

Magnolia School District No. 14

Columbia County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2010

LEGISLATIVE JOINT AUDITING COMMITTEE



MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2010

Independent Auditor's Report
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*
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

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet - Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Regulatory Basis	B
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis	C
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	3
Federal Award Programs - Summary Schedule of Prior Audit Findings	4
Schedule of Selected Information for the Last Five Years - Regulatory Basis (Unaudited)	5

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

INDEPENDENT AUDITOR'S REPORT

Magnolia School District No. 14 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 Magnolia School District No. 14 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2011 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 the first name "Roger" being the most prominent.

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

Little Rock, Arkansas
March 2, 2011
EDSD06510

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*

Magnolia School District No. 14 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 Magnolia School District No. 14 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 2, 2011. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

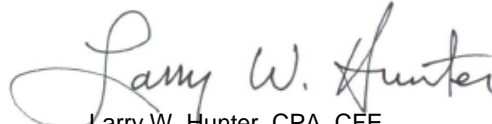
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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*.

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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 2, 2011

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 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

Magnolia School District No. 14 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Magnolia School District No. 14's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

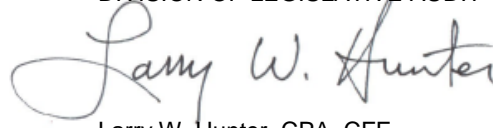
The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine 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.

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

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter". The signature is written in black ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 2, 2011

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2010

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 2,314,294	\$ 283,221	\$ 3,095,702	\$ 67,108
Accounts receivable	99,123	438,752		
Property taxes receivable	810,687			
Due from other funds	404,270			
TOTAL ASSETS	\$ 3,628,374	\$ 721,973	\$ 3,095,702	\$ 67,108
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 10,832	\$ 16,060		\$ 1,727
Due student groups				65,381
Due to other funds		404,270		
Total Liabilities	10,832	420,330		67,108
Fund Balances:				
Reserved:				
Capital projects			\$ 821,357	
Unreserved:				
Designated:				
Capital projects			2,274,345	
Undesignated	3,617,542	301,643		
Total Fund Balances	3,617,542	301,643	3,095,702	
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,628,374	\$ 721,973	\$ 3,095,702	\$ 67,108

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

MAGNOLIA SCHOOL DISTRICT NO. 14
 COLUMBIA COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 6,649,028		
State assistance	13,847,292	\$ 10,600	\$ 190,945
Federal assistance		4,826,473	
Activity revenues	188,609		
Meal sales		343,416	
Investment income	83,632	62	
Other revenues	567,580	92,483	
TOTAL REVENUES	21,336,141	5,273,034	190,945
EXPENDITURES			
Regular programs	9,581,356	170,753	
Special education	921,748	651,353	
Workforce education	731,576	61,925	
Adult/continuing education	223,898	45,905	
Compensatory education	459,255	1,310,503	
Other instructional programs	545,148	100,919	
Student support services	926,935	55,722	
Instructional staff support services	961,942	684,919	
General administration support services	338,156	42,779	
School administration support services	1,547,056		
Central services support services	599,624		
Operation and maintenance of plant services	2,120,382	113,672	
Student transportation services	1,132,016	74,635	
Other support services	6,271		
Food services operations		1,567,588	
Community services operations		628	
Facilities acquisition and construction services	11,115	637,295	2,090,540
Non-programmed costs	17,274	31,292	
Activity expenditures	200,331		
Debt Service:			
Principal retirement			270,000
Interest and fiscal charges			369,544
TOTAL EXPENDITURES	20,324,083	5,549,888	2,730,084
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,012,058	(276,854)	(2,539,139)
OTHER FINANCING SOURCES (USES)			
Transfers in			1,705,138
Transfers out	(1,705,138)		
Compensation for loss of capital assets	78,046		
TOTAL OTHER FINANCING SOURCES (USES)	(1,627,092)		1,705,138
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(615,034)	(276,854)	(834,001)
FUND BALANCES - JULY 1	4,232,576	578,497	3,929,703
FUND BALANCES - JUNE 30	\$ 3,617,542	\$ 301,643	\$ 3,095,702

