

# **Stone County School District No. 1**

**Stone County, Arkansas**

## **Basic Financial Statements and Other Reports**

**June 30, 2004**



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STONE 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

Stone County School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Stone County School District No. 1 (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2005 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.

As described in Note 1, the District adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2002.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
March 3, 2005  
EDSD36804

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 CONTROL AND OTHER MATTERS

Stone County School District No. 1 and School Board Members  
Legislative Joint Auditing Committee

We have audited the basic financial statements of the Stone County School District No. 1 (the "District"), as of and for the year ended June 30, 2004, and have issued our report thereon dated March 3, 2005. 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 basic 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 basic 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 basic 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.

### AUDIT FINDINGS

#### Reportable Conditions

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

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management and district management and are 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  
March 3, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis, (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefits of others.

The financial statements also include notes that explain some of the information in the statements that provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

#### **District-Wide Statements**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets--the difference between the District's assets and liabilities--are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of the school buildings and other facilities.

In the district-wide financial statement, the District's activities are classified as follows:

- Governmental activities: The District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds--not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like federal grants).

The District has two kinds of funds:

Governmental funds--Most of the district's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statement, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

Fiduciary funds--The District is a trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

### **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The financial statements have been prepared using the new format specified in the Governmental Accounting Standards Board (GASB) Statement Number 34, GASB Statement Number 34 does not require comparative information from the previous fiscal year in the year of implementation. Accordingly, the District has not provided comparative data from the fiscal year ended June 30, 2003. A comparative analysis of district-wide data will be presented in the future periods.

**Assets**--The District's total current assets at June 30, 2004 were \$ 935,133. Capital assets net of accumulated depreciation of \$ 1,232,404 were \$ 1,394,669. The total assets were \$ 2,329,802.

**Liabilities**--The District's total liabilities at June 30, 2004 were \$ 457,828. The liabilities consisted of current liabilities of \$ 20,488 and long-term liabilities of \$ 437,340.

**Net Assets**--The net assets consisted of the following at June 30, 2004:

Invested in capital assets, net of related debt--\$ 957,329  
Unrestricted--\$ 914,645  
Net assets totaled--\$ 1,871,974

**Program Revenues**--Program revenues for the year ended June 30, 2004 were \$ 437,664 with such revenues consisting of \$286,643 operating grants and contributions, \$96,726 capital grants and contributions and \$ 54,295 charges for services.

**General Revenues**--General revenues for the year ended June 30, 2004 consisted primarily of \$182,724 property taxes, \$ 1,237,872 state aid not restricted to specific purposes and \$104,038 property tax relief distribution.

**Total Revenues**—Total revenues, consisting of program and general revenues, were \$1,941,925.

**Program Expenses**--Total expenses, primarily by function, were \$ 1,980,667 for the year ended June 30, 2004.

The net (expense) revenues, which are a comparison of expenses to program revenues, reflected a deficiency of \$ 1,543,003 for the year ended June 30, 2004.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

By the end of 2004, the District has invested \$ 1,394,669 in a broad range of capital assets, including school buildings, athletic facilities, computer and audiovisual equipment, and administrative offices. Total depreciation expense for the year was \$ 41,862. The additions in fixed assets included \$ 49,923 in equipment purchases and \$ 887,005 in construction cost.

### **Long-Term Debt**

At year-end, the District had certificate of indebtedness of \$ 410,929 and \$ 26,411 installment contract.

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

Due to ACT 60 enacted by the State Legislature, the Stone County District was annexed by the Mountain View School District on July 1, 2004.

STONE COUNTY SCHOOL DISTRICT NO. 1  
 STONE COUNTY, ARKANSAS  
 STATEMENT OF NET ASSETS  
 AS OF JUNE 30, 2004

Exhibit A

	Governmental Activities
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 481,251
Investments	312,381
Property taxes receivable (net)	106,530
Accounts receivable	21,092
Prepaid expenses	13,879
Total Current Assets	935,133
Noncurrent Assets:	
Capital assets (net of accumulated depreciation of \$1,232,404)	1,394,669
TOTAL ASSETS	2,329,802
<b>LIABILITIES</b>	
Current Liabilities:	
Long-term obligations:	
Due within one year:	
Accrued interest payable	20,488
Certificates of indebtedness and installment contracts	49,943
Total Current Liabilities	70,431
Noncurrent Liabilities:	
Due beyond one year:	
Certificates of indebtedness and installment contracts	387,397
TOTAL LIABILITIES	457,828
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	957,329
Restricted for:	
Special programs	17,728
Unrestricted	896,917
TOTAL NET ASSETS	\$ 1,871,974

