

Ola School District No. 10

Yell County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2004



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YELL COUNTY, ARKANSAS
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JUNE 30, 2004

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Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
Senate Co-Vice Chair
Rep. Sandra Prater
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 financial statements of each major governmental fund and the aggregate remaining fund information of the Ola School District No. 10 (the "District"), as of and for the year ended June 30, 2004, 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 the financial statements using accounting practices prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects 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 determined, 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 above 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, 2004, or the changes in financial position, thereof for the year then ended.

In our opinion, the financial statements referred to above 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, 2004, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 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), 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*, Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary of Prior Audit Findings (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Expenditures of Federal Awards (Schedule 2), Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Federal Award Programs – Summary 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) has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
May 2, 2005
EDSD41504

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

Arkansas



Charles L. Robinson, 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*

Ola School District No. 10 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 Ola School District No. 10 (the "District"), as of and for the year ended June 30, 2004, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated May 2, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Department of Education, which differ from accounting principles generally accepted in the United States of America. The effects 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 determined, 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, 2004, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

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 opinions on the regulatory basis financial statements and not to provide an opinion 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 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs as item number 2004-1.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the regulatory basis 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 finding number 2004-1 in the accompanying schedule of Federal Award Programs - Findings and Questioned Costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, and 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*.

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 are not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
May 2, 2005

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Lavery
Senate Co-Vice Chair
Rep. Sandra Prater
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Ola School District No. 10 (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. 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 grant agreements 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 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, 2004.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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 reportable 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 caused by error or fraud 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 are not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
May 2, 2005

OLA SCHOOL DISTRICT NO. 10
 YELL COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2004

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 450,771	\$ 94,756	\$ 19,091	\$ 3,542
Investments	607,220			
Accounts receivable	65,654			
TOTAL ASSETS	\$ 1,123,645	\$ 94,756	\$ 19,091	\$ 3,542
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due student groups				\$ 3,542
Fund Balances:				
Reserved:				
Capital projects			\$ 19,091	
Unreserved:				
Undesignated	\$ 1,123,645	\$ 94,756		
Total Fund Balances	1,123,645	94,756	19,091	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,123,645	\$ 94,756	\$ 19,091	\$ 3,542

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

OLA SCHOOL DISTRICT NO. 10
YELL COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes	\$ 487,490		\$ 27,174
Property tax relief trust distribution	105,415		
State assistance	2,447,298	\$ 2,025	6,812
Federal assistance	9,383	475,565	
Activity revenues	154,910		
Meal sales		35,069	
Investment income	14,290		
Other revenues	59,462	16,992	
TOTAL REVENUES	3,278,248	529,651	33,986
EXPENDITURES			
Regular programs	1,339,744	39,452	
Special education	188,844	45,598	
Workforce education	130,935	12,475	
Compensatory education	9,259	297,433	
Other instructional programs	84,934		
Student support services	136,815	19,258	
Instructional staff support services	113,076	13,913	
General administration support services	154,824	1,544	
School administration support services	161,921		
Business support services	56,198	11,372	
Operation and maintenance of plant services	319,053	543	
Student transportation services	105,493	1,294	
Central support services	55,952	4,487	
Food services operations		200,656	
Non-programmed costs	11,234	34,567	
Activity expenditures	148,298		
Capital outlay	93,048		45,900
Debt service:			
Principal retirement	6,363		120,000
Interest and fiscal charges	175		75,203
TOTAL EXPENDITURES	3,116,166	682,592	241,103
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	162,082	(152,941)	(207,117)
OTHER FINANCING SOURCES (USES)			
Transfers in		28,831	195,203
Transfers out	(224,034)		
Proceeds from bond issue	1,625,000		
Interest on early retirement of debt	(97,466)		
Early retirement of debt	(1,481,500)		
Net bond issuance cost	(40,830)		
TOTAL OTHER FINANCING SOURCES (USES)	(218,830)	28,831	195,203
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(56,748)	(124,110)	(11,914)
FUND BALANCES - JULY 1	1,180,393	218,866	31,005
FUND BALANCES - JUNE 30	\$ 1,123,645	\$ 94,756	\$ 19,091

