

DANVILLE SCHOOL DISTRICT NO. 36
YELL 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

Darville School District No. 36 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 Darville School District No. 36 (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 February 18, 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



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

Little Rock, Arkansas
February 18, 2011
EDSD41210

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
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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*

Darville School District No. 36 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 Darville School District No. 36 (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 February 18, 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.

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

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

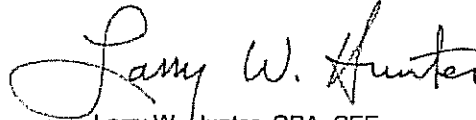
Compliance and Other Matters

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

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

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 18, 2011

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
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Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Danville School District No. 36 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Danville School District No. 36'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

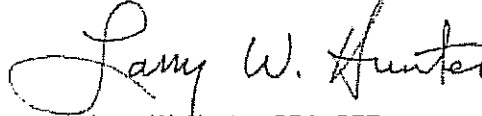
The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control 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
February 18, 2011

DANVILLE SCHOOL DISTRICT NO. 36
 YELL COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2010

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 902,366	\$ 50,112	\$ 196,134	\$ 31,659
Investments	313,187			50,000
Accounts receivable		39,768		
Property taxes receivable	54,242			
TOTAL ASSETS	\$ 1,269,795	\$ 89,880	\$ 196,134	\$ 81,659
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 43,747	\$ 487		
Due student groups				\$ 29,804
Total Liabilities	43,747	487		29,804
Fund Balances:				
Reserved:				
Endowment				50,000
Scholarships				1,855
Capital projects			\$ 196,134	
Unreserved:				
Undesignated	1,226,048	89,393		
Total Fund Balances	1,226,048	89,393	196,134	51,855
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,269,795	\$ 89,880	\$ 196,134	\$ 81,659

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

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DANVILLE SCHOOL DISTRICT NO. 36
 YELL 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)	\$ 1,144,533		
State assistance	5,706,213	\$ 3,504	\$ 16,096
Federal assistance	122,112	1,489,500	
Activity revenues	103,114		
Meal sales		87,096	
Investment income	19,668		
Other revenues	40,581	138,927	
TOTAL REVENUES	7,136,221	1,719,027	16,096
EXPENDITURES			
Regular programs	2,694,604	35,158	
Special education	486,242	149,840	
Workforce education	362,551		
Compensatory education	137,741	129,281	
Other instructional programs	543,779	98,599	
Student support services	252,864	112,914	
Instructional staff support services	357,603	412,002	
General administration support services	176,835		
School administration support services	288,174		
Central services support services	309,900		
Operation and maintenance of plant services	661,673	8,891	
Student transportation services	200,633	87,904	
Other support services	16,556		
Food services operations	6,509	485,632	
Facilities acquisition and construction services	32,892	142,326	
Activity expenditures	95,225		
Debt Service:			
Principal retirement	128,694		105,000
Interest and fiscal charges	25,537		51,013
TOTAL EXPENDITURES	6,778,012	1,662,547	156,013
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	358,209	56,480	(139,917)
OTHER FINANCING SOURCES (USES)			
Transfers in		5,281	139,917
Transfers out	(145,198)		
TOTAL OTHER FINANCING SOURCES (USES)	(145,198)	5,281	139,917
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	213,011	61,761	
FUND BALANCES - JULY 1	1,013,037	27,632	196,134
FUND BALANCES - JUNE 30	\$ 1,226,048	\$ 89,393	\$ 196,134

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

DANVILLE SCHOOL DISTRICT NO. 36
 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, 2010

