

# Ola School District No. 10

Yell County, Arkansas

## General Purpose Financial Statements and Other Reports June 30, 2003

LEGISLATIVE JOINT AUDITING COMMITTEE



OLA SCHOOL DISTRICT NO. 10  
YELL COUNTY, ARKANSAS  
TABLE OF CONTENTS  
JUNE 30, 2003

Independent Auditor's Report  
Combined Report(s) on Compliance, Internal Controls and Other Matters

GENERAL PURPOSE FINANCIAL STATEMENTS

	<u>Exhibit</u>
Combined Balance Sheet - Governmental and Fiduciary Fund Types and Account Groups	A
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Types and Expendable Trust Funds	B
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types	C
Notes to Financial Statements	

SUPPORTING SCHEDULES

	<u>Schedule</u>
Expenditures of Federal Awards	1
Federal Award Programs - Findings and Questioned Costs	2
Federal Award Programs - Summary of Prior Audit Findings	3

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. David Evans  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Ola School District No. 10 and School Board Members  
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements of the Ola School District No. 10 (the "District"), as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of district management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents, including the schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
March 3, 2004  
EDSD41503

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. David Evans  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Ola School District No. 10 and School Board Members  
Legislative Joint Auditing Committee

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of the Ola School District No. 10. This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), the United States Office of Management and Budget (OMB), the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. Section I of this letter is designed to satisfy certain requirements for compliance and internal control over financial reporting, whereas, Section II is designed to satisfy certain requirements for compliance requirements applicable to each major federal award program and internal control over compliance in accordance with OMB Circular A-133.

#### SECTION I: REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general purpose financial statements of the Ola School District No. 10 (the "District"), as of and for the year ended June 30, 2003, and have issued our report thereon dated March 3, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

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

#### Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the finding below to be a material weakness. Other matters involving compliance and/or internal control were reported to School District management in a separate letter.

## AUDIT FINDINGS

### Reportable Condition

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

## SECTION II: REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

### Compliance

We have audited the compliance of the Ola School District No. 10 (the "District") with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs - Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "William R. Baum". The signature is written in a cursive style with a prominent initial "W".

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
March 3, 2004

OLA SCHOOL DISTRICT NO. 10  
 YELL COUNTY, ARKANSAS

Exhibit A

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

	Governmental Fund Types			Fiduciary	Account Groups		Totals
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt	(Memorandum Only)
<b>ASSETS</b>							
Cash	\$ 592,058	\$ 213,982	\$ 31,005	\$ 915			\$ 837,960
Investments	608,048						608,048
Interfund receivable		4,884					4,884
Land					\$ 84,813		84,813
Buildings					2,658,289		2,658,289
Improvements other than buildings					157,270		157,270
Equipment					952,840		952,840
Amount to be provided for retirement of general long-term debt						\$ 1,487,863	1,487,863
<b>TOTAL ASSETS</b>	<b>\$ 1,200,106</b>	<b>\$ 218,866</b>	<b>\$ 31,005</b>	<b>\$ 915</b>	<b>\$ 3,853,212</b>	<b>\$ 1,487,863</b>	<b>\$ 6,791,967</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 14,829						\$ 14,829
Due student groups				\$ 595			595
Interfund payable	4,884						4,884
Bonds payable						\$ 1,481,500	1,481,500
Capital leases						6,363	6,363
<b>Total Liabilities</b>	<b>19,713</b>			<b>595</b>		<b>1,487,863</b>	<b>1,508,171</b>
<b>Fund Equity:</b>							
Investment in general fixed assets					\$ 3,853,212		3,853,212
<b>Fund balances:</b>							
<b>Unreserved:</b>							
Designated - Scholarship Fund				320			320
Undesignated	1,180,393	\$ 218,866	\$ 31,005				1,430,264
<b>Total Fund Equity</b>	<b>1,180,393</b>	<b>218,866</b>	<b>31,005</b>	<b>320</b>	<b>3,853,212</b>		<b>5,283,796</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,200,106</b>	<b>\$ 218,866</b>	<b>\$ 31,005</b>	<b>\$ 915</b>	<b>\$ 3,853,212</b>	<b>\$ 1,487,863</b>	<b>\$ 6,791,967</b>