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

OLA SCHOOL DISTRICT NO. 10

YELL COUNTY, ARKANSAS

Exhibit C

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, 2004

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$ 688,247	\$ 487,490	\$ (200,757)			
Property tax relief trust distribution		105,415	105,415			
State assistance	2,435,107	2,447,298	12,191		\$ 2,025	\$ 2,025
Federal assistance	7,000	9,383	2,383	\$ 435,853	475,565	39,712
Activity revenues		154,910	154,910			
Meal sales					35,069	35,069
Investment income	10,000	14,290	4,290			
Other revenues		59,462	59,462		16,992	16,992
TOTAL REVENUES	3,140,354	3,278,248	137,894	435,853	529,651	93,798
EXPENDITURES						
Regular programs	1,355,908	1,339,744	16,164	37,325	39,452	(2,127)
Special education	184,481	188,844	(4,363)	65,308	45,598	19,710
Workforce education	137,467	130,935	6,532		12,475	(12,475)
Compensatory education	10,872	9,259	1,613	385,836	297,433	88,403
Other instructional programs	87,388	84,934	2,454			
Student support services	137,993	136,815	1,178	15,000	19,258	(4,258)
Instructional staff support services	116,505	113,076	3,429	32,219	13,913	18,306
General administration support services	166,690	154,824	11,866	3,947	1,544	2,403
School administration support services	189,283	161,921	27,362			
Business support services	57,173	56,198	975		11,372	(11,372)
Operation and maintenance of plant services	375,219	319,053	56,166	1,000	543	457
Student transportation services	109,279	105,493	3,786	2,600	1,294	1,306
Central supplies services	46,767	55,952	(9,185)	7,772	4,487	3,285
Other support services	7,200		7,200	25,273		25,273
Food services operations				79,462	200,656	(121,194)
Non-programmed costs		11,234	(11,234)	4,492	34,567	(30,075)
Activity expenditures		148,298	(148,298)			
Capital outlay	125,000	93,048	31,952			
Debt service:						
Principal retirement		6,363	(6,363)			
Interest and fiscal charges		175	(175)			
TOTAL EXPENDITURES	3,107,225	3,116,166	(8,941)	660,234	682,592	(22,358)

OLA SCHOOL DISTRICT NO. 10
YELL 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, 2004

Exhibit C

	General			Special Revenue		
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 33,129	\$ 162,082	\$ 128,953	\$ (224,381)	\$ (152,941)	\$ 71,440
OTHER FINANCING SOURCES (USES)						
Transfers in					28,831	28,831
Transfers out		(224,034)	(224,034)			
Proceeds from bond issue		1,625,000	1,625,000			
Interest on early retirement of debt		(97,466)	(97,466)			
Early retirement of debt		(1,481,500)	(1,481,500)			
Net bond issuance cost		(40,830)	(40,830)			
TOTAL OTHER FINANCING SOURCES (USES)		(218,830)	(218,830)		28,831	28,831
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	33,129	(56,748)	(89,877)	(224,381)	(124,110)	100,271
FUND BALANCES - JULY 1	2,838,345	1,180,393	(1,657,952)	16,514	218,866	202,352
FUND BALANCES - JUNE 30	\$ 2,871,474	\$ 1,123,645	\$ (1,747,829)	\$ (207,867)	\$ 94,756	\$ 302,623

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, 2004

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a 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). There are no component units.

B. Description of Funds

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

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

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

Other governmental funds consist of the following:

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an *Other Comprehensive Basis of Accounting* (OCBOA). This basis of accounting is prescribed by Arkansas Code Annotated §10-4-412(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.

OLA SCHOOL DISTRICT NO. 10
 YELL COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

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.

