

# **Osceola School District No. 1**

**Mississippi County, Arkansas**

## **Regulatory Basis Financial Statements and Other Reports**

**June 30, 2010**

LEGISLATIVE JOINT AUDITING COMMITTEE

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MISSISSIPPI COUNTY, ARKANSAS  
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JUNE 30, 2010

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**Sen. Bobby L. Glover**  
Senate Co-Chair  
**Rep. Johnny Hoyt**  
House Co-Chair  
**Sen. Bill Pritchard**  
Senate Co-Vice Chair  
**Rep. Beverly Pyle**  
House Co-Vice Chair

# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Osceola School District No. 1 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis 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.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2010, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs – Summary Schedule of Prior Audit Findings (Schedule 4), and Schedule of Selected Information for the Last Five Years – Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs – Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years – Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
December 2, 2010  
EDSD25510

Sen. Bobby L. Glover  
Senate Co-Chair  
Rep. Johnny Hoyt  
House Co-Chair  
Sen. Bill Pritchard  
Senate Co-Vice Chair  
Rep. Beverly Pyle  
House Co-Vice Chair

# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Osceola School District No. 1 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated December 2, 2010. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1 to be a material weakness.

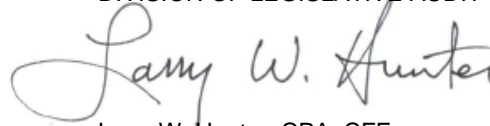
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis 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, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
December 2, 2010

Sen. Bobby L. Glover  
Senate Co-Chair  
Rep. Johnny Hoyt  
House Co-Chair  
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Senate Co-Vice Chair  
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House Co-Vice Chair

# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

### Compliance

We have audited the Osceola School District No. 1's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of 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 auditing standards generally accepted in the United States of America; 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 of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2.

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

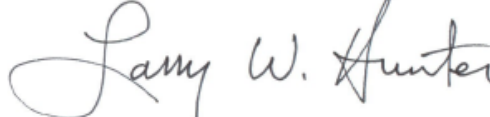
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

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Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
December 2, 2010



OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2010

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 2,471,032	\$ 203,258	\$ 1,349,778	\$ 25,035
Investments			2,012,498	
Accounts receivable		327,465		
Property taxes receivable	116,501			
<b>TOTAL ASSETS</b>	<b>\$ 2,587,533</b>	<b>\$ 530,723</b>	<b>\$ 3,362,276</b>	<b>\$ 25,035</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 122,690	\$ 22,083	\$ 50,616	
Due student groups				\$ 25,035
<b>Total Liabilities</b>	<b>122,690</b>	<b>22,083</b>	<b>50,616</b>	<b>25,035</b>
<b>Fund Balances:</b>				
<b>Reserved:</b>				
Debt service			9,233	
Capital projects			3,302,427	
<b>Unreserved:</b>				
Undesignated	2,464,843	508,640		
<b>Total Fund Balances</b>	<b>2,464,843</b>	<b>508,640</b>	<b>3,311,660</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,587,533</b>	<b>\$ 530,723</b>	<b>\$ 3,362,276</b>	<b>\$ 25,035</b>

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

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 2,527,162		
State assistance	9,746,992	\$ 6,743	\$ 1,262,136
Federal assistance		2,833,799	
Activity revenues	53,570		
Meal sales		164,080	
Investment income	6,761		24,697
Other revenues	143,047	68,433	
<b>TOTAL REVENUES</b>	<b>12,477,532</b>	<b>3,073,055</b>	<b>1,286,833</b>
<b>EXPENDITURES</b>			
Regular programs	4,817,665	316,081	
Special education	887,880	371,277	
Workforce education	424,704		
Compensatory education	175,352	808,484	
Other instructional programs	562,829	82,438	
Student support services	647,697	305,824	
Instructional staff support services	832,189	419,905	
General administration support services	408,056	66,311	
School administration support services	709,159		
Central services support services	98,928	1,496	
Operation and maintenance of plant services	1,540,308	39,387	55,164
Student transportation services	313,902	21,229	
Other support services	26,226		
Food services operations	132,612	981,214	
Community services operations		186	
Facilities acquisition and construction services		1,402	2,433,871
Non-programmed costs		13,800	
Activity expenditures	35,781		
Debt Service:			
Principal retirement			245,000
Interest and fiscal charges			421,339
<b>TOTAL EXPENDITURES</b>	<b>11,613,288</b>	<b>3,429,034</b>	<b>3,155,374</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>864,244</b>	<b>(355,979)</b>	<b>(1,868,541)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in		90,000	585,514
Transfers out	(675,514)		
Refunds to grantor	(13,575)	(415)	
Proceeds from refunding bond issue			2,455,000
Payment to refunded bond escrow agent			(2,400,394)
Net bond issuance costs			(45,372)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(689,089)</b>	<b>89,585</b>	<b>594,748</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>175,155</b>	<b>(266,394)</b>	<b>(1,273,793)</b>
<b>FUND BALANCES - JULY 1</b>	<b>2,289,688</b>	<b>775,034</b>	<b>4,585,453</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 2,464,843</b>	<b>\$ 508,640</b>	<b>\$ 3,311,660</b>