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

OLA SCHOOL DISTRICT NO. 10  
YELL COUNTY, ARKANSAS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003

Exhibit B

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
REVENUES						
Property taxes	\$ 529,609			\$ 34,185		\$ 563,794
State assistance	2,462,534	\$ 2,103				2,464,637
Federal assistance	8,911	661,222				670,133
Activity revenues	126,876					126,876
Meal sales		30,061				30,061
Interest on investments	18,628				\$ 17	18,645
Other revenues	25,471	14,589				40,060
<b>TOTAL REVENUES</b>	<b>3,172,029</b>	<b>707,975</b>		<b>34,185</b>	<b>17</b>	<b>3,914,206</b>
EXPENDITURES						
Regular programs	1,262,061	45,658				1,307,719
Special education	202,901	33,564				236,465
Workforce education	134,011	9,693				143,704
Compensatory education	3,803	191,765				195,568
Other instructional programs	71,274	3,713				74,987
Support services	1,081,547	221,253				1,302,800
Non-programmed costs	4,775	43,650				48,425
Activity expenditures	121,504					121,504
Capital outlay				63,950		63,950
Debt service:						
Principal retirement	24,110		\$ 95,000			119,110
Interest and fiscal charges	1,610		69,875			71,485
Scholarships awarded					200	200
<b>TOTAL EXPENDITURES</b>	<b>2,907,596</b>	<b>549,296</b>	<b>164,875</b>	<b>63,950</b>	<b>200</b>	<b>3,685,917</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>264,433</b>	<b>158,679</b>	<b>(164,875)</b>	<b>(29,765)</b>	<b>(183)</b>	<b>228,289</b>



OLA SCHOOL DISTRICT NO. 10  
YELL COUNTY, ARKANSAS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003

Exhibit B

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
OTHER FINANCING SOURCES (USES)						
Transfers in		\$ 2,858	\$ 164,875			\$ 167,733
Transfers out	\$ (167,742)					(167,742)
Sale of equipment	375					375
Compensation for loss of fixed assets	4,898					4,898
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(162,469)</b>	<b>2,858</b>	<b>164,875</b>			<b>5,264</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>101,964</b>	<b>161,537</b>		<b>\$ (29,765)</b>	<b>\$ (183)</b>	<b>233,553</b>
FUND BALANCES - JULY 1	1,078,429	57,329		60,770	503	1,197,031
FUND BALANCES - JUNE 30	<u>\$ 1,180,393</u>	<u>\$ 218,866</u>	<u>\$ 0</u>	<u>\$ 31,005</u>	<u>\$ 320</u>	<u>\$ 1,430,584</u>

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

OLA SCHOOL DISTRICT NO. 10  
YELL COUNTY, ARKANSAS

Exhibit C

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Property taxes	\$ 559,112	\$ 529,609	\$ (29,503)				\$ 559,112	\$ 529,609	\$ 529,609
State assistance	2,342,451	2,462,534	120,083		\$ 2,103	\$ 2,103	2,342,451	2,464,637	122,186
Federal assistance	2,000	8,911	6,911	\$ 338,741	661,222	322,481	340,741	670,133	329,392
Activity revenues		126,876	126,876					126,876	126,876
Meal sales					30,061	30,061		30,061	30,061
Interest on investments	12,500	18,628	6,128				12,500	18,628	6,128
Other revenues	4,500	25,471	20,971		14,589	14,589	4,500	40,060	35,560
<b>TOTAL REVENUES</b>	<b>2,920,563</b>	<b>3,172,029</b>	<b>251,466</b>	<b>338,741</b>	<b>707,975</b>	<b>369,234</b>	<b>3,259,304</b>	<b>3,880,004</b>	<b>620,700</b>
EXPENDITURES									
Regular programs	1,258,745	1,262,061	(3,316)	31,914	45,658	(13,744)	1,290,659	1,307,719	(17,060)
Special education	211,232	202,901	8,331	50,800	33,564	17,236	262,032	236,465	25,567
Workforce education	136,862	134,011	2,851		9,693	(9,693)	136,862	143,704	(6,842)
Compensatory education		3,803	(3,803)	141,864	191,765	(49,901)	141,864	195,568	(53,704)
Other instructional programs	85,623	71,274	14,349		3,713	(3,713)	85,623	74,987	10,636
Support services	1,110,518	1,081,547	28,971	53,995	221,253	(167,258)	1,164,513	1,302,800	(138,287)
Non-programmed costs	25,721	4,775	20,946	42,632	43,650	(1,018)	68,353	48,425	19,928
Activity expenditures		121,504	(121,504)					121,504	(121,504)
Debt service:									
Principal retirement		24,110	(24,110)					24,110	(24,110)
Interest and fiscal charges		1,610	(1,610)					1,610	(1,610)
<b>TOTAL EXPENDITURES</b>	<b>2,828,701</b>	<b>2,907,596</b>	<b>(78,895)</b>	<b>321,205</b>	<b>549,296</b>	<b>(228,091)</b>	<b>3,149,906</b>	<b>3,456,892</b>	<b>(306,986)</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	91,862	264,433	172,571	17,536	158,679	141,143	109,398	423,112	313,714
OTHER FINANCING SOURCES (USES)									
Transfers in					2,858	2,858		2,858	2,858
Transfers out		(167,742)	(167,742)					(167,742)	(167,742)
Sale of equipment		375	375					375	375
Compensation for loss of fixed assets		4,898	4,898					4,898	4,898
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>		<b>(162,469)</b>	<b>(162,469)</b>		<b>2,858</b>	<b>2,858</b>		<b>(159,611)</b>	<b>(159,611)</b>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	91,862	101,964	10,102	17,536	161,537	144,001	109,398	263,501	154,103
FUND BALANCES - JULY 1	1,078,429	1,078,429		57,329	57,329		1,135,758	1,135,758	
FUND BALANCES - JUNE 30	\$ 1,170,291	\$ 1,180,393	\$ 10,102	\$ 74,865	\$ 218,866	\$ 144,001	\$ 1,245,156	\$ 1,399,259	\$ 154,103

