

Osceola School District No. 1

Mississippi County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
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JUNE 30, 2011

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Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
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Rep. Toni Bradford
House 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, 2011, 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, 2011, 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, 2011, 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.

As discussed in Note 1 to the financial statements, the District changed the classifications of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2012 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 large initial "R" and "N".

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

Little Rock, Arkansas
January 25, 2012
EDSD25511

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House 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, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated January 25, 2012. 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, 2011, 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

Management of the District is responsible for establishing and maintaining effective 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.

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 or corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

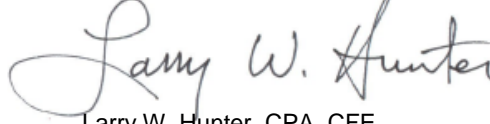
Compliance and Other Matters

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*.

We noted certain matters that we reported to management of the District in a separate letter dated January 25, 2012.

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 black ink that reads "Larry W. Hunter". The signature is written in a cursive style with a large, looping initial "L".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 25, 2012

Sen. Bill Pritchard
Senate Chair
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Senate Vice Chair
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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 (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 the District's major federal programs for the year ended June 30, 2011. 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 compliance 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, 2011. 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 2011-1.

Internal Control Over Compliance

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 to determine the 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.

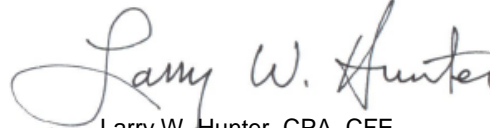
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 2011-1. 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
January 25, 2012

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Arkansas

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Legislative Auditor



LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

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

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and to improve internal control. This matter was discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

Ark. Code Ann. § 6-21-304 requires bid solicitation for certain purchases when the estimated cost equals or exceeds \$10,000. The District did not obtain competitive bids for an annual contract, commencing on July 1, 2011, of \$614,652 to provide custodial services and supplies, grounds service, and maintenance.

This letter 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
January 25, 2012

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2011

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 3,153,452		\$ 1,319,624	\$ 22,027
Investments			2,032,729	
Accounts receivable	45,668	\$ 461,768	87,718	
Due from other funds	154,923			
TOTAL ASSETS	\$ 3,354,043	\$ 461,768	\$ 3,440,071	\$ 22,027
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 96,841	\$ 1,242	\$ 25,182	
Due student groups				\$ 22,027
Due to other funds		154,923		
Deferred taxes	293,101			
Total Liabilities	389,942	156,165	25,182	22,027
Fund Balances:				
Restricted	1,143,156	305,603	3,414,889	
Assigned	25,801			
Unassigned	1,795,144			
Total Fund Balances	2,964,101	305,603	3,414,889	
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,354,043	\$ 461,768	\$ 3,440,071	\$ 22,027

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, 2011

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,561,362		
State assistance	9,548,812	\$ 6,159	\$ 788,917
Federal assistance		4,449,394	961,639
Activity revenues	40,120		
Meal sales		114,982	
Investment income	4,875		20,231
Other revenues	196,045	47,559	100
TOTAL REVENUES	12,351,214	4,618,094	1,770,887
EXPENDITURES			
Regular programs	4,487,134	256,637	
Special education	952,377	230,857	
Workforce education programs	366,234	6,082	
Compensatory education programs	124,299	1,065,884	
Other instructional programs	710,588	62,180	
Student support services	619,398	288,178	
Instructional staff support services	826,606	1,779,271	42,392
General administration support services	536,363	88,890	
School administration support services	550,342	14,598	
Central services support services	113,107	13,348	
Operation and maintenance of plant services	1,519,867	79,290	33,668
Student transportation services	308,730	24,253	
Other support services	20,482		
Food services operations	89,661	970,983	
Community services operations		333	
Facilities acquisition and construction services			1,504,105
Non-programmed costs		15,000	
Activity expenditures	64,485		
Debt Service:			
Principal retirement			155,000
Interest and fiscal charges			405,333
TOTAL EXPENDITURES	11,289,673	4,895,784	2,140,498
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,061,541	(277,690)	(369,611)
OTHER FINANCING SOURCES (USES)			
Transfers in		92,970	469,313
Transfers out	(562,283)		
Refund to grantor		(17,585)	
Proceeds from refunding bond issue			1,915,000
Payment to refunding bond escrow agent			(1,861,411)
Net bond issuance costs			(48,660)
TOTAL OTHER FINANCING SOURCES (USES)	(562,283)	75,385	474,242
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	499,258	(202,305)	104,631
FUND BALANCES - JULY 1 (RESTATED)	2,464,843	507,908	3,310,258
FUND BALANCES - JUNE 30	\$ 2,964,101	\$ 305,603	\$ 3,414,889