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

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 2,631,000	\$ 2,527,162	\$ (103,838)			
State assistance	9,524,968	9,746,992	222,024	\$ 145,000	\$ 6,743	\$ (138,257)
Federal assistance				5,740,762	2,833,799	(2,906,963)
Activity revenues		53,570	53,570			
Meal sales				58,000	164,080	106,080
Investment income	10,000	6,761	(3,239)			
Other revenues	53,640	143,047	89,407		68,433	68,433
<b>TOTAL REVENUES</b>	<b>12,219,608</b>	<b>12,477,532</b>	<b>257,924</b>	<b>5,943,762</b>	<b>3,073,055</b>	<b>(2,870,707)</b>
<b>EXPENDITURES</b>						
Regular programs	5,470,963	4,817,665	653,298	328,140	316,081	12,059
Special education	976,636	887,880	88,756	484,976	371,277	113,699
Workforce education	402,799	424,704	(21,905)			
Compensatory education	214,536	175,352	39,184	1,400,492	808,484	592,008
Other instructional programs	713,719	562,829	150,890	85,228	82,438	2,790
Student support services	711,086	647,697	63,389	358,362	305,824	52,538
Instructional staff support services	1,230,739	832,189	398,550	739,862	419,905	319,957
General administration support services	427,809	408,056	19,753	120,047	66,311	53,736
School administration support services	698,421	709,159	(10,738)	35,000		35,000
Central services support services	148,684	98,928	49,756	4,000	1,496	2,504
Operation and maintenance of plant services	1,624,590	1,540,308	84,282	229,490	39,387	190,103
Student transportation services	319,730	313,902	5,828	97,869	21,229	76,640
Other support services	30,000	26,226	3,774			
Food services operations	146,626	132,612	14,014	1,355,485	981,214	374,271
Community services operations				5,000	186	4,814
Facilities acquisition and construction services				1,025,092	1,402	1,023,690
Non-programmed costs				25,000	13,800	11,200
Activity expenditures		35,781	(35,781)			
<b>TOTAL EXPENDITURES</b>	<b>13,116,338</b>	<b>11,613,288</b>	<b>1,503,050</b>	<b>6,294,043</b>	<b>3,429,034</b>	<b>2,865,009</b>

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (896,730)	\$ 864,244	\$ 1,760,974	\$ (350,281)	\$ (355,979)	\$ (5,698)
OTHER FINANCING SOURCES (USES)						
Transfers in	6,222,355		(6,222,355)	90,000	90,000	
Transfers out	(6,923,703)	(675,514)	6,248,189			
Refunds to grantor		(13,575)	(13,575)		(415)	(415)
TOTAL OTHER FINANCING SOURCES (USES)	(701,348)	(689,089)	12,259	90,000	89,585	(415)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,598,078)	175,155	1,773,233	(260,281)	(266,394)	(6,113)
FUND BALANCES - JULY 1	2,467,603	2,289,688	(177,915)	781,012	775,034	(5,978)
FUND BALANCES - JUNE 30	<u>\$ 869,525</u>	<u>\$ 2,464,843</u>	<u>\$ 1,595,318</u>	<u>\$ 520,731</u>	<u>\$ 508,640</u>	<u>\$ (12,091)</u>

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

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Board of Education, a seven 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 Osceola School District (District). There are no component units.

