

# **Holly Grove School District No. 7**

**Monroe County, Arkansas**

## **General Purpose Financial Statements and Other Reports**

**June 30, 2003**



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MONROE COUNTY, ARKANSAS  
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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

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, 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 April 15, 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.

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  
April 15, 2004  
EDSD26003

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

### 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, 2003, and have issued our report thereon dated April 15, 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, 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 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, 2003. 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, 2003.

### 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  
April 15, 2004

HOLLY GROVE SCHOOL DISTRICT NO. 7  
MONROE COUNTY, ARKANSAS

Exhibit A

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

	Governmental Fund Types			Fiduciary	Account Groups		Totals
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt	(Memorandum Only)
<b>ASSETS</b>							
Cash	\$ 370,515	\$ 72,583	\$ 122,209	\$ 4,533			\$ 569,840
Accounts receivable		8,664					8,664
Due from other funds	4,322						4,322
Land					\$ 14,530		14,530
Buildings					1,311,815		1,311,815
Improvements other than buildings					38,884		38,884
Equipment					597,759		597,759
Amount to be provided for retirement of general long-term debt						\$ 575,724	575,724
<b>TOTAL ASSETS</b>	<b>\$ 374,837</b>	<b>\$ 81,247</b>	<b>\$ 122,209</b>	<b>\$ 4,533</b>	<b>\$ 1,962,988</b>	<b>\$ 575,724</b>	<b>\$ 3,121,538</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Accounts payable		\$ 2,831					2,831
Due student groups				\$ 4,533			\$ 4,533
Due to other funds		4,322					4,322
Bonds payable						\$ 270,000	270,000
Postdated warrants						279,195	279,195
Capital leases						26,529	26,529
<b>Total Liabilities</b>		<b>7,153</b>		<b>4,533</b>		<b>575,724</b>	<b>587,410</b>
<b>Fund Equity:</b>							
Investment in general fixed assets					\$ 1,962,988		1,962,988
<b>Fund balances:</b>							
<b>Unreserved:</b>							
Undesignated	\$ 374,837	74,094	\$ 122,209				571,140
<b>Total Fund Equity</b>	<b>374,837</b>	<b>74,094</b>	<b>122,209</b>		<b>1,962,988</b>		<b>2,534,128</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 374,837</b>	<b>\$ 81,247</b>	<b>\$ 122,209</b>	<b>\$ 4,533</b>	<b>\$ 1,962,988</b>	<b>\$ 575,724</b>	<b>\$ 3,121,538</b>

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, 2003

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
<b>REVENUES</b>					
Property taxes	\$ 491,483				\$ 491,483
State assistance	1,060,061	\$ 1,375	\$ 5,303		1,066,739
Federal assistance	60,315	628,358			688,673
Activity revenues	25,303				25,303
Meal sales		1,206			1,206
Interest on investments	10,557				10,557
Other revenues	33,670				33,670
<b>TOTAL REVENUES</b>	<b>1,681,389</b>	<b>630,939</b>	<b>5,303</b>		<b>2,317,631</b>
<b>EXPENDITURES</b>					
Regular programs	588,160	200			588,360
Special education	78,504	31,519			110,023
Workforce education	93,945				93,945
Compensatory education	15,671	348,400			364,071
Other instructional programs	10,709	7,934			18,643
Support services	690,496	226,928			917,424
Community services		1,941			1,941
Non-programmed costs	13,569	23,310			36,879
Activity expenditures	26,233				26,233
Debt service:					
Principal retirement	49,110		35,000		84,110
Interest and fiscal charges	12,947		10,659		23,606
<b>TOTAL EXPENDITURES</b>	<b>1,579,344</b>	<b>640,232</b>	<b>45,659</b>		<b>2,265,235</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>102,045</b>	<b>(9,293)</b>	<b>(40,356)</b>		<b>52,396</b>