Exhibit C

	General			Special Revenue			Variance Favorable (Unfavorable)
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	
REVENUES							
Property taxes (including property tax relief trust distribution)	\$ 1,032,631	\$ 1,144,533	\$ 111,902	\$	\$ 3,504	\$ 504	
State assistance	5,620,488	5,706,213	85,725				
Federal assistance	97,000	122,112	25,112	1,616,729	1,489,500	(127,229)	
Activity revenues	78,840	103,114	24,274				
Meal sales					87,096	87,096	
Investment income	10,000	19,668	9,668				
Other revenues	8,000	40,581	32,581	76,000	138,927	62,927	
TOTAL REVENUES	6,846,959	7,136,221	289,262	1,695,729	1,719,027	23,298	
EXPENDITURES							
Regular programs	2,626,389	2,694,604	(68,215)	38,158	35,158	3,000	
Special education	469,812	486,242	(16,430)	135,311	149,840	(14,529)	
Workforce education	357,776	362,551	(4,775)				
Compensatory education	193,132	137,741	55,391	112,769	129,281	(16,512)	
Other instructional programs	587,451	543,779	43,672	97,374	98,599	(1,225)	
Student support services	264,006	252,864	11,142	151,700	112,914	38,786	
Instructional staff support services	435,881	357,603	78,278	442,927	412,002	30,925	
General administration support services	164,482	176,835	(12,353)				
School administration support services	272,789	288,174	(15,385)				
Central services support services	279,877	309,900	(30,023)				
Operation and maintenance of plant services	623,661	661,673	(38,012)	1,851	8,891	(7,040)	
Student transportation services	208,293	200,633	7,660	101,910	87,904	14,006	
Other support services	22,720	16,556	6,164				
Food services operations	5,900	6,509	(609)	489,992	485,632	4,360	
Community services operations				500		500	
Facilities acquisition and construction services	14,000	32,892	(18,892)	159,667	142,326	17,341	
Activity expenditures	87,345	95,225	(7,880)				
Debt Service:							
Principal retirement	128,694	128,694					
Interest and fiscal charges	25,537	25,537					
TOTAL EXPENDITURES	6,767,745	6,778,012	(10,267)	1,732,159	1,662,547	69,612	

DANVILLE SCHOOL DISTRICT NO. 36
 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, 2010

Exhibit C

	General		Variance Favorable (Unfavorable)	Special Revenue		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 79,214	\$ 358,209	\$ 278,995	\$ (36,430)	\$ 56,480	\$ 92,910
OTHER FINANCING SOURCES (USES) Transfers in	3,378,516		(3,378,516)	48,299	5,281	(43,018)
Transfers out	(3,547,378)	(145,198)	3,402,180	(35,487)		35,487
TOTAL OTHER FINANCING SOURCES (USES)	(168,862)	(145,198)	23,664	12,812	5,281	(7,531)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(89,648)	213,011	302,659	(23,618)	61,761	85,379
FUND BALANCES - JULY 1	1,082,099	1,013,037	(69,062)	27,823	27,632	(191)
FUND BALANCES - JUNE 30	\$ 992,451	\$ 1,226,048	\$ 233,597	\$ 4,205	\$ 89,393	\$ 85,188

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

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DANVILLE SCHOOL DISTRICT NO. 36
YELL 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 Danville 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).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

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.

DANVILLE SCHOOL DISTRICT NO. 36
 YELL 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 RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

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

DANVILLE SCHOOL DISTRICT NO. 36
YELL COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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.

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

G. **Fund Balance Designations**

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

H. **Budget and Budgetary Accounting**

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

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

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

DANVILLE SCHOOL DISTRICT NO. 36
 YELL 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)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	1,293,258	1,814,759
Total Deposits	\$ 1,543,258	\$ 2,064,759

The above total deposits do not include cash on hand of \$200. The above total deposits include certificates of deposit of \$363,187 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$39,768 at June 30, 2010 was comprised of the following:

Description	Governmental Fund Major Special Revenue
Federal assistance	\$ 39,768

4: COMMITMENTS

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

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
12/19/01	12/19/11	4.5%	\$ 600,000	\$ 107,873	\$ 492,127
4/4/02	4/4/12	4.6%	100,000	23,796	76,204
7/1/03	2/1/20	2.4 - 4%	1,390,000	925,000	465,000
4/1/05	2/1/20	2.75 - 3.8%	530,000	380,000	150,000
9/1/05	9/1/15	4.75%	268,000	173,522	94,478
11/30/05	11/30/15	4.75%	223,750	144,872	78,878
Totals			\$ 3,111,750	\$ 1,755,063	\$ 1,356,687