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

MAGNOLIA SCHOOL DISTRICT NO. 14
 COLUMBIA COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 6,480,334	\$ 6,649,028	\$ 168,694			
State assistance	13,647,131	13,847,292	200,161		\$ 10,600	\$ 10,600
Federal assistance				\$ 7,925,019	4,826,473	(3,098,546)
Activity revenues	1,802	188,609	186,807			
Meal sales				390,500	343,416	(47,084)
Investment income	50,000	83,632	33,632	35	62	27
Other revenues	423,891	567,580	143,689	250	92,483	92,233
TOTAL REVENUES	20,603,158	21,336,141	732,983	8,315,804	5,273,034	(3,042,770)
EXPENDITURES						
Regular programs	9,981,256	9,581,356	399,900	275,032	170,753	104,279
Special education	983,435	921,748	61,687	779,800	651,353	128,447
Workforce education	715,629	731,576	(15,947)	62,129	61,925	204
Adult/continuing education	224,499	223,898	601	45,905	45,905	
Compensatory education	420,121	459,255	(39,134)	1,970,410	1,310,503	659,907
Other instructional programs	557,761	545,148	12,613	110,000	100,919	9,081
Student support services	978,190	926,935	51,255	108,689	55,722	52,967
Instructional staff support services	1,001,812	961,942	39,870	956,364	684,919	271,445
General administration support services	387,460	338,156	49,304	47,572	42,779	4,793
School administration support services	1,511,289	1,547,056	(35,767)			
Central services support services	624,008	599,624	24,384			
Operation and maintenance of plant services	2,670,751	2,120,382	550,369	124,978	113,672	11,306
Student transportation services	1,269,739	1,132,016	137,723	80,000	74,635	5,365
Other support services	14,245	6,271	7,974			
Food services operations				1,524,876	1,567,588	(42,712)
Community services operations				11,000	628	10,372
Facilities acquisition and construction services	20,000	11,115	8,885	2,489,355	637,295	1,852,060
Non-programmed costs	17,274	17,274		139,422	31,292	108,130
Activity expenditures		200,331	(200,331)			
TOTAL EXPENDITURES	21,377,469	20,324,083	1,053,386	8,725,532	5,549,888	3,175,644

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (774,311)	\$ 1,012,058	\$ 1,786,369	\$ (409,728)	\$ (276,854)	\$ 132,874
OTHER FINANCING SOURCES (USES)						
Transfers in	11,614,428		(11,614,428)			
Transfers out	(13,178,105)	(1,705,138)	11,472,967			
Compensation for loss of capital assets	8,387	78,046	69,659			
TOTAL OTHER FINANCING SOURCES (USES)	(1,555,290)	(1,627,092)	(71,802)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(2,329,601)	(615,034)	1,714,567	(409,728)	(276,854)	132,874
FUND BALANCES - JULY 1	4,306,051	4,232,576	(73,475)	551,308	578,497	27,189
FUND BALANCES - JUNE 30	<u>\$ 1,976,450</u>	<u>\$ 3,617,542</u>	<u>\$ 1,641,092</u>	<u>\$ 141,580</u>	<u>\$ 301,643</u>	<u>\$ 160,063</u>

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

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Description of Funds

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

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

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
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 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.

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Taxes (Continued)

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

G. Interfund Receivables and Payables

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

H. 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. Designated fund balance – represents that portion of the fund balance which indicates tentative plans for financial resource utilization in a future period.
3. Undesignated fund balance – indicates that portion of the fund balance not reserved or designated.

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.

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.