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, 2003

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
OTHER FINANCING SOURCES (USES)					
Transfers in			\$ 40,356	\$ 3,025	\$ 43,381
Transfers out	\$ (43,381)				(43,381)
Proceeds from postdated warrants				120,999	120,999
Net postdated warrants issuance costs				(1,815)	(1,815)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(43,381)</b>		<b>40,356</b>	<b>122,209</b>	<b>119,184</b>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	58,664	\$ (9,293)		122,209	171,580
FUND BALANCES - JULY 1	316,173	83,387			399,560
FUND BALANCES - JUNE 30	<u>\$ 374,837</u>	<u>\$ 74,094</u>	<u>\$ 0</u>	<u>\$ 122,209</u>	<u>\$ 571,140</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 -  
 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	\$ 540,032	\$ 491,483	\$ (48,549)				\$ 540,032	\$ 491,483	\$ (48,549)
State assistance	1,006,432	1,060,061	53,629	\$ 1,500	\$ 1,375	\$ (125)	1,007,932	1,061,436	53,504
Federal assistance	60,000	60,315	315	535,820	628,358	92,538	595,820	688,673	92,853
Activity revenues		25,303	25,303					25,303	25,303
Meal sales				1,000	1,206	206	1,000	1,206	206
Interest on investments	6,000	10,557	4,557				6,000	10,557	4,557
Other revenues	3,000	33,670	30,670				3,000	33,670	30,670
<b>TOTAL REVENUES</b>	<b>1,615,464</b>	<b>1,681,389</b>	<b>65,925</b>	<b>538,320</b>	<b>630,939</b>	<b>92,619</b>	<b>2,153,784</b>	<b>2,312,328</b>	<b>158,544</b>
EXPENDITURES									
Regular programs	586,659	588,160	(1,501)		200	(200)	586,659	588,360	(1,701)
Special education	83,954	78,504	5,450		31,519	(31,519)	83,954	110,023	(26,069)
Workforce education	101,647	93,945	7,702	1,200		1,200	102,847	93,945	8,902
Compensatory education	15,688	15,671	17	312,283	348,400	(36,117)	327,971	364,071	(36,100)
Other instructional programs	10,709	10,709		7,934	7,934		18,643	18,643	
Support services	667,755	690,496	(22,741)	204,834	226,928	(22,094)	872,589	917,424	(44,835)
Community services				3,235	1,941	1,294	3,235	1,941	1,294
Non-programmed costs	14,851	13,569	1,282	37,310	23,310	14,000	52,161	36,879	15,282
Activity expenditures		26,233	(26,233)					26,233	(26,233)
Debt service:									
Principal retirement	46,102	49,110	(3,008)				46,102	49,110	(3,008)
Interest and fiscal charges	14,516	12,947	1,569				14,516	12,947	1,569
<b>TOTAL EXPENDITURES</b>	<b>1,541,881</b>	<b>1,579,344</b>	<b>(37,463)</b>	<b>566,796</b>	<b>640,232</b>	<b>(73,436)</b>	<b>2,108,677</b>	<b>2,219,576</b>	<b>(110,899)</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	73,583	102,045	28,462	(28,476)	(9,293)	19,183	45,107	92,752	47,645
OTHER FINANCING SOURCES (USES) Transfers out	(39,912)	(43,381)	(3,469)				(39,912)	(43,381)	(3,469)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	33,671	58,664	24,993	(28,476)	(9,293)	19,183	5,195	49,371	44,176
FUND BALANCES - JULY 1	309,720	316,173	6,453	83,275	83,387	112	392,995	399,560	6,565
FUND BALANCES - JUNE 30	\$ 343,391	\$ 374,837	\$ 31,446	\$ 54,799	\$ 74,094	\$ 19,295	\$ 398,190	\$ 448,931	\$ 50,741

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, 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 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.

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 are 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, 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. 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.

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.

HOLLY GROVE SCHOOL DISTRICT NO. 7  
MONROE 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)	\$ 107,678	\$ 108,015
Uninsured, Collateralized	462,162	384,780
Total Deposits	\$ 569,840	\$ 492,795

NOTE 4: Changes in General Fixed Assets

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land	\$ 14,530			\$ 14,530
Buildings	1,311,815			1,311,815
Improvements other than buildings	38,884			38,884
Equipment	544,087	\$ 53,672		597,759
Totals	\$ 1,909,316	\$ 53,672	\$ 0	\$ 1,962,988