**B. Description of Funds**

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

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

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Fund types include the following:

Agency Funds – Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

**C. Measurement Focus and Basis of Accounting**

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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

C. Measurement Focus and Basis of Accounting (Continued)

The accompanying financial statements are presented on a fund basis. 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. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20-49
Buildings	49-66
Equipment	5-20

F. 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. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30<sup>th</sup> is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30<sup>th</sup> is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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

F. Property Taxes (Continued)

Amendment no. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Fund Balance Designations

1. Reserved fund balance – represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Undesignated fund balance – indicates that portion of the fund balance not reserved or designated.

H. 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 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. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

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

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

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)	\$ 1,629,103	\$ 2,397,288
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	4,432,498	4,432,498
Total Deposits	\$ 6,061,601	\$ 6,829,786

The above total deposits include certificates of deposit of \$2,012,498 reported as investments and classified as nonparticipating contracts.

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$327,465 at June 30, 2010 was comprised of the following:

	Governmental Fund
Description	Major
	Special Revenue
Federal assistance	\$ 310,978
Other	16,487
Total	\$ 327,465

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2010:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
ACE classrooms	July 31, 2010	\$ 79,644
ACE library and media center	July 31, 2010	28,201

B. Operating Lease (noncapital lease with initial noncancellable lease terms in excess of one year)

General description of lease and leasing arrangements:

On April 1, 2010, the District executed an operating lease for 15 copiers. The agreement stipulates monthly payments of \$6,213 for a period of 60 months.

1. Future minimum rental payments (aggregate) at June 30, 2010: \$360,354
2. Basis on which contingent rental payments are determined, if applicable:

The District is assessed \$.007 per page for all black/white copies exceeding 1,050,000 per quarter and \$.065 per page for all color copies exceeding 12,000 per quarter.

3. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2011	\$ 74,556
2012	74,556
2013	74,556
2014	74,556
2015	62,130
Total	\$ 360,354

Rental payments for the operating leases described above were approximately \$12,426 for the year ended June 30, 2010.



OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**4: COMMITMENTS (CONTINUED)**

C. 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, 2010	Maturities To June 30, 2010
11/1/04	11/1/34	2 - 4.8%	\$ 2,000,000	\$ 1,815,000	\$ 185,000
11/1/06	11/1/34	3.6 - 4.25%	2,265,000	2,120,000	145,000
11/1/08	11/1/37	4.25 - 5.75%	3,940,000	3,870,000	70,000
4/1/10	11/1/28	2 - 3.85%	2,455,000	2,455,000	
Totals			<u>\$ 10,660,000</u>	<u>\$ 10,260,000</u>	<u>\$ 400,000</u>

Changes in Long-Term Debt

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Bonds payable	<u>\$ 10,390,000</u>	<u>\$ 2,455,000</u>	<u>\$ 2,585,000</u> *	<u>\$ 10,260,000</u>

\* Includes \$2,340,000 early retirement of debt - See Note 6.

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

Year Ended June 30,	Principal	Interest	Total
2011	\$ 195,000	\$ 444,949	\$ 639,949
2012	280,000	430,881	710,881
2013	285,000	422,116	707,116
2014	295,000	412,982	707,982
2015	305,000	403,407	708,407
2016-2020	1,695,000	1,847,540	3,542,540
2021-2025	2,045,000	1,482,404	3,527,404
2026-2030	2,315,000	997,451	3,312,451
2031-2035	2,135,000	484,095	2,619,095
2036-2038	710,000	62,675	772,675
Totals	<u>\$ 10,260,000</u>	<u>\$ 6,988,500</u>	<u>\$ 17,248,500</u>

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The accounts payable and accrued liabilities balance of \$195,389 at June 30, 2010 was comprised of the following:

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Vendor payables	\$ 111,644	\$ 22,083	\$ 50,616	\$ 184,343
Payroll withholdings and matching	11,046			11,046
<b>Totals</b>	<b>\$ 122,690</b>	<b>\$ 22,083</b>	<b>\$ 50,616</b>	<b>\$ 195,389</b>

**6: DEBT REFUNDING**

On April 1, 2010, the District issued refunding bonds of \$2,455,000 with interest rates of 2 to 3.85% to advance refund \$2,340,000 of outstanding bonds dated November 1, 2003. The interest rates of the bonds advance refunded were 3.3 to 4.95%. Bond proceeds of \$2,400,394 were remitted to an escrow agent to provide for all future debt payments on the bonds advance refunded. The 2003 bonds were called on May 31, 2010.