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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)	\$ 331,266	\$ 332,259
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	5,429,059	7,398,172
Total Deposits	\$ 5,760,325	\$ 7,730,431

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$537,875 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 99,123		\$ 99,123
Federal assistance		\$ 425,508	425,508
Other		13,244	13,244
Totals	\$ 99,123	\$ 438,752	\$ 537,875

4: COMMITMENTS

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

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Indoor Practice facility	September 1, 2010	\$ 264,169
Junior High School renovations	October 1, 2010	1,280,433

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4: COMMITMENTS (CONTINUED)

B. Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2010	Maturities To June 30, 2010
8/1/03	6/1/30	3.375 - 4.375%	\$ 9,433,595	\$ 7,700,000	\$ 1,733,595
11/1/04	6/1/30	4.75 - 6%	825,000	750,000	75,000
Totals			<u>\$ 10,258,595</u>	<u>\$ 8,450,000</u>	<u>\$ 1,808,595</u>

Changes in Long-term Debt:

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Bonds payable	<u>\$ 8,720,000</u>	<u>\$ 0</u>	<u>\$ 270,000</u>	<u>\$ 8,450,000</u>

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

Year Ended June 30,	Principal	Interest	Total
2011	\$ 285,000	\$ 358,819	\$ 643,819
2012	290,000	348,788	638,788
2013	300,000	338,588	638,588
2014	310,000	327,982	637,982
2015	320,000	316,618	636,618
2016-2020	1,825,000	1,382,787	3,207,787
2021-2025	2,270,000	957,971	3,227,971
2026-2030	2,850,000	398,275	3,248,275
Totals	<u>\$ 8,450,000</u>	<u>\$ 4,429,828</u>	<u>\$ 12,879,828</u>

5: ACCOUNTS PAYABLE

The accounts payable balance of \$28,619 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types	Total
	Major	Special Revenue		
	General			
Vendor payables	<u>\$ 10,832</u>	<u>\$ 16,060</u>	<u>\$ 1,727</u>	<u>\$ 28,619</u>

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

6: INTERFUND TRANSFERS

The District transferred \$1,705,138 from the general fund to the other aggregate funds for debt related payments of \$639,544 and capital expenditures of \$1,065,594.

7: RETIREMENT PLANS

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2010, 2009, and 2008 were \$2,183,682, \$2,027,976, and \$1,932,933, 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.

Funding Policy. APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the years ended June 30, 2010, 2009, and 2008 were \$4,439, \$4,327, and \$5,194, respectively, equal to the required contributions for each year.

8: 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 buildings, contents, board liability, and student accidents. 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.

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

8: RISK MANAGEMENT (CONTINUED)

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 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.

9: 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 \$242,522 for the year ended June 30, 2010.

10: SUBSEQUENT EVENTS

A. On September 1, 2010, the District issued construction bonds of \$1,045,000.

B. On October 1, 2010, the District issued refunding bonds of \$8,810,000.

11: COMPENSATION FOR LOSS OF CAPITAL ASSETS

The District received insurance proceeds of \$69,594 due to wind damage to the junior high school and \$8,452 relating to vehicle damage.

MAGNOLIA SCHOOL DISTRICT NO. 14
 COLUMBIA COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Unaudited)

Schedule 1

	Balance June 30, 2010
<i>Nondepreciable capital assets:</i>	
Land	\$ 1,354,917
Construction in progress	1,707,528
Total nondepreciable capital assets	3,062,445
 <i>Depreciable capital assets:</i>	
Buildings	33,997,964
Improvements/infrastructure	443,328
Equipment	5,826,021
Total depreciable capital assets	40,267,313
 Less accumulated depreciation for:	
Buildings	11,446,734
Improvements/infrastructure	213,196
Equipment	3,834,900
Total accumulated depreciation	15,494,830
Total depreciable capital assets, net	24,772,483
Capital assets, net	\$ 27,834,928