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

STONE COUNTY SCHOOL DISTRICT NO. 1  
STONE COUNTY, ARKANSAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	
<u>Functions/Programs</u>					
Governmental Activities:					
Regular instruction	\$ 710,888	\$ 34,395	\$ 28,784	\$ (647,709)	
Special education instruction	110,298	4,245	45,966	(60,087)	
Workforce education instruction	120,482			(120,482)	
Compensatory education services	65,717		63,534	(2,183)	
Other instruction	11,182			(11,182)	
Total Instruction	1,018,567	38,640	138,284	(841,643)	
Support Services:					
Student services	58,204		14,858	(43,346)	
Instructional staff services	56,535		3,795	(40,942)	
General administration services	133,843		36,063	(97,780)	
School administration services	72,117			(72,117)	
Business support services	33,633			(33,633)	
Operation and maintenance of plant services	230,099		1,456	(143,715)	
Student transportation services	181,225		84,928	(181,225)	
Other support services	861			(861)	
Total Support Services	766,517		96,726	(613,619)	
Operation of Non-instructional Services:					
Food services operations	111,437	15,655	86,715	(9,067)	
Other non-instructional services	40,374		5,472	(34,902)	
Total Non-instructional Services	151,811	15,655	92,187	(43,969)	
Other uses:					
Interest on long-term debt	43,772			(43,772)	
Total School District	\$ 1,980,667	\$ 54,295	\$ 286,643	\$ 96,726	(1,543,003)
General revenues:					
Taxes:					
Property taxes, levied for general purposes				182,724	
State and federal aid not restricted to specific purposes				1,237,872	
Property tax relief distribution				104,038	
Interest and investment earnings				23,472	
Miscellaneous				40,677	
Special items:					
Write-off of equipment below capitalization level				(84,977)	
Gain on sale of capital assets				455	
Total general revenues and special items				1,504,261	
Change in net assets				(38,742)	
Net Assets - beginning of year as originally reported				3,486,829	
Prior year general long-term debt				(491,594)	
Cumulative effects of changes in accounting principles				(1,084,519)	
Net Assets - beginning of year restated				1,910,716	
Net Assets - ending of year				\$ 1,871,974	

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

STONE COUNTY SCHOOL DISTRICT NO. 1  
 STONE COUNTY, ARKANSAS  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 JUNE 30, 2004

Exhibit C

	Major Governmental Fund Types		Totals
	General	Special Revenue Fund	Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 463,850	\$ 17,401	\$ 481,251
Investments	312,381		312,381
Property taxes receivable, net	106,530		106,530
Accounts receivable	20,765	327	21,092
TOTAL ASSETS	\$ 903,526	\$ 17,728	\$ 921,254
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Deferred revenue	\$ 97,382		\$ 97,382
Fund Equity:			
Fund Balances:			
Unreserved:			
Unreserved, reported in:			
General fund	806,144		806,144
Special revenue		\$ 17,728	17,728
Total Fund Balances	806,144	17,728	823,872
TOTAL LIABILITIES AND FUND BALANCES	\$ 903,526	\$ 17,728	\$ 921,254

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

STONE COUNTY SCHOOL DISTRICT NO. 1  
 STONE COUNTY, ARKANSAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2004

Exhibit D

Total fund balances for governmental funds:		\$	823,872
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	The cost of the assets is	\$ 2,627,073	
	The accumulated depreciation is	<u>(1,232,404)</u>	1,394,669
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.			97,382
Interest on long-term obligations is reported when due in governmental funds; therefore, the liability for interest payable is not reported in the funds.			(20,488)
Prepaid expenses do not pertain to the current period and therefore are not reported as an asset in the funds.			13,879
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
	Certificates of indebtedness	410,929	
	Installment contracts payable	<u>26,411</u>	<u>(437,340)</u>
Total net assets - governmental activities		\$	<u><u>1,871,974</u></u>

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

STONE COUNTY SCHOOL DISTRICT NO. 1  
 STONE COUNTY, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit E