The remaining proceeds of \$9,234 (after payment of \$45,372 net bond issuance costs) will be used for future debt service payments. The issuance of these bonds will result in a savings of \$166,042 to the District over a period of 19 years.

**7: INTERFUND TRANSFERS**

The District transferred \$90,000 from the general fund to the special revenue fund to supplement its food services operations. Additionally, the District transferred \$585,514 from the general fund to the other aggregate funds for debt related payments.

**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 before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit 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 noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2010, 2009, and 2008 were \$1,093,050, \$1,164,278, and \$1,218,448, respectively, equal to the required contributions for each year.

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**8: RETIREMENT PLANS (CONTINUED)**

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteachers hired before July 1, 1989. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit 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 APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the years ended June 30, 2010, 2009, and 2008 were \$1,660, \$1,699, and \$3,240, respectively, equal to the required contributions for each year.

**9: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for board liability and student accident coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

The District participates in the Arkansas School Boards Association – Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

Additionally, the District participates in the Arkansas School Boards Association – Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating, and settling claims that have been filed against member districts. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

**10: ON-BEHALF PAYMENTS**

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$163,712 for the year ended June 30, 2010.

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**11: FISCAL DISTRESS STATUS**

On April 13, 2009, the State Board of Education classified the District in Fiscal Distress, effective July 1, 2009. The District is currently coordinating with the Arkansas Department of Education to address significant cost reduction measures.

**12: SUBSEQUENT EVENTS**

On October 1, 2010, the District issued refunding bonds of \$1,925,000.

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Unaudited)

Schedule 1

	Balance June 30, 2010
<i>Nondepreciable capital assets:</i>	
Land	\$ 359,267
Construction in progress	2,273,589
Total nondepreciable capital assets	2,632,856
 <i>Depreciable capital assets:</i>	
Buildings	13,541,074
Improvements/infrastructure	336,826
Equipment	4,344,894
Total depreciable capital assets	18,222,794
 Less accumulated depreciation for:	
Buildings	6,360,691
Improvements/infrastructure	169,731
Equipment	2,834,026
Total accumulated depreciation	9,364,448
Total depreciable capital assets, net	8,858,346
Capital assets, net	\$ 11,491,202

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 2)	10.555		\$ 1,550
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	47-13-000	236,839
National School Lunch Program - Cash Assistance	10.555	47-13-000	489,089
Total State Department of Education			<u>725,928</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	4709A2010	47,354
<b>TOTAL CHILD NUTRITION CLUSTER</b>			<u>774,832</u>
<b>TITLE I, PART A CLUSTER</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	47-13	985,505
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	4713000	78,083
<b>TOTAL TITLE I, PART A CLUSTER</b>			<u>1,063,588</u>
<b>SPECIAL EDUCATION CLUSTER (IDEA)</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	4713	401,595
ARRA - Special Education - Grants to States, Recovery Act	84.391	4713000	176,114
<b>TOTAL SPECIAL EDUCATION CLUSTER (IDEA)</b>			<u>577,709</u>
<b>STATE FISCAL STABILIZATION FUND CLUSTER</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	4713000	61,563
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	4713000	41,793
<b>TOTAL STATE FISCAL STABILIZATION FUND CLUSTER</b>			<u>103,356</u>
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	4713051	8,000
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 4)	12.AR092011		<u>55,409</u>

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>OTHER PROGRAMS (CONTINUED)</u>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	47-13	\$ 4,133
Twenty-First Century Community Learning Centers	84.287	4713	70,370
Reading First State Grants	84.357	4713	102,648
Rural Education	84.358	4713	44,633
Improving Teacher Quality State Grants	84.367	4713	205,768
Total U. S. Department of Education			<u>427,552</u>
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Human Services:			
Temporary Assistance for Needy Families	93.558	Unavailable	<u>126,088</u>
TOTAL OTHER PROGRAMS			<u>617,049</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,136,534</u>

The accompanying notes are an integral part of this schedule.

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 Osceola School District No. 1 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.
- Note 2: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 5: During the year ended June 30, 2010, the District received Medicaid funding of \$23,634 from the State Department of Human Services. Such payments are not considered federal awards expended, and therefore, are not included in the above schedule.