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 2)	10.555		\$ 3,043
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	14-02-000	254,757
National School Lunch Program - Cash Assistance	10.555	14-02-000	793,841
Total State Department of Education			1,048,598
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	1402	85,054
TOTAL CHILD NUTRITION CLUSTER			1,136,695
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	14-02	1,107,738
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	1402000	413,638
TOTAL TITLE I, PART A CLUSTER			1,521,376
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	14-02	629,789
ARRA - Special Education - Grants to States, Recovery Act	84.391	1402000	282,002
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			911,791
STATE FISCAL STABILIZATION FUND CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	1402000	1,037,809
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	1402000	42,267
TOTAL STATE FISCAL STABILIZATION FUND CLUSTER			1,080,076

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>OTHER PROGRAMS</u>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	1402000	\$ 9,416
<u>U. S. Department of Justice</u>			
Passed Through State Department of Human Services:			
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	1402	23,910
<u>National Endowment for the Arts</u>			
Passed Through Department of Arkansas Heritage - Arkansas Arts Council:			
Promotion of the Arts - Partnership Agreements	45.025	Unavailable	200
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Adult Education - Basic Grants to States	84.002	14-02	45,905
Career and Technical Education - Basic Grants to States	84.048	L14-02-000	39,118
Tech-Prep Education	84.243	14-02	22,807
Total State Department of Career Education			107,830
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	14-02	13,931
State Grants for Innovative Programs	84.298	14-02	7,632
Rural Education	84.358	14-02	77,120
Improving Teacher Quality State Grants	84.367	14-02	220,751
Total State Department of Education			319,434
Total U. S. Department of Education			427,264
TOTAL OTHER PROGRAMS			460,790
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 5,110,728

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Magnolia School District No. 14 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.

Note 2: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.

Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.

Note 4: During the year ended June 30, 2010, the District received Medicaid funding of \$23,836 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

MAGNOLIA SCHOOL DISTRICT NO. 14
 COLUMBIA COUNTY, ARKANSAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

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

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

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

Identification of major programs:

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)
84.394 and 84.397	State Fiscal Stabilization Fund Cluster

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

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

MAGNOLIA SCHOOL DISTRICT NO. 14
COLUMBIA COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 4

There were no findings in the prior audit.

MAGNOLIA SCHOOL DISTRICT NO. 14
 COLUMBIA COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Unaudited)

Schedule 5

	Year Ended June 30,				
	2010	2009	2008	2007	2006
<u>General Fund</u>					
Total Assets	\$ 3,628,374	\$ 4,263,171	\$ 5,278,413	\$ 5,432,465	\$ 3,884,680
Total Liabilities	10,832	30,595	162,456	231,665	14,299
Total Fund Balances	3,617,542	4,232,576	5,115,957	5,200,800	3,870,381
Total Revenues	21,336,141	22,459,394	23,242,675	23,467,396	19,842,241
Total Expenditures	20,324,083	20,719,860	19,880,039	19,337,193	17,729,481
Total Other Financing Sources (Uses)	(1,627,092)	(2,622,915)	(3,447,479)	(2,799,784)	(2,731,888)
<u>Special Revenue Fund</u>					
Total Assets	721,973	578,497	491,394	450,461	570,293
Total Liabilities	420,330				
Total Fund Balances	301,643	578,497	491,394	450,461	570,293
Total Revenues	5,273,034	3,873,847	3,704,663	3,144,230	3,053,613
Total Expenditures	5,549,888	3,786,744	3,612,070	3,405,542	3,101,438
Total Other Financing Sources (Uses)			(51,660)	141,480	
<u>Other Aggregate Funds</u>					
Total Assets	3,095,702	4,164,859	3,674,109	2,801,684	2,164,488
Total Liabilities		235,156	267,064	437,489	21,257
Total Fund Balances	3,095,702	3,929,703	3,407,045	2,364,195	2,143,231
Total Revenues	190,945	360,768	576,887	795,426	342,484
Total Expenditures	2,730,084	2,487,042	3,083,356	3,885,791	4,376,740
Total Other Financing Sources (Uses)	1,705,138	2,648,932	3,549,319	3,311,329	2,731,888