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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 2,509,000	\$ 2,561,362	\$ 52,362			
State assistance	8,211,848	9,548,812	1,336,964	\$ 10,000	\$ 6,159	\$ (3,841)
Federal assistance				3,629,837	4,449,394	819,557
Activity revenues		40,120	40,120			
Meal sales				65,000	114,982	49,982
Investment income	10,000	4,875	(5,125)			
Other revenues	1,572,135	196,045	(1,376,090)		47,559	47,559
TOTAL REVENUES	12,302,983	12,351,214	48,231	3,704,837	4,618,094	913,257
EXPENDITURES						
Regular programs	4,716,996	4,487,134	229,862	166,280	256,637	(90,357)
Special education	798,358	952,377	(154,019)	236,909	230,857	6,052
Workforce education programs	403,296	366,234	37,062		6,082	(6,082)
Compensatory education programs	128,745	124,299	4,446	1,369,164	1,065,884	303,280
Other instructional programs	790,774	710,588	80,186	73,278	62,180	11,098
Student support services	569,274	619,398	(50,124)	158,947	288,178	(129,231)
Instructional staff support services	1,150,690	826,606	324,084	366,369	1,779,271	(1,412,902)
General administration support services	494,410	536,363	(41,953)	85,875	88,890	(3,015)
School administration support services	639,712	550,342	89,370		14,598	(14,598)
Central services support services	102,533	113,107	(10,574)	3,650	13,348	(9,698)
Operation and maintenance of plant services	1,657,268	1,519,867	137,401	47,000	79,290	(32,290)
Student transportation services	332,565	308,730	23,835	94,390	24,253	70,137
Other support services	30,000	20,482	9,518			
Food services operations	134,395	89,661	44,734	1,075,855	970,983	104,872
Community services operations				53,095	333	52,762
Non-programmed costs				17,176	15,000	2,176
Activity expenditures		64,485	(64,485)			
TOTAL EXPENDITURES	11,949,016	11,289,673	659,343	3,747,988	4,895,784	(1,147,796)

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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 353,967	\$ 1,061,541	\$ 707,574	\$ (43,151)	\$ (277,690)	\$ (234,539)
OTHER FINANCING SOURCES (USES)						
Transfers in	5,921,919		(5,921,919)	90,000	92,970	2,970
Transfers out	(6,551,703)	(562,283)	5,989,420			
Refund to grantor					(17,585)	(17,585)
TOTAL OTHER FINANCING SOURCES (USES)	(629,784)	(562,283)	67,501	90,000	75,385	(14,615)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(275,817)	499,258	775,075	46,849	(202,305)	(249,154)
FUND BALANCES - JULY 1	2,685,593	2,464,843	(220,750)	524,772	507,908	(16,864)
FUND BALANCES - JUNE 30	<u>\$ 2,409,776</u>	<u>\$ 2,964,101</u>	<u>\$ 554,325</u>	<u>\$ 571,621</u>	<u>\$ 305,603</u>	<u>\$ (266,018)</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, 2011

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 used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the District's food services operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

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

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Fund – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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.

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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.

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:

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

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 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 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

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. Interfund Receivables and Payables

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

H. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

I. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The 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.

