

Scotland School District No. 4

Van Buren County, Arkansas

**General Purpose Financial Statements
and Other Reports
June 30, 2001**

LEGISLATIVE JOINT AUDITING COMMITTEE



SCOTLAND SCHOOL DISTRICT NO. 4
VAN BUREN COUNTY, ARKANSAS
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JUNE 30, 2001

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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

INDEPENDENT AUDITOR'S REPORT

Scotland School District No. 4 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements of the Scotland School District No. 4 (the "District"), as of and for the year ended June 30, 2001, 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, 2001, 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 July 11, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
July 11, 2002
EDSD38201

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
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Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Scotland School District No. 4 and School Board Members
Legislative Joint Auditing Committee

We have audited the general purpose financial statements of the Scotland School District No. 4 (the "District") as of and for the year ended June 30, 2001, and have issued our report thereon dated July 11, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. However, of the reportable conditions described above, we consider the finding below to be a material weakness.

AUDIT FINDINGS

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

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

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

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 11, 2002

SCOTLAND SCHOOL DISTRICT NO. 4

Exhibit A

VAN BUREN COUNTY, ARKANSAS

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

JUNE 30, 2001

	Governmental Fund Types				Fiduciary	Account Groups		Totals
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
ASSETS								
Cash	\$ 159,481	\$ 21,336	\$ 681	\$ 93,260	\$ 6,091			\$ 280,849
Investments	240,970							240,970
Land						\$ 11,500		11,500
Buildings						589,207		589,207
Improvements other than buildings						31,204		31,204
Equipment						479,803		479,803
Amount available in debt service funds							\$ 681	681
Amount to be provided for retirement of general long-term debt							174,087	174,087
TOTAL ASSETS	\$ 400,451	\$ 21,336	\$ 681	\$ 93,260	\$ 6,091	\$ 1,111,714	\$ 174,768	\$ 1,808,301
LIABILITIES AND FUND EQUITY								
Liabilities:								
Due student groups					\$ 6,091			\$ 6,091
Bonds payable							\$ 13,000	13,000
Certificates of indebtedness							41,999	41,999
Postdated warrants							84,213	84,213
Capital leases							35,556	35,556
Total Liabilities					6,091		174,768	180,859
Fund Equity:								
Investment in general fixed assets						\$ 1,111,714		\$ 1,111,714
Fund balances:								
Unreserved:								
Designated:								
Debt service			\$ 681					681
Undesignated	\$ 400,451	\$ 21,336		\$ 93,260				515,047
Total Fund Equity	400,451	21,336	681	93,260		1,111,714		1,627,442
TOTAL LIABILITIES AND FUND EQUITY	\$ 400,451	\$ 21,336	\$ 681	\$ 93,260	\$ 6,091	\$ 1,111,714	\$ 174,768	\$ 1,808,301

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

SCOTLAND SCHOOL DISTRICT NO. 4
VAN BUREN COUNTY, ARKANSAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
REVENUES					
Property taxes	\$ 100,428			\$ 5,631	\$ 106,059
State assistance	750,229	\$ 608			750,837
Federal assistance	57,177	93,129			150,306
Activity revenues	23,602				23,602
Meal sales		6,487			6,487
Interest on investments	33,103				33,103
Other revenues	6,339	4,664			11,003
TOTAL REVENUES	970,878	104,888		5,631	1,081,397
EXPENDITURES					
Regular programs	440,556	44,380			484,936
Special education	35,342	6,799			42,141
Workforce education	58,842	22,630			81,472
Compensatory education		22,293			22,293
Other instructional programs	6,426				6,426
Support services	420,320	69,554			489,874
Community services	12,647				12,647
Non-programmed costs	17,723	1,199			18,922
Activity expenditures	22,834				22,834
Debt service:					
Principal retirement	19,268		\$ 6,000		25,268
Interest and fiscal charges	8,310		1,910		10,220
TOTAL EXPENDITURES	1,042,268	166,855	7,910		1,217,033
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(71,390)	(61,967)	(7,910)	5,631	(135,636)

SCOTLAND SCHOOL DISTRICT NO. 4
VAN BUREN COUNTY, ARKANSAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

Exhibit B

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
OTHER FINANCING SOURCES (USES)					
Transfers in			\$ 8,794		\$ 8,794
Transfers out	\$ (8,794)				(8,794)
Refund of prior year expenditures	5,810				5,810
Certificates of indebtedness	41,999				41,999
Compensation for loss of fixed asset	1,195				1,195
TOTAL OTHER FINANCING SOURCES (USES)	40,210		8,794		49,004
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(31,180)	\$ (61,967)	884	\$ 5,631	(86,632)
FUND BALANCES - JULY 1	431,631	83,303	(203)	87,629	602,360
FUND BALANCES - JUNE 30	<u>\$ 400,451</u>	<u>\$ 21,336</u>	<u>\$ 681</u>	<u>\$ 93,260</u>	<u>\$ 515,728</u>