	Major Governmental Fund Types			Totals Governmental Funds
	General	Special Revenue Fund	Capital Projects Fund	
REVENUES				
Property taxes	\$ 192,516			\$ 192,516
State assistance	1,349,858	\$ 1,280		1,351,138
Federal assistance	7,125	367,016		374,141
Activity revenues	34,395			34,395
Meal sales		15,655		15,655
Interest on investments	23,472			23,472
Other revenues	40,623	4,804		45,427
<b>TOTAL REVENUES</b>	<b>1,647,989</b>	<b>388,755</b>		<b>2,036,744</b>
EXPENDITURES				
Current:				
Regular programs	654,789	8,879		663,668
Special education	59,420	49,551		108,971
Workforce education	119,486			119,486
Compensatory education		65,329		65,329
Other instructional programs	11,182			11,182
Support services - students	42,652	15,552		58,204
Instructional staff support services	42,353	14,182		56,535
General administrative support services	85,875	45,431		131,306
School administration support services	71,896			71,896
Business support services	33,374			33,374
Operation and maintenance of plant services	184,339	45,821	\$ 7,254	237,414
Student transportation services	163,404			163,404
Other support services	861			861
Non-instructional - food services operations	6,022	104,399		110,421
Non-programmed costs	34,798	5,576		40,374
Activity expenditures	36,487			36,487
Capital outlay	2,140	44,425	890,363	936,928
Debt service:				
Principal retirement	54,254			54,254
Interest and fiscal charges	23,284			23,284
<b>TOTAL EXPENDITURES</b>	<b>1,626,616</b>	<b>399,145</b>	<b>897,617</b>	<b>2,923,378</b>

STONE COUNTY SCHOOL DISTRICT NO. 1  
 STONE COUNTY, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit E

	Major Governmental Fund Types			Totals Governmental Funds
	General	Special Revenue Fund	Capital Projects Fund	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 21,373	\$ (10,390)	\$ (897,617)	\$ (886,634)
OTHER FINANCING SOURCES (USES)				
Transfers in			480,328	480,328
Transfers out	(480,328)			(480,328)
TOTAL OTHER FINANCING SOURCES (USES)	(480,328)		480,328	0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(458,955)	(10,390)	(417,289)	(886,634)
FUND BALANCES - JULY 1	1,265,099	28,118	417,289	1,710,506
FUND BALANCES - JUNE 30	\$ 806,144	\$ 17,728	\$ 0	\$ 823,872

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

STONE COUNTY SCHOOL DISTRICT NO. 1  
 STONE COUNTY, ARKANSAS  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit F

Net change in fund balances -- total governmental funds \$ (886,634)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Depreciation	\$	41,862	
Capital outlay		<u>936,928</u>	895,066

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

Certificates of indebtedness issued

50,184

Installment agreements

4,070

Net adjustment for debt related transactions

54,254

Interest expense is recorded when due in the governmental funds, however the current portion of interest payable is recorded as an expense in the statement of activities.

(20,488)

Adjustments to capital assets (write-off of equipment below capitalization level) that do not result from current year purchases are not reflected in governmental funds. However, such changes are reflected in the statement of activities.

(84,977)

Book value of capital assets disposed of during the fiscal year are not reflected in governmental funds. However, such changes are reflected in the statement of activities, net of the proceeds from the disposition of such assets, as a gain or loss.

(50)

Prepaid expenses are not reflected in governmental funds. They are however, recorded as expenses in the statement of activities.

13,879

Property taxes collected in the first six months of the District's fiscal year are recognized as revenue in the governmental funds. They are considered to be revenue of the prior period in the statement of activities.

(107,174)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead, recognized as deferred tax revenues. They are, however, recorded as revenues in the statement of activities.

97,382

Change in net assets of governmental activities

\$ (38,742)

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

STONE COUNTY SCHOOL DISTRICT NO. 1  
STONE COUNTY, ARKANSAS  
STATEMENT OF FIDUCIARY NET ASSETS  
AS OF JUNE 30, 2004

Exhibit G

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 22,081</u>
LIABILITIES	
Due to student groups	<u>\$ 22,081</u>

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

STONE COUNTY SCHOOL DISTRICT NO. 1  
STONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

The accompanying financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

This financial report has been prepared in conformity with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, issued in June 1999.