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Types of auditor's reports issued: GAAP basis of reporting - adverse  
Regulatory basis opinion units - unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no  
 Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**FEDERAL AWARDS**

Internal control over major programs:

- Material weakness(es) identified?  yes  no  
 Significant deficiency(ies) identified?  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 OMB Circular A-133?  yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010 and 84.389	Title I, Part A Cluster
84.027 and 84.391	Special Education Cluster (IDEA)
84.394 and 84.397	State Fiscal Stabilization Fund Cluster

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

Auditee qualified as low-risk auditee?  yes  no



OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

2010-1. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five interrelated components - *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Condition: A deficiency in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. The District has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect: The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weakness in the above internal control component.

Cause: District management, due to cost/benefit implications, which hindered the District's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiency in internal control.

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Views of responsible officials and planned corrective actions: We concur with the recommendation.

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
SPECIAL EDUCATION - GRANTS TO STATES - CFDA NUMBER 84.027  
PASS-THROUGH NUMBER 4713  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2010

2010-2. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) Circular A-87 requires the preparation of monthly personnel activity reports or equivalent documentation when District employees work multiple activities. Periodic time certifications are required when an employee works solely on a single federal program.

Condition: Although standard payroll documentation supporting the employee's work in the special education program was available for audit inspection, monthly personnel activity reports were not available for one employee who also worked other activities. A similar finding was reported in the previous two audits.

Context: Examination of documentation substantiating time worked by employee.

Effect: The District was unable to provide required documentation substantiating the time charged to the special education program.

Cause: The District was unable to locate the personnel activity reports for a special education supervisor.

Recommendation: The District should prepare and retain the monthly personnel activity reports for all applicable employees.

Views of responsible officials and planned corrective actions: We concur with this finding. The District will provide the required time distribution certifications in the future.

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 4

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2009 - Finding 2009-2: Title I Grants to Local Educational Agencies - CFDA Number 84.010

Condition: Monthly personnel activity reports were not available for audit inspection for one Title I program employee who also worked other activities. A similar finding was reported in the previous audit.

Recommendation: The District should prepare and retain the monthly personnel activity reports for all applicable employees.

Current Status: Corrective action was taken regarding this particular federal program; however, exceptions were noted in the current audit period pertaining to another federal program. See finding 2010-2 at Schedule 3.

OSCEOLA SCHOOL DISTRICT NO. 1  
MISSISSIPPI COUNTY, ARKANSAS  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Unaudited)

	Year Ended June 30,				
	2010	2009	2008	2007	2006
<b><u>General Fund</u></b>					
Total Assets	\$ 2,587,533	\$ 2,610,394	\$ 3,232,655	\$ 4,146,437	\$ 4,530,135
Total Liabilities	122,690	320,706	453,401	218,350	165,329
Total Fund Balances	2,464,843	2,289,688	2,779,254	3,928,087	4,364,806
Total Revenues	12,477,532	12,198,522	12,627,752	12,313,730	12,124,237
Total Expenditures	11,613,288	12,613,201	13,296,218	12,171,449	11,513,956
Total Other Financing Sources (Uses)	(689,089)	(74,887)	(480,367)	(579,000)	(328,735)
<b><u>Special Revenue Fund</u></b>					
Total Assets	530,723	785,421	628,718	785,283	892,791
Total Liabilities	22,083	10,387	12,561		
Total Fund Balances	508,640	775,034	616,157	785,283	892,791
Total Revenues	3,073,055	3,063,724	2,761,155	2,921,782	3,252,336
Total Expenditures	3,429,034	3,122,009	3,008,914	3,212,201	3,170,899
Total Other Financing Sources (Uses)	89,585	217,162	78,633	182,911	75,000
<b><u>Other Aggregate Funds</u></b>					
Total Assets	3,362,276	4,585,453	1,301,205	2,052,834	
Total Liabilities	50,616		25,643	109,682	
Total Fund Balances	3,311,660	4,585,453	1,275,562	1,943,152	
Total Revenues	1,286,833	1,333,147	518,911		
Total Expenditures	3,155,374	2,400,065	1,581,868	610,483	2,098,311
Total Other Financing Sources (Uses)	594,748	4,376,809	395,367	2,553,635	305,413