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
04/16/1998	11/01/2005	5.30%	\$ 41,480	\$ 16,890	\$ 24,590
05/07/1998	11/07/2005	5.47%	9,300	3,856	5,444
08/06/1998	08/06/2006	5.15%	100,000	55,005	44,995
11/12/1998	11/02/2008	5.20%	9,475	5,783	3,692
02/08/2000	02/08/2008	5.80%	152,500	103,191	49,309
11/01/2001	06/01/2010	2.90% to 3.75%	336,000	270,000	66,000
06/18/2003	06/18/2013	0.00%	120,999	120,999	
Totals			\$ 769,754	\$ 575,724	\$ 194,030

HOLLY GROVE SCHOOL DISTRICT NO. 7  
MONROE 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	\$ 305,000		\$ 35,000	\$ 270,000
Postdated warrants	187,677	\$ 120,999	29,481	279,195
Capital leases	44,049		17,520	26,529
Installment contracts	2,109		2,109	
<b>Totals</b>	<b>\$ 538,835</b>	<b>\$ 120,999</b>	<b>\$ 84,110</b>	<b>\$ 575,724</b>

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

Year Ended June 30,	Principal	Interest	Total
2004	\$ 73,610	\$ 19,424	\$ 93,034
2005	75,729	16,289	92,018
2006	77,964	12,934	90,898
2007	77,658	9,456	87,114
2008	64,171	6,096	70,267
To Maturity	206,592	4,890	211,482
<b>Totals</b>	<b>\$ 575,724</b>	<b>\$ 69,089</b>	<b>\$ 644,813</b>

NOTE 7: Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2003
Roof repairs	\$ 9,300
Lighting equipment	9,475
(1) 1998 Bus	41,480
<b>Total</b>	<b>\$ 60,255</b>
	<u>June 30, 2003</u>
Total Minimum Lease Payments	\$ 29,682
Less: Amount Representing Interest	3,153
<b>Total Present Value of Net Minimum Lease Payments</b>	<b>\$ 26,529</b>

HOLLY GROVE SCHOOL DISTRICT NO. 7  
MONROE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

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, 2003, 2002 and 2001 were \$84,971, \$107,802 and \$102,064, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$26,288, \$28,840 and \$31,681, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2003, 2002 and 2001 were \$367, \$429 and \$608, respectively, equal to the required contributions for each year.

NOTE 9: Subsequent Events

On December 1, 2003, the District issued Refunding and Construction Bonds in the amount of \$605,000.

NOTE 10: Qualified Zone Academy Bonds (QZAB)

The District issued Qualified Zone Academy Bonds (QZAB's) during the period. This is a new financing vehicle created by the Tax Relief Act of 1997. QZAB's do not generally require interest payments from the borrower. The eligible financial institution holding the bond receives a tax credit in lieu of interest payments. The principal is not due until the end of the term. The borrower makes deposits into a sinking fund account annually and the sinking fund will earn interest. The District borrowed \$120,999.34 using this method by issuing postdated warrants. The District will deposit into a sinking fund at Bank of America \$11,177.22 for ten years, depositing a total of \$111,777.22 into the sinking fund. This amount plus interest will be used to retire the debt on June 18, 2013, the maturity date.

HOLLY GROVE SCHOOL DISTRICT NO. 7  
 MONROE COUNTY, ARKANSAS  
 EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2003

Schedule 1

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	48-03	\$ 44,022
National School Lunch Program	10.555	48-03	80,380
Total State Department of Education			124,402
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	48-03	6,592
Summer Food Service Program for Children	10.559	48-03	7,153
Total State Department of Human Services			13,745
TOTAL CHILD NUTRITION CLUSTER			138,147
 <b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Twenty-First Century Community Learning Centers	84.287	48-03	11,962
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	48-03	211,071
Special Education - Grants to States	84.027	48-03	40,493
School Renovation Grants	84.352	48-03	23,310
Reading Excellence	84.338	48-03	167,007
Safe and Drug-Free Schools and Communities - State Grants	84.186	48-03	341
Education for Homeless Children and Youth	84.196	48-03	25,354
Rural Education	84.358	48-03	13,311
Innovative Education Program Strategies	84.298	48-03	48
Class Size Reduction	84.340	48-03	200
TOTAL OTHER PROGRAMS			493,097
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 631,244

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, 2003

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:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
84.010	Title I Grants - LEA
10.553/10.555/10.559	Child Nutrition Cluster

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, 2003

Schedule 2

**SECTION II - FINANCIAL STATEMENT FINDINGS**

2003-1. 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, 2003

Schedule 3

There were no findings in the prior audit.