**B. REPORTING ENTITY**

GASB Statement No. 14, as amended, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the District is considered a primary government, since it is a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement No. 14, fiscally independent means that the District may, without the approval or consent of another governmental entity, determine or modify its own budget, propose its own taxes or set rates or charges, and issue bonded debt. The District also has no component units; defined by GASB Statement No. 14 as other legally separate organizations for which the elected District members are financially accountable. There are no other primary governments with which the District has a significant relationship.

**C. FUNDS**

The District uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions and activities. A fund is defined as a separate fiscal and accounting entity with a self-balancing set of accounts.

Funds of the District are classified into two categories: governmental and fiduciary, as follows:

**Governmental Funds**

Governmental funds account for all or most of the District's general activities. These funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be used. Current liabilities are assigned to the fund from which they will be paid. The difference between a governmental fund's assets and liabilities is reported as fund balance. In general, fund balance represents the accumulated expendable resources, which may be used to finance future period programs or operations of the District. The following are the District's governmental funds:

**General funds** – account for all non-restricted funds of the District and are the primary operating fund of the District. The General Fund is available for any purpose provided it is expended or transferred in accordance with state and federal laws and according to District policy.

**Special revenue funds** - account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, or designated by the District to be accounted for separately.

STONE COUNTY SCHOOL DISTRICT NO. 1  
STONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. **FUNDS (CONTINUED)**

**Fiduciary Funds**

Fiduciary funds include Agency Funds. The agency fund accounts for assets held by the District as an agent for schools, and school organizations. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Consequently, the agency fund has no measurement focus, but does use the modified accrual basis of accounting. Fiduciary Fund reporting focuses on net assets and changes in net assets.

D. **MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

**Government-Wide Financial Statements (GWFS)**

The Statement of Net Assets (Exhibit A) and the Statement of Activities (Exhibit B) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary fund. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

The GWFS were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange-like transactions are recognized when the exchange occurs (regardless of when cash is received or disbursed). Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

**Program Revenues** - Program revenues included in the Statement of Activities (Exhibit B) derive directly from parties outside the District's taxpayers or citizenry. As a whole, program revenues reduce the net cost of the function to be financed from the District's general revenues. Such revenues include operating state and federal grants restricted for specific purposes and charges for services.

**Allocation of Indirect Expenses** - The District reports all direct expenses by function in the Statement of Activities (Exhibit B). Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense, which can be specifically identified by function, is included in the direct expenses of each. Depreciation on buildings is assigned to the "general administration" function due to the fact that school buildings serve multiple purposes. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities (Exhibit B).

**Fund Financial Statements (FFS)**

**Governmental funds** are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Exhibit E) reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the GWFS are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the GWFS and the statements FFS.

FFS report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

STONE COUNTY SCHOOL DISTRICT NO. 1  
STONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (CONTINUED)**

**Fund Financial Statements (FFS) (Continued)**

Governmental funds and the agency fund use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for interest and principal payments on general long-term debt which are recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. The governmental funds use the following practices in recording revenues and expenditures:

**Restricted/Unrestricted Resources**

The District has no formal policy addressing which resources to use when both restricted and unrestricted net assets are available for the same purpose. District personnel decide which resources to use at the time funds are expended.

**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.

**Other Financing Sources (Uses)**

Transfers between funds that are not expected to be repaid (or any other types, such as capital lease transactions, sale of fixed assets, debt extinguishments, long-term debt proceeds, et cetera) are accounted for as other financing sources (uses). Such transactions are recognized at the time the underlying events occur.

**Deferred Revenues**

The District reports deferred revenues on its FFS balance sheet. Deferred revenues consist of property taxes due at June 30 but not available to pay current year liabilities. Deferred revenues arise when resources are received by the District before it has a legal claim to them, as when grant monies are received before the incurrence of qualifying expenditures. In subsequent periods, when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and the revenue is recognized.

**E. BUDGETS**

The District uses the following budget practices:

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The Districts expenditure budget does not represent a formal appropriation. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis.

STONE COUNTY SCHOOL DISTRICT NO. 1  
 STONE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2004

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. BUDGETS (CONTINUED)**

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Budgetary Comparison Schedule for Governmental Funds (Schedule 1) because only interfund transfers are reported at the Statement of revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the appropriate fund financial statements is essentially the same.