E. Capital Assets

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

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

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes that are due at the end of the fiscal year and collected within 60 days are accrued. Deferred property taxes are not recognized.

OLA SCHOOL DISTRICT NO. 10
 YELL COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Fund Balance Designations

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

H. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

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

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

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured, Collateralized	468,160	747,527
Total Deposits	\$ 568,160	\$ 847,527

3: INVESTMENTS

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

OLA SCHOOL DISTRICT NO. 10
YELL COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

3: INVESTMENTS (CONTINUED)

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of deposit	\$ 607,220	\$ 0	\$ 0	\$ 607,220	\$ 607,220

4: RECEIVABLES

The receivables of \$65,654 at June 30, 2004, are as follows:

Class of Receivable	General Fund
Taxes:	
Local	\$ 65,654

5: COMMITMENTS

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, 2004	Maturities To June 30, 2004
2/1/93	6/1/08	5.00%	\$ 407,000		\$ 407,000
5/1/01	6/1/15	3.75% - 4.6%	1,336,500		1,336,500
9/1/03	6/1/16	2.625%-3.9%	1,320,000	\$ 1,260,000	60,000
9/15/03	6/1/28	1.75% - 3.8%	305,000	245,000	60,000
Totals			\$ 3,368,500	\$ 1,505,000	\$ 1,863,500

Changes in Long-Term Debt

	Balance July 1, 2003	Issued	Retired	Balance June 30, 2004
Bonds payable	\$ 1,481,500	\$ 1,625,000	\$ 1,601,500	\$ 1,505,000
Capital leases	6,363		6,363	
Totals	\$ 1,487,863	\$ 1,625,000	\$ 1,607,863	\$ 1,505,000

Includes \$1,481,500 early retirement of debt - See Note 8.

OLA SCHOOL DISTRICT NO. 10
 YELL COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

5: COMMITMENTS (CONTINUED)

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

Year Ended June 30,	Principal	Interest	Total
2005	\$ 105,000	\$ 51,550	\$ 156,550
2006	110,000	49,019	159,019
2007	115,000	46,050	161,050
2008	105,000	42,560	147,560
2009	120,000	38,970	158,970
2010-2014	675,000	131,390	806,390
2015-2016	275,000	15,600	290,600
Totals	<u>\$ 1,505,000</u>	<u>\$ 375,139</u>	<u>\$ 1,880,139</u>

6: RETIREMENT PLANS

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 13%. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$231,958, \$215,223 and \$209,562, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2004, 2003 and 2002 were \$28,668, \$17,227 and \$15,888, respectively, equal to the required contributions for each year.

7: SUBSEQUENT EVENTS

The Ola School District at their meeting on March 15, 2004, with all board members present, approved by a unanimous vote to administratively consolidate, under the requirements of Act 60 of the 2004 Special Session, with Fourche Valley, Plainview-Rover and Perry-Casa.

The State Board of Education approved the administratively consolidation of the Fourche Valley School District, Plainview-Rover School District, Perry-Casa School District and the Ola School District at their meeting on Monday, May 10, 2004, at 8:00 a.m. in the auditorium of the State Education Building with one (1) member absent.

OLA SCHOOL DISTRICT NO. 10
YELL COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

7: SUBSEQUENT EVENTS (CONTINUED)

The name of the new district formed by the administrative consolidation of these Districts is the Two Rivers School District which became effective on July 1, 2004.