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Budget and Budgetary Accounting (Continued)

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.

J. Stabilization Arrangements

The District's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

K. Minimum Fund Balance Policies

The District's Board of Education has not formally adopted a minimum fund balance policy.

L. Fund Balance Classification Policies and Procedures

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The District's Board of Education has not adopted a formal policy addressing this authorization.

The District's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the District's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The District does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

M. Encumbrances

The District does not utilize encumbrance accounting.

N. Change in Accounting Principle

The District adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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)	\$ 1,565,103	\$ 2,335,070
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	4,962,729	4,962,729
Total Deposits	\$ 6,527,832	\$ 7,297,799

The above total deposits include certificates of deposit of \$2,032,729 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$595,154 at June 30, 2011 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
State assistance	\$ 6,024	\$		\$ 6,024
Federal assistance		447,578	\$ 87,718	535,296
Activity fund accounts	49			49
Other	39,595	14,190		53,785
Totals	\$ 45,668	\$ 461,768	\$ 87,718	\$ 595,154

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2011:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Elementary building	September 30, 2012	\$ 8,881,566
Various renovation projects	August 31, 2011	104,727

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4: COMMITMENTS (Continued)

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

General description of leases 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, 2011: \$285,798
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
2012	\$ 74,556
2013	74,556
2014	74,556
2015	62,130
Total	\$ 285,798

Rental payments for the operating leases described above were approximately \$74,556 for the year ended June 30, 2011.

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, 2011	Maturities To June 30, 2011
11/1/06	11/1/34	3.6 - 4.25%	\$ 2,265,000	\$ 2,070,000	\$ 195,000
11/1/08	11/1/37	4.25 - 5.75%	3,940,000	3,800,000	140,000
4/1/10	11/1/28	2 - 3.85%	2,455,000	2,420,000	35,000
10/1/10	11/1/34	1.1 - 4%	1,915,000	1,915,000	
Totals			\$ 10,575,000	\$ 10,205,000	\$ 370,000

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4: COMMITMENTS (Continued)

C. Long-term Debt Issued and Outstanding (Continued)

Changes in Long-term Debt

	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011
Bonds payable	\$ 10,260,000	\$ 1,915,000	\$ 1,970,000 *	\$ 10,205,000

*Includes \$1,815,000 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
2012	\$ 240,000	\$ 417,532	\$ 657,532
2013	295,000	409,808	704,808
2014	310,000	401,525	711,525
2015	320,000	392,626	712,626
2016	330,000	383,129	713,129
2017-2021	1,805,000	1,737,906	3,542,906
2022-2026	2,180,000	1,358,126	3,538,126
2027-2031	2,265,000	868,512	3,133,512
2032-2036	1,975,000	372,481	2,347,481
2037-2038	485,000	28,319	513,319
Totals	\$ 10,205,000	\$ 6,369,964	\$ 16,574,964

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$123,265 at June 30, 2011 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Vendor payables	\$ 62,147	\$ 1,242	\$ 25,182	\$ 88,571
Payroll withholdings and matching	34,694			34,694
Totals	\$ 96,841	\$ 1,242	\$ 25,182	\$ 123,265

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

6: DEBT REFUNDINGS

On October 1, 2010, the District issued refunding bonds of \$1,915,000 with interest rates of 1.1 to 4% to advance refund \$1,815,000 of outstanding bonds dated November 1, 2004. The interest rates of the bonds advance refunded were 2 to 4.8%. Bond proceeds of \$1,861,411 were remitted to an escrow agent to provide for all future debt payments on the bonds advance refunded. The 2004 bonds were called on November 29, 2010.

The remaining proceeds of \$4,929 (after payment of \$48,660 net bond issuance costs) will be used for future debt service payments. The issuance of these bonds will result in a savings of \$119,107 to the District over a period of 25 years.