**F. CASH AND CASH EQUIVALENTS**

Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Arkansas law, or under the laws of the United States.

**G. INVESTMENTS**

Investments are limited by the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

**H. PREPAID ITEMS**

Prepaid expenses consist of insurance premiums paid for which the term extends into the subsequent period.

**I. CAPITAL ASSETS**

Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Donated capital assets are reported at fair market value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

Capital assets are reported in the GWFS, but are not reported in the FFS. No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements / infrastructure	50
Buildings	50
Building improvements	7
Equipment	5-20

**J. INTERFUND TRANSACTIONS**

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transactions are reported as transfers.

STONE COUNTY SCHOOL DISTRICT NO. 1  
 STONE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2004

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

**L. ACCOUNTING CHANGES**

As a result of the adoption of GASB Statement No. 34, the District was required to make certain changes in accounting principles, specifically, the adoption of depreciation on capital assets.

**2. CASH AND CASH EQUIVALENTS**

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured, Collateralized	403,332	479,748
Total Deposits	\$ 503,332	\$ 579,748

**3. INVESTMENTS**

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

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of deposit	\$ 312,381	\$ 0	\$ 0	\$ 312,381	\$ 312,381

STONE COUNTY SCHOOL DISTRICT NO. 1  
STONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**4. RECEIVABLES**

The receivables of \$127,622 at June 30, 2004, are as follows:

Class of Receivable	General Fund	Special Revenue Funds	Total
Taxes:			
Local	\$ 106,530		\$ 106,530
Accounts	20,765	\$ 327	21,092
 Totals	 <u>\$ 127,295</u>	 <u>\$ 327</u>	 <u>\$ 127,622</u>

**5. CAPITAL ASSETS**

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<i>Capital assets not being depreciated:</i>				
Land	\$ 121,767			\$ 121,767
 <i>Capital assets being depreciated:</i>				
Buildings	1,010,407	\$ 887,005	\$ 612	1,896,800
Site improvements/infrastructure	21,348			21,348
Machinery and equipment	622,801	49,923	85,566	587,158
Total Depreciated	<u>1,654,556</u>	<u>936,928</u>	<u>86,178</u>	<u>2,505,306</u>
 Less accumulated depreciation for:				
Buildings	824,712	6,061		830,773
Site improvements/infrastructure		1,067		1,067
Machinery and equipment	366,981	34,734	1,151	400,564
Total accumulated depreciation	<u>1,191,693</u>	<u>41,862</u>	<u>1,151</u>	<u>1,232,404</u>
 Total capital assets depreciated, net	 <u>462,863</u>	 <u>895,066</u>	 <u>85,027</u>	 <u>1,272,902</u>
 Governmental activity capital assets, net	 <u>\$ 584,630</u>	 <u>\$ 895,066</u>	 <u>\$ 85,027</u>	 <u>\$ 1,394,669</u>

Depreciation was charged to functions as follows:

Regular instruction	\$	10,733
Special education		1,327
Workforce education		996
Compensatory education		388
General administrative support		133
School administration support		221
Business support		259
Operation and maintenance of plant		7,948
Student transportation		18,841
Non-instructional - food services		1,016
 Total Allocated Depreciation	 <u>\$</u>	 <u>41,862</u>

STONE COUNTY SCHOOL DISTRICT NO. 1  
STONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**6. LONG-TERM OBLIGATIONS**

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, 2004	Maturities to June 30, 2004
2/14/2003	11/1/2012	4.95%	\$ 456,588	\$ 410,929	\$ 45,659
9/7/1999	9/7/2009	5.00%	43,270	26,411	16,859
Totals			<u>\$ 499,858</u>	<u>\$ 437,340</u>	<u>\$ 62,518</u>

The following is a summary of the long-term obligation transactions for the year ended June 30, 2004:

	Balance July 1, 2003	Reductions	Balance June 30, 2004
Certificates of indebtedness	\$ 461,113	\$ 50,184	\$ 410,929
Installment contracts	30,481	4,070	26,411
Totals	<u>\$ 491,594</u>	<u>\$ 54,254</u>	<u>\$ 437,340</u>

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of June 30, 2004:

	Current	Long-Term	Total
Certificates of indebtedness	\$ 45,659	\$ 365,270	\$ 410,929
Installment contracts	4,284	22,127	26,411
Totals	<u>\$ 49,943</u>	<u>\$ 387,397</u>	<u>\$ 437,340</u>

