

Holly Grove School District No. 7

Monroe County, Arkansas

General Purpose Financial Statements and Other Reports

June 30, 2002



HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
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Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. David Evans
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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, 2002, 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, 2002, 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 August 4, 2003 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.

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
August 4, 2003
EDSD26002

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Lavery
Senate Co-Vice Chair
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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, 2002, and have issued our report thereon dated August 4, 2003. 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 number one (1) below to be a material weakness.

AUDIT FINDINGS

Reportable Condition(s)

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

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.

2. The District was approved for a School Renovation Grant (CFDA 84.352) totaling \$143,260 to renovate school facilities. The District entered into two (2) contracts, one was for heating and air conditioning units totaling \$105,260, and a second for re-roofing the band, high school, and auditorium buildings totaling \$28,500. The District failed to obtain bid and performance bonds for the above mentioned projects.

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, 2002. 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, 2002.

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

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
August 4, 2003

HOLLY GROVE SCHOOL DISTRICT NO. 7

Exhibit A

MONROE COUNTY, ARKANSAS

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

JUNE 30, 2002

	Governmental Fund Types		Fiduciary	Account Groups		Totals
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
ASSETS						
Cash	\$ 313,795	\$ 83,275	\$ 3,971			\$ 401,041
Accounts receivable		24,575				24,575
Due from other funds	6,825					6,825
Land				\$ 14,530		14,530
Buildings				1,311,815		1,311,815
Improvements other than buildings				38,884		38,884
Equipment				544,087		544,087
Amount to be provided for retirement of general long-term debt					\$ 538,835	538,835
TOTAL ASSETS	\$ 320,620	\$ 107,850	\$ 3,971	\$ 1,909,316	\$ 538,835	\$ 2,880,592
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 4,447	\$ 17,638				\$ 22,085
Due student groups			\$ 3,971			3,971
Due to other funds		6,825				6,825
Bonds payable					\$ 305,000	305,000
Postdated warrants					187,677	187,677
Capital leases					44,049	44,049
Installment contracts					2,109	2,109
Total Liabilities	4,447	24,463	3,971		538,835	571,716

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS

Exhibit A

COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

	Governmental Fund Types		Fiduciary	Account Groups		Totals
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
LIABILITIES AND FUND EQUITY (Continued)						
Fund Equity:						
Investment in general fixed assets				\$ 1,909,316		\$ 1,909,316
Fund balances:						
Unreserved:						
Undesignated	\$ 316,173	\$ 83,387				399,560
Total Fund Equity	<u>316,173</u>	<u>83,387</u>		<u>1,909,316</u>		<u>2,308,876</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 320,620</u>	<u>\$ 107,850</u>	<u>\$ 3,971</u>	<u>\$ 1,909,316</u>	<u>\$ 538,835</u>	<u>\$ 2,880,592</u>

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, 2002

Exhibit B

	General	Special Revenue	Debt Service	Totals (Memorandum Only)
REVENUES				
Property taxes	\$ 446,286			\$ 446,286
State assistance	1,135,786	\$ 1,523	\$ 6,403	1,143,712
Federal assistance		750,709		750,709
Activity revenues	31,230			31,230
Meal sales		1,178		1,178
Interest on investments	8,015		839	8,854
Other revenues	52,594	226		52,820
TOTAL REVENUES	1,673,911	753,636	7,242	2,434,789
EXPENDITURES				
Regular programs	664,696	19,685		684,381
Special education	84,205	15,347		99,552
Workforce education	86,636			86,636
Compensatory education	31,303	152,607		183,910
Other instructional programs	10,296	99,358		109,654
Support services	558,700	406,655		965,355
Community services		31,734		31,734
Non-programmed costs	6,994			6,994
Activity expenditures	30,772			30,772
Debt service:				
Principal retirement	46,509		31,000	77,509
Interest and fiscal charges	15,548		6,715	22,263
TOTAL EXPENDITURES	1,535,659	725,386	37,715	2,298,760
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	138,252	28,250	(30,473)	136,029
OTHER FINANCING SOURCES (USES)				
Transfers in			39,927	39,927
Transfers out	(39,927)			(39,927)
Proceeds from refunding bond issue			336,000	336,000
Compensation for loss of fixed assets	11,412			11,412
Payment to refunding bond escrow agent			(329,454)	(329,454)
Bond issuance costs			(16,000)	(16,000)
TOTAL OTHER FINANCING SOURCES (USES)	(28,515)		30,473	1,958
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	109,737	28,250		137,987
FUND BALANCES - JULY 1	206,436	55,137		261,573
FUND BALANCES - JUNE 30	\$ 316,173	\$ 83,387	\$ 0	\$ 399,560