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

SCOTLAND SCHOOL DISTRICT NO. 4

Exhibit C

VAN BUREN COUNTY, ARKANSAS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 105,500	\$ 106,059	\$ 559
State assistance	716,591	750,837	34,246
Federal assistance	72,738	150,306	77,568
Activity revenues		23,602	23,602
Meal sales		6,487	6,487
Interest on investments	30,000	33,103	3,103
Other revenues	900	11,003	10,103
TOTAL REVENUES	925,729	1,081,397	155,668
EXPENDITURES			
Regular programs	466,789	484,936	(18,147)
Special education	42,501	42,141	360
Workforce education	86,710	81,472	5,238
Compensatory education	26,314	22,293	4,021
Other instructional programs	33,113	6,426	26,687
Support services	410,286	489,874	(79,588)
Community services	25,840	12,647	13,193
Non-programmed costs	24,000	18,922	5,078
Activity expenditures		22,834	(22,834)
Debt service:			
Principal retirement	27,430	25,268	2,162
Interest and fiscal charges	14,715	10,220	4,495
TOTAL EXPENDITURES	1,157,699	1,217,033	(59,334)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(231,970)	(135,636)	96,334
OTHER FINANCING SOURCES (USES)			
Transfers in		8,794	8,794
Transfers out		(8,794)	(8,794)
Refund of prior year expenditures	44,000	5,810	(38,190)
Certificates of indebtedness		41,999	41,999
Compensation for loss of fixed assets		1,195	1,195
TOTAL OTHER FINANCING SOURCES (USES)	44,000	49,004	5,004
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(187,970)	(86,632)	101,338
FUND BALANCES - JULY 1	528,866	602,360	73,494
FUND BALANCES - JUNE 30	\$ 340,896	\$ 515,728	\$ 174,832

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

SCOTLAND SCHOOL DISTRICT NO. 4
VAN BUREN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

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

B. Basis of Presentation - Fund Accounting

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

Governmental Funds

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

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

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

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

Fiduciary Funds

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

Account Groups

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

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

C. Basis of Accounting

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

SCOTLAND SCHOOL DISTRICT NO. 4
VAN BUREN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

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. Investments

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

G. Inventories

Inventories are considered expenditures when purchased.

H. Liability for Compensated Absences

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

I. Fund Equity

Fund Balance -

1. Designated fund - represents that portion of fund equity which indicates tentative plans for financial resource utilization in a future period.
2. Undesignated fund balance - indicates that portion of fund equity not reserved or designated.

J. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

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 reported in the accompanying financial statements.

SCOTLAND SCHOOL DISTRICT NO. 4
VAN BUREN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

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 and food service funds and certain transfers among funds. However, the District does not budget these activities.

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)	\$ 31,794	\$ 45,780

The above total deposits do not include cash in the amount of \$249,055 which was held in the Van Buren County Treasury.

NOTE 4: Public Fund Investments

The District's investments at June 30, 2001 included certificates of deposit in the amount of \$240,970 which were held in the Van Buren County Treasury.

NOTE 5: Changes in General Fixed Assets

	Balance July 1, 2000	Additions	Deletions	Reclassi- fications	Balance June 30, 2001
Land	\$ 11,500				\$ 11,500
Buildings	582,444	\$ 6,763			589,207
Improvements other than buildings	31,204				31,204
Equipment	385,269	94,534			479,803
Totals	\$ 1,010,417	\$ 101,297	\$ 0	\$ 0	\$ 1,111,714

NOTE 6: 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, 2001	Maturities To June 30, 2001
4/1/84	6/01/03	9.00%	\$ 66,700	\$ 13,000	\$ 53,700
11/19/97	11/19/05	5.45%	125,000	84,213	40,787
8/30/99	11/30/06	5.20%	46,935	35,556	11,379
1/5/01	11/1/08	6.25%	41,999	41,999	
Totals			\$ 213,934	\$ 174,768	\$ 39,166

SCOTLAND SCHOOL DISTRICT NO. 4
VAN BUREN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 7: Changes in Long-term Debt

	Balance July 1, 2000	Issued	Retired	Balance June 30, 2001
Bonds payable	\$ 19,000		\$ 6,000	\$ 13,000
Certificates of indebtedness		\$ 41,999		41,999
Postdated warrants	98,536		14,323	84,213
Capital leases	40,500		4,944	35,556
Totals	\$ 158,036	\$ 41,999	\$ 25,267	\$ 174,768

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

Year Ended June 30,	Principal	Interest	Total
2002	\$ 31,555	\$ 10,610	\$ 42,165
2003	33,649	8,109	41,758
2004	27,801	6,002	33,803
2005	29,016	4,455	33,471
2006	30,296	2,847	33,143
To Maturity	22,451	1,830	24,281
Totals	\$ 174,768	\$ 33,853	\$ 208,621

NOTE 8: Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2001
School Bus	\$ 46,935
	<u>June 30, 2001</u>
Total Minimum Lease Payments	\$ 42,298
Less: Amount Representing Interest	6,742
Total Present Value of Net Minimum Lease Payments	<u>\$ 35,556</u>

SCOTLAND SCHOOL DISTRICT NO. 4
VAN BUREN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 9: 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, 2001, 2000 and 1999 were \$64,539, \$55,630 and \$51,159, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2001, 2000 and 1999 were \$2,724, \$2,495 and \$2,156, 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, 2001, 2000 and 1999 were \$768, \$768 and \$768, respectively, equal to the required contributions for each year.

NOTE 10: Prior Year Restatement

The District's General Fund Balance as of June 30, 2000 was increased \$8,538 to reflect an increase in the investment balance.

NOTE 11: Subsequent Events

The District obtained on August 20, 2001 a \$250,000 revolving loan from the Arkansas Department of Education for construction purposes.