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

Year Ended June 30,	Principal	Interest	Total
2005	\$ 49,943	\$ 20,488	\$ 70,431
2006	50,160	18,011	68,171
2007	50,388	15,523	65,911
2008	50,626	13,056	63,682
2009	50,878	10,512	61,390
2010-2014	185,345	18,192	203,537
Totals	<u>\$ 437,340</u>	<u>\$ 95,782</u>	<u>\$ 533,122</u>

STONE COUNTY SCHOOL DISTRICT NO. 1  
 STONE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2004

**7. INTERFUND TRANSFERS**

Interfund transfers are as follows:

	Transfers In	Transfers Out
Operating Fund		\$ 480,328
Capital Projects Fund	\$ 480,328	
Totals	\$ 480,328	\$ 480,328

These transfers were made to finance construction of a new elementary facility.

**8. RELATED PARTY TRANSACTIONS**

The District paid \$862,786 to Noacon, Inc. for the construction of an Elementary School/Multi-Purpose Room facility. Noacon, Inc. is 25% owned by a school board member. Noacon, Inc. was the low bidder for the project, a resolution was filed by the District and approval was granted by the Arkansas State Board of Education for this contract.

**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 13%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$128,983, \$124,037 and \$110,798, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$17,270, \$9,479 and \$11,951, 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.

STONE COUNTY SCHOOL DISTRICT NO. 1  
STONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

**9. 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, 2004, 2003 and 2002 were \$333, \$1,288 and \$1,229, respectively, equal to the required contributions for each year.

**10. SUBSEQUENT EVENTS**

Annexation

On July 1, 2004, the Stone County School District was administratively annexed with the Mountain View School District. Act 60 of the 2nd Extraordinary Session of the 84th General Assembly of the State of Arkansas required the annexation. The Act required school districts with fewer than three hundred fifty (350) students consolidate with another school district. Isolated school districts will consolidate administratively but will retain their campus.

STONE COUNTY SCHOOL DISTRICT NO. 1  
STONE COUNTY, ARKANSAS  
BUDGETARY COMPARISON SCHEDULE FOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Property taxes	\$ 275,800	\$ 192,516	\$ (83,284)
State assistance	1,259,524	1,351,138	91,614
Federal assistance	429,564	374,141	(55,423)
Activity revenues		34,395	34,395
Meal sales	18,145	15,655	(2,490)
Interest on investments	10,000	23,472	13,472
Other revenues	11,500	45,427	33,927
<b>TOTAL REVENUES</b>	<b>2,004,533</b>	<b>2,036,744</b>	<b>32,211</b>
<b>EXPENDITURES</b>			
Regular programs	698,035	663,668	34,367
Special education	126,518	108,971	17,547
Workforce education	127,956	119,486	8,470
Compensatory education	29,541	65,329	(35,788)
Other instructional programs	20,888	11,182	9,706
Support services - students	44,885	58,204	(13,319)
Instructional staff support services	46,135	56,535	(10,400)
General administrative support services	144,996	131,306	13,690
School administration support services	71,119	71,896	(777)
Business support services	33,622	33,374	248
Operation and maintenance of plant services	253,846	237,414	16,432
Student transportation services	163,209	163,404	(195)
Other support services		861	(861)
Non-instructional - food services operations	105,659	110,421	(4,762)
Community services	100		100
Non-programmed costs	52,592	40,374	12,218
Activity expenditures		36,487	(36,487)
Capital outlay	736,000	936,928	(200,928)
Debt service:			
Principal retirement	7,890	54,254	(46,364)
Interest and fiscal charges	6,669	23,284	(16,615)
<b>TOTAL EXPENDITURES</b>	<b>2,669,660</b>	<b>2,923,378</b>	<b>(253,718)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(665,127)</b>	<b>(886,634)</b>	<b>(221,507)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	350,000	480,328	130,328
Transfers out	(350,000)	(480,328)	(130,328)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(665,127)</b>	<b>(886,634)</b>	<b>(221,507)</b>
<b>FUND BALANCES - JULY 1</b>	<b>1,722,891</b>	<b>1,710,506</b>	<b>(12,385)</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 1,057,764</b>	<b>\$ 823,872</b>	<b>\$ (233,892)</b>