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 - BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2002

Exhibit C

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 470,122	\$ 446,286	\$ (23,836)
State assistance	1,128,388	1,143,712	15,324
Federal assistance	660,002	750,709	90,707
Activity revenues		31,230	31,230
Meal sales	2,000	1,178	(822)
Interest on investments		8,854	8,854
Other revenues	2,800	52,820	50,020
TOTAL REVENUES	2,263,312	2,434,789	171,477
EXPENDITURES			
Regular programs	699,204	684,381	14,823
Special education	105,370	99,552	5,818
Workforce education	108,097	86,636	21,461
Compensatory education	185,584	183,910	1,674
Other instructional programs	109,598	109,654	(56)
Support services	878,138	965,355	(87,217)
Community services	32,465	31,734	731
Non-programmed costs	400	6,994	(6,594)
Activity expenditures		30,772	(30,772)
Debt service:			
Principal retirement	92,057	77,509	14,548
Interest and fiscal charges	25,514	22,263	3,251
TOTAL EXPENDITURES	2,236,427	2,298,760	(62,333)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	26,885	136,029	109,144
OTHER FINANCING SOURCES (USES)			
Transfers in	855,811	39,927	(815,884)
Transfers out	(855,811)	(39,927)	815,884
Proceeds from refunding bond issue		336,000	336,000
Compensation for loss of fixed assets		11,412	11,412
Payment to refunding bond escrow agent		(329,454)	(329,454)
Bond issuance costs		(16,000)	(16,000)
TOTAL OTHER FINANCING SOURCES (USES)	0	1,958	1,958
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	26,885	137,987	111,102
FUND BALANCES - JULY 1	248,814	261,573	12,759
FUND BALANCES - JUNE 30	\$ 275,699	\$ 399,560	\$ 123,861

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, 2002

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'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.

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.

HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

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. Interfund Receivables and Payables

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

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 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.

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2002

NOTE 2: Budget Versus Actual

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Governmental Fund Types (Exhibit C) includes revenues and expenditures of the activity funds, which are not budgeted by the District.

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)	\$ 108,046	\$ 109,112
Uninsured, Collateralized	292,995	458,988
Total Deposits	\$ 401,041	\$ 568,100

NOTE 4: Changes in General Fixed Assets

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Land	\$ 14,530			\$ 14,530
Buildings	1,311,815			1,311,815
Improvements other than buildings	38,884			38,884
Equipment	541,731	\$ 4,385	\$ 2,029	544,087
Totals	\$ 1,906,960	\$ 4,385	\$ 2,029	\$ 1,909,316

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, 2002	Maturities To June 30, 2002
2/25/1997	12-13-02	5.98%	\$ 55,000	\$ 10,400	\$ 44,600
4/16/1998	11-1-05	5.30%	41,480	21,963	19,517
5/7/1998	11-7-05	5.47%	9,300	5,011	4,289
8/6/1998	8-6-06	5.15%	100,000	67,115	32,885
11/12/1998	11-2-08	5.20%	9,475	6,675	2,800
9/15/1999	9-15-02	5.50%	6,000	2,109	3,891
2/8/2000	2-8-08	5.80%	152,500	120,562	31,938
11/1/2001	6-1-10	2.9-3.75%	336,000	305,000	31,000
Totals			\$ 709,755	\$ 538,835	\$ 170,920