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

OLA SCHOOL DISTRICT NO. 10  
YELL COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Board of Education, a seven (7) 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 Ola School District (District). The District's financial statements reflect all funds and accounts directly under the control of the District. There are no component units.

B. Basis of Presentation - Fund Accounting

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

Governmental Funds

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

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

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

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

Fiduciary Funds

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

Account Groups

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

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

C. Basis of Accounting

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

OLA SCHOOL DISTRICT NO. 10  
YELL COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. General Fixed Assets

General fixed assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Such assets are reported at cost or estimated historical cost, if actual data is not available, in the general fixed assets account group. Donated fixed assets are reported at fair market value when received in the general fixed assets account group. Library holdings and textbooks are not capitalized. In accordance with generally accepted accounting principles applicable to governmental entities, no provision for depreciation is reported.

E. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year.

F. Investments

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

G. Inventories

Inventories are considered expenditures when purchased.

H. Interfund Receivables and Payables

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

I. Liability for Compensated Absences

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

J. Fund Equity

Fund Balance -

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

K. Budget and Budgetary Accounting

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

OLA SCHOOL DISTRICT NO. 10  
 YELL COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

L. Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods or services. The District does not record encumbrances in its accounting system and none are reported in the accompanying financial statements.

NOTE 2: Budget Versus Actual

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Governmental Fund Types (Exhibit C) includes revenues and expenditures of the activity funds, which are not budgeted by the District.

NOTE 3: Public Fund Deposits

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured, Collateralized	737,960	986,255
Total Deposits	\$ 837,960	\$ 1,086,255

NOTE 4: Public Fund Investments

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

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of deposit	\$ 608,048	\$ 0	\$ 0	\$ 608,048	\$ 608,048

OLA SCHOOL DISTRICT NO. 10  
YELL COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 5: Changes in General Fixed Assets

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Land	\$ 84,813			\$ 84,813
Buildings	2,658,289			2,658,289
Improvements other than buildings	157,270			157,270
Equipment	884,821	\$ 127,127	\$ 59,108	952,840
Totals	<u>\$ 3,785,193</u>	<u>\$ 127,127</u>	<u>\$ 59,108</u>	<u>\$ 3,853,212</u>

NOTE 6: Long-term Debt Issued and Outstanding

The District is presently paying on the following long-term debt:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2003	Maturities To June 30, 2003
2/1/1993	6/1/2008	5.000	\$ 407,000	\$ 260,000	\$ 147,000
5/1/2001	6/1/2015	3.75 to 4.600	1,336,500	1,221,500	115,000
11/4/1997	11/4/2003	6.000	65,393	6,363	59,030
Totals			<u>\$ 1,808,893</u>	<u>\$ 1,487,863</u>	<u>\$ 321,030</u>

NOTE 7: Changes in Long-term Debt

	Balance July 1, 2002	Issued	Retired	Balance June 30, 2003
Bonds payable	\$ 1,576,500		\$ 95,000	\$ 1,481,500
Certificates of indebtedness	11,885		11,885	
Capital leases	18,588		12,225	6,363
Totals	<u>\$ 1,606,973</u>	<u>\$ 0</u>	<u>\$ 119,110</u>	<u>\$ 1,487,863</u>

OLA SCHOOL DISTRICT NO. 10  
 YELL COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2003