8: ADVANCE REFUNDING OF DEBT

On August 11, 2003, the District issued \$1,320,000 and \$305,000 in refunding bonds with interest rates of 2.625 to 3.9 percent and 1.75 to 3.8 percent, respectively, to advance refund \$1,221,500 of outstanding bonds dated May 1, 2001 and \$260,000 of outstanding bonds dated February 1, 1993 with interest rates of 3.75 to 4.6 percent and 5 percent, respectively. The net proceeds of \$1,578,966 (after payment of bond issuance costs of \$40,830) were used to purchase U. S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the May 1, 2001 and February 1, 1993 bonds. As a result, the May 1, 2001 and February 1, 1993 bonds are considered to be defeased and the liability for these bonds have been removed from the general long-term debt. An additional \$5,204 was received as a result of the issue and is to be used for debt service payments. The February 1, 1993 bonds were called for redemption on December 1, 2003. The May 1, 2001 bonds will be called as follows: \$55,000 plus interest on June 1, 2004, \$55,000 plus interest on June 1, 2005 and \$1,111,500 plus interest on June 1, 2006. The balance in the escrow account at June 30, 2004 is \$1,219,867.

OLA SCHOOL DISTRICT NO. 10
 YELL COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2004

Schedule 1

	Balance July 1, 2003	Additions	Deletions	Reclassi- fications	Balance June 30, 2004
<i>Nondepreciable capital assets:</i>					
Land	\$ 84,813				\$ 84,813
<i>Depreciable capital assets:</i>					
Buildings	2,659,489	\$ 5,491		\$ 1,200	2,666,180
Improvements/infrastructure	157,270	63,593			220,863
Equipment	951,640	69,864	\$ 196,871	(1,200)	823,433
Total depreciable capital assets	<u>3,768,399</u>	<u>138,948</u>	<u>196,871</u>	<u>0</u>	<u>3,710,476</u>
Less accumulated depreciation for:					
Buildings	941,138	67,489			1,008,627
Improvements/infrastructure	56,440	9,453			65,893
Equipment	605,145	57,818	115,473		547,490
Total accumulated depreciation	<u>1,602,723</u>	<u>134,760</u>	<u>115,473</u>		<u>1,622,010</u>
Total depreciable capital assets, net	<u>2,165,676</u>	<u>4,188</u>	<u>81,398</u>		<u>2,088,466</u>
Capital assets, net	<u>\$ 2,250,489</u>	<u>\$ 4,188</u>	<u>\$ 81,398</u>	<u>\$ 0</u>	<u>\$ 2,173,279</u>

OLA SCHOOL DISTRICT NO. 10
 YELL COUNTY, ARKANSAS
 EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2004

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	75-07	\$ 31,318
National School Lunch Program	10.555	75-07	101,152
Total State Department of Education			<u>132,470</u>
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	75-07	11,372
TOTAL CHILD NUTRITION CLUSTER			<u>143,842</u>
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - Local Educational Agencies	84.010	75-07	272,669
Migrant Education Basic State Grant	84.011	75.07	19,670
Special Education - Grants to States	84.027	75-07	100,718
Vocational Education - Basic Grants to States	84.048	75-07	3,795
Innovative Education Program Strategies	84.298	75-07	4,490
Education Technology State Grants	84.318	75-07	4,614
Rural Education	84.358	75-07	19,287
Improving Teacher Quality State Grants	84.367	75-07	39,737
Total U. S. Department of Education			<u>464,980</u>
Department of Human Services			
Childcare Assistance Grant	93.575	75-07	700
TOTAL OTHER PROGRAMS			<u>465,680</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 609,522</u></u>

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 regulatory 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, 2004

Schedule 3

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 To Local Education Agencies

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, 2004

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

REPORTABLE CONDITIONS

2004-1. Segregation of Duties

Criteria: Financial accounting duties should be distributed among appropriate employees to ensure the proper safeguarding of assets.

Condition: The District does not have adequate staff to segregate financial accounting duties among appropriate employees.

Context: Completion of internal control questionnaire

Effect: Financial accounting duties are not distributed among the District's employees to sufficiently reduce the risks of fraud or error and to properly safeguard the District's assets.

Cause: Limited financial resources hinder the District's ability to adequately segregate financial accounting duties among employees.

Recommendation: To ensure the proper safeguarding of the District's assets, financial accounting duties should be distributed among appropriate employees.

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, 2004

Schedule 4

There were no findings in the prior audit.