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2002

NOTE 6: Changes in Long-term Debt

	Balance July 1, 2001	Issued	Retired	Balance June 30, 2002
Bonds payable	\$ 320,000	\$ 336,000	\$ 351,000	\$ 305,000
Postdated warrants	215,613		27,936	187,677
Capital leases	60,625		16,576	44,049
Installment contracts	4,106		1,997	2,109
Totals	\$ 600,344	\$ 336,000	\$ 397,509	\$ 538,835

Includes \$320,000 early retirement of debt - See Note 9.

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

Year Ended June 30,	Principal	Interest	Total
2003	\$ 84,111	\$ 23,184	\$ 107,295
2004	73,610	19,424	93,034
2005	75,729	16,289	92,018
2006	77,964	12,934	90,898
2007	77,657	9,456	87,113
To Maturity	149,764	10,986	160,750
Totals	\$ 538,835	\$ 92,273	\$ 631,108

NOTE 7: Capital Leases

The District has executed the following capital leases:

Class of Property	June 30, 2002
School renovations, security alarm and intercom system	\$ 55,000
Roof repairs	9,300
Lighting equipment	9,475
(1) 1998 bus	41,480
Total	\$ 115,255

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2002

NOTE 7: Capital Leases (Continued)

	June 30, 2002
Total Minimum Lease Payments	\$ 49,584
Less: Amount Representing Interest	5,535
Total Present Value of Net Minimum Lease Payments	\$ 44,049

NOTE 8: 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 12%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2002, 2001 and 2000 were \$107,802, \$102,064 and \$106,579, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2002, 2001 and 2000 were \$28,840, \$31,681 and \$26,871, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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

HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 8: Retirement Plans (Continued)

Arkansas Public Employees Retirement System (Continued)

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, 2002, 2001 and 2000 were \$429, \$608 and \$814, respectively, equal to the required contributions for each year.

NOTE 9: Refunding Bond Issue

On November 1, 2001, the District issued \$336,000 in general obligation bonds with interest from 2.9% to 3.75% to advance refund \$320,000 of outstanding debt with interest rates from 5.25% to 6.25%.

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS
 EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2002

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	\$ 48,358
National School Lunch Program	10.555	48-03	93,366
Total State Department of Education			<u>141,724</u>
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	48-03	8,529
Summer Food Service Program for Children	10.559	48-03	10,464
Total State Department of Human Services			<u>18,993</u>
TOTAL CHILD NUTRITION CLUSTER			<u>160,717</u>
 OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Twenty-First Century Community Learning Centers	84.287	48-03	231,725
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	48-03	152,157
Special Education - Grants to States	84.027	48-03	20,225
Safe and Drug-Free Schools and Communities - State Grants	84.186	48-03	6,790
Education for Homeless Children and Youth	84.196	48-03	16,887
Innovative Education Program Strategies	84.298	48-03	2,393
Class Size Reduction	84.340	48-03	19,686
School Renovation Grants	84.352A	48-03	<u>119,950</u>
TOTAL PROGRAMS			<u>569,813</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 730,530</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 of 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.

HOLLY GROVE SCHOOL DISTRICT NO. 7
 MONROE COUNTY, ARKANSAS
 FEDERAL AWARD PROGRAMS -
 FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2002

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 programs:

CFDA Numbers	Name of Federal Programs or Cluster
84.010	Title I Grants - LEA
84.287	Twenty-First Century Community Learning Centers

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

Auditee qualified as low-risk auditee? yes no

HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Schedule 2

SECTION II - FINANCIAL STATEMENT FINDINGS

2002-1. 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.

HOLLY GROVE SCHOOL DISTRICT NO. 7
MONROE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002

Schedule 3

There were no findings in the prior audit.