NOTE 7: Changes in Long-term Debt (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2004	\$ 106,363	\$ 65,368	\$ 171,731
2005	105,000	60,864	165,864
2006	110,000	56,192	166,192
2007	115,000	51,269	166,269
2008	116,500	50,692	167,192
To Maturity	<u>935,000</u>	<u>167,493</u>	<u>1,102,493</u>
Totals	<u>\$ 1,487,863</u>	<u>\$ 451,878</u>	<u>\$ 1,939,741</u>

NOTE 8: Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2003
Excel Lighting System	<u>\$ 51,151</u>
	<u>June 30, 2003</u>
Total Minimum Lease Payments	\$ 6,555
Less: Amount Representing Interest	<u>192</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 6,363</u>

OLA SCHOOL DISTRICT NO. 10  
YELL COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 9: Retirement Plans

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 12%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$215,223, \$209,562 and \$213,725, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2003, 2002 and 2001 were \$17,227, \$15,888 and \$12,643, respectively, equal to the required contributions for each year.

NOTE 10: Subsequent Events

Ola School District floated two refunding bond issues during the year ending June 30, 2004. One issue dated September 15, 2003 for \$305,000 was issued to refund a portion of Bond issue dated May 1, 2001 which had at June 30, 2003 balance of \$1,221,500. The second issued dated September 1, 2003 was issued to refund the remainder of the issued dated May 1, 2001 and the balance of the issue dated February 1, 1993 which had a balance at June 30, 2003 of \$260,000.

NOTE 11: Prior Period Adjustment

The General Fund Balance was increased \$13,868 for the year ended June 30, 2002 and the Special Revenue was reduced by the same amount.

NOTE 12: Brice Hasty Memorial Scholarship Fund

The Brice Hasty Memorial Scholarship Fund was established with a \$1,000 contribution from Elwanda Ellis. This is an expendable trust fund to be administered in accordance with guidelines established by Ola School District.



OLA SCHOOL DISTRICT NO. 10  
 YELL COUNTY, ARKANSAS  
 EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2003

Schedule 1

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	75-07	\$ 30,610
National School Lunch Program	10.555	75-07	99,863
Total State Department of Education			130,473
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	75-07	11,587
TOTAL CHILD NUTRITION CLUSTER			142,060
<b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	75-07	124,872
Migrant Education - Basic State Grant Program	84.011	75-07	41,159
Special Education - Grants to States	84.027	75-07	79,481
Vocational Education - Basic Grants to States	84.048	75-07	9,693
Safe and Drug-Free Schools and Communities - State Grants	84.186	75-07	4,243
Innovative Education Program Strategies	84.298	75-07	3,979
Enhancing Education Through Technology	84.318	75-07	3,905
Class Size Reduction	84.340	75-07	6,095
School Improvement Grant	84.348	75-07	35,549
Reading First	84.357	75-07	1,790
Small, Rural Schools Achievement Program	84.358	75-07	12,445
Teacher and Principal Training and Recruiting Fund	84.367	75-07	25,888
Total U. S. Department of Education			349,099
Passed Through State Department of Human Services			
Childcare Assistance Grant	93.575	75-07	700
TOTAL OTHER PROGRAMS			349,799
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 491,859

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 Ola School District No. 10 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

Note 2: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.

OLA SCHOOL DISTRICT NO. 10  
 YELL COUNTY, ARKANSAS  
 FEDERAL AWARD PROGRAMS -  
 FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2003

Schedule 2

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

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Reportable condition(s) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Reportable condition(s) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  yes  no

Identification of major programs:

CFDA Numbers	Name of Federal Programs or Cluster
10.553, 10.555	Child Nutrition Cluster
84.010	Title I Grants - LEA

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

Auditee qualified as low-risk auditee?  yes  no

OLA SCHOOL DISTRICT NO. 10  
YELL COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 2

**SECTION II - FINANCIAL STATEMENT FINDINGS**

2003-1. Segregation of Duties

Specific Requirement - Duties pertaining to cash transactions should be adequately segregated to reduce the opportunities for any individual in the normal course of his/her duties to both perpetuate and conceal errors or irregularities.

Condition - Duties pertaining to cash transactions were not adequately segregated. This condition could be applicable to the District's federal programs.

Effect - The District had inadequate control over cash transactions.

Cause - Duties pertaining to cash transactions were not adequately segregated due to a limited number of personnel.

Recommendation - Segregation of duties relating to cash transactions should be established to the extent possible.

Response - We concur with the recommendation.

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

No findings and questioned costs noted.

OLA SCHOOL DISTRICT NO. 10  
YELL COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2003

Schedule 3

There were no findings in the prior audit.