7: INTERFUND TRANSFERS

The District transferred \$92,970 from the general fund to the special revenue fund to supplement its food services operations by \$90,000 and to reimburse \$2,970 prior year expenditures of a discontinued federal program. Additionally, the District transferred \$469,313 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, 2011, 2010, and 2009 were \$1,118,637, \$1,093,050, and \$1,164,278, 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 (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.

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

8: RETIREMENT PLANS (Continued)

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, 2011, 2010, and 2009 were \$1,567, \$1,660, and \$1,699, respectively, equal to the required contributions for each year.

9: PRIOR YEAR RESTATEMENT

The beginning fund balances of the special revenue fund and the other aggregate fund were increased and decreased, respectively, by \$1,402 to comply with the provisions of GASB Statement no. 54. Additionally, the beginning fund balance of the special revenue fund was decreased by \$2,134 for an overstatement of accounts receivable in a program subsequently discontinued.

10: 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, business trip accidental death and dismemberment, 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.

11: 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 \$190,092 for the year ended June 30, 2011.

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted for:				
Educational programs - national school lunch state categorical funding	\$ 911,662			\$ 911,662
English-language learners	27,818			27,818
Professional development	30,007			30,007
Capital projects			\$ 3,414,889	3,414,889
Distance learning and telemedicine loans and grants		\$ 191,093		191,093
Child nutrition programs		34,446		34,446
Medical services		44,760		44,760
Special education programs	80,046			80,046
Other purposes	93,623	35,304		128,927
Total Restricted	<u>1,143,156</u>	<u>305,603</u>	<u>3,414,889</u>	<u>4,863,648</u>
Assigned to:				
Student activities	<u>25,801</u>			<u>25,801</u>
Unassigned	<u>1,795,144</u>			<u>1,795,144</u>
Totals	<u>\$ 2,964,101</u>	<u>\$ 305,603</u>	<u>\$ 3,414,889</u>	<u>\$ 6,684,593</u>

13: FISCAL DISTRESS STATUS

On April 13, 2009, the State Board of Education classified the District in Fiscal Distress, effective July 1, 2009. The District, in conjunction with the Arkansas Department of Education, adopted a plan to implement effective cost reduction measures. On March 14, 2011, the State Board of Education removed the District from Fiscal Distress status.

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(Unaudited)

Schedule 1

	Balance June 30, 2011
<i>Nondepreciable capital assets:</i>	
Land	\$ 359,267
Construction in progress	569,124
Total nondepreciable capital assets	928,391
 <i>Depreciable capital assets:</i>	
Buildings	15,869,163
Improvements/infrastructure	336,826
Equipment	4,304,046
Total depreciable capital assets	20,510,035
 Less accumulated depreciation for:	
Buildings	6,570,441
Improvements/infrastructure	178,201
Equipment	2,938,993
Total accumulated depreciation	9,687,635
Total depreciable capital assets, net	10,822,400
Capital assets, net	\$ 11,750,791

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 1,041
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	47-13-000	222,803
National School Lunch Program - Cash Assistance	10.555	47-13-000	499,108
Total State Department of Education			<u>721,911</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	4713000	43,002
TOTAL CHILD NUTRITION CLUSTER			<u>765,954</u>
TITLE I, PART A CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	47-13	1,124,271
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	4713000	509,545
TOTAL TITLE I, PART A CLUSTER			<u>1,633,816</u>
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	4713	356,303
ARRA - Special Education - Grants to States, Recovery Act	84.391	4713000	107,784
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>464,087</u>
OTHER PROGRAMS			
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 5)	12.AR092011		50,636
<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	2,291
Reading First State Grants	84.357	4713	57,518
Rural Education	84.358	4713	22,775
Improving Teacher Quality State Grants	84.367	4713	155,646
ARRA - School Improvement Grants, Recovery Act	84.388	4713000	1,011,964
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	4713000	1,359,110
Total U. S. Department of Education			<u>2,609,304</u>

