369
Twenty-First Century Community Learning Centers	84.287	48-03	222,320
Technology Literacy Challenge Fund Grants	84.318	48-03	5
Class Size Reduction	84.340	48-03	<u>15,073</u>
Total U. S. Department of Education			<u>452,132</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 630,629</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Holly Grove School District No. 7 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits to States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

Note 2: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.

MONROE COUNTY, ARKANSAS
 HOLLY GROVE SCHOOL DISTRICT NO. 7
 FEDERAL AWARD PROGRAMS-
 FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2000

Schedule 2

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted yes no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major program

CFDA Numbers	Name of Federal Program or Cluster
10.533,10.555,10.559	Nutrition Cluster
84.010	Title I Grants-LEA

Dollar threshold used to distinguish between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee? yes no

MONROE COUNTY, ARKANSAS
HOLLY GROVE SCHOOL DISTRICT NO. 7
FEDERAL AWARD PROGRAMS-
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000

Schedule 2

SECTION II - FINANCIAL STATEMENT FINDINGS

00-1. SEGREGATION OF DUTIES

Specific Requirement - Duties pertaining to cash transactions should be adequately segregated to reduce the opportunities for any individual in the normal course of his/her duties to both perpetuate and conceal errors or irregularities.

Condition - Duties pertaining to cash transactions were not adequately segregated. This condition could be applicable to the District's federal programs.

Effect - The District had inadequate control over cash transactions.

Cause - Duties pertaining to cash transactions were not adequately segregated due to a limited number of personnel.

Recommendation - Segregation of duties relating to cash transactions should be established to the extent possible.

Response - We concur with the recommendation.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings and questioned costs noted.

MONROE COUNTY, ARKANSAS
HOLLY GROVE SCHOOL DISTRICT NO. 7
FEDERAL AWARD PROGRAMS
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000

Schedule 3

There are no findings in the prior audit.