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. Department of Health and Human Services Passed Through State Department of Human Services: Temporary Assistance for Needy Families	93.558	Unavailable	\$ 81,000
TOTAL OTHER PROGRAMS			<u>2,740,940</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,604,797</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 (the "Schedule") includes the federal grant activity of Osceola School District No. 1 (District) under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: 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 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 6: During the year ended June 30, 2011, the District received Medicaid funding of \$22,551 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, 2011

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:

CFDA Number(s)	Name of Federal Program or Cluster
84.010 and 84.389	Title I, Part A Cluster
84.027 and 84.391	Special Education Cluster (IDEA)
84.367	Improving Teacher Quality State Grants
84.388	ARRA - School Improvement Grants, Recovery Act
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

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

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

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 CLUSTER (IDEA) - CFDA NUMBERS 84.027 AND 84.391
PASS-THROUGH NUMBERS 4713 AND 4713000
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-1. Reporting

Criteria or specific requirement: The Arkansas Department of Education (ADE) requires the District to submit a budget and an annual financial report for its special education grant activity (ARRA and non-ARRA funds). Expenditures may not exceed the budgeted amounts for each cell (function/object) by more than 10 percent without prior approval from the ADE and the submission of budget amendments.

Condition: The District expended non-ARRA special education funds of \$16,905 from nine functions/objects that were not budgeted, and exceeded the 10 percent allowance in another budget cell by \$840. Additionally, ARRA special education funds of \$1,855 were expended from an unbudgeted function/object.

Context: Comparison of budgeted expenditures to actual expenditures as reported on the annual financial report.

Effect: The District did not expend funds from the ARRA and non-ARRA special education programs within the approved budget categories.

Cause: Lack of management oversight in the preparation of the budget and monitoring of budgeted expenditures to actual expenditures.

Recommendation: The District should implement procedures to ensure costs are incurred within the applicable budget categories and contact the ADE for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: The Special Education budget will be monitored more closely with the APSCN budgets before year end.

OSCEOLA SCHOOL DISTRICT NO. 1
MISSISSIPPI COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION - GRANTS TO STATES

2010 - Finding 2010-2: Special Education - Grants to States - CFDA Number 84.027

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.

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

Current Status: Corrective action was taken.

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, 2011
(Unaudited)

General Fund	Year Ended June 30,				
	2011	2010	2009	2008	2007
Total Assets	\$ 3,354,043	\$ 2,587,533	\$ 2,610,394	\$ 3,232,655	\$ 4,146,437
Total Liabilities	389,942	122,690	320,706	453,401	218,350
Total Fund Balances	2,964,101	2,464,843	2,289,688	2,779,254	3,928,087
Total Revenues	12,351,214	12,477,532	12,198,522	12,627,752	12,313,730
Total Expenditures	11,289,673	11,613,288	12,613,201	13,296,218	12,171,449
Total Other Financing Sources (Uses)	(562,283)	(689,089)	(74,887)	(480,367)	(579,000)
Special Revenue Fund					
Total Assets	461,768	530,723	785,421	628,718	785,283
Total Liabilities	156,165	22,083	10,387	12,561	
Total Fund Balances	305,603	508,640	775,034	616,157	785,283
Total Revenues	4,618,094	3,073,055	3,063,724	2,761,155	2,921,782
Total Expenditures	4,895,784	3,429,034	3,122,009	3,008,914	3,212,201
Total Other Financing Sources (Uses)	75,385	89,585	217,162	78,633	182,911
Other Aggregate Funds					
Total Assets	3,440,071	3,362,276	4,585,453	1,301,205	2,052,834
Total Liabilities	25,182	50,616		25,643	109,682
Total Fund Balances	3,414,889	3,311,660	4,585,453	1,275,562	1,943,152
Total Revenues	1,770,887	1,286,833	1,333,147	518,911	
Total Expenditures	2,140,498	3,155,374	2,400,065	1,581,868	610,483
Total Other Financing Sources (Uses)	474,242	594,748	4,376,809	395,367	2,553,635