DANVILLE SCHOOL DISTRICT NO. 36
 YELL COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

4: COMMITMENTS (Continued)

Long-term Debt Issued and Outstanding (Continued)

Changes in Long-term Debt

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Bonds payable	\$ 1,410,000		\$ 105,000	\$ 1,305,000
Postdated warrants	210,797		79,128	131,669
Notes payable	367,960		49,566	318,394
Totals	\$ 1,988,757	\$ 0	\$ 233,694	\$ 1,755,063

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

Year Ended June 30,	Principal	Interest	Total
2011	\$ 239,688	\$ 66,362	\$ 306,050
2012	218,372	56,834	275,206
2013	172,061	49,273	221,334
2014	179,804	42,718	222,522
2015	187,678	35,528	223,206
2016-2020	757,460	86,751	844,211
Totals	\$ 1,755,063	\$ 337,466	\$ 2,092,529

5: ACCOUNTS PAYABLE

The accounts payable balance of \$44,234 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Vendor payables	\$ 43,747	\$ 487	\$ 44,234

6: INTERFUND TRANSFERS

The District transferred \$5,281 from the general fund to the special revenue fund to supplement its food services operations. The District also transferred \$139,917 from the general fund to the other aggregate funds for debt related payments.

DANVILLE SCHOOL DISTRICT NO. 36
 YELL COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

7: RETIREMENT PLAN

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 \$655,558, \$626,324, and \$661,071, respectively, equal to the required contributions for each year.

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 881
DEDUCTIONS	
Scholarships	1,500
	(619)
CHANGE IN FUND BALANCE	(619)
FUND BALANCE - JULY 1	52,474
	52,474
FUND BALANCE - JUNE 30	\$ 51,855
	51,855

9: RISK MANAGEMENT

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

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

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

DANVILLE SCHOOL DISTRICT NO. 36
YELL COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

9: RISK MANAGEMENT (Continued)

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

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

10: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$73,622 for the year ended June 30, 2010.

11: SCHOLARSHIP FUND

The George and Irene Cowger Memorial Scholarship Fund was established on February 20, 2007 in the amount of \$50,000 for the purpose of awarding scholarships to Future Farmers of America (FFA) members majoring in agriculture at a four-year institution or FFA members enrolled in an agricultural field at a trade school. A scholarship selection committee will select recipients based on excellence in the three areas of the agricultural program: classroom instruction, FFA activities, and Supervised Agricultural Experience Program (work experience). The endowed portion of \$50,000 at June 30, 2010 was maintained in a certificate of deposit classified as a nonparticipating contract.

12: SUBSEQUENT EVENTS

The District issued refunding bonds of \$1,375,000 on December 1, 2010. The bonds carry interest rates of 1% to 4% and mature on February 1, 2030. The bonds were issued to advance refund bonds issued July 1, 2003 and April 1, 2005.

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DANVILLE SCHOOL DISTRICT NO. 36
 YELL 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	\$ 411,227
<i>Depreciable capital assets:</i>	
Buildings	6,588,630
Improvements/infrastructure	237,313
Equipment	2,065,579
Total depreciable capital assets	8,891,522
Less accumulated depreciation for:	
Buildings	2,174,629
Improvements/infrastructure	41,321
Equipment	1,330,515
Total accumulated depreciation	3,546,465
Total depreciable capital assets, net	5,345,057
Capital assets, net	\$ 5,756,284

DANVILLE SCHOOL DISTRICT NO. 36
 YELL 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		\$ 969
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	75.03	93,299
National School Lunch Program - Cash Assistance	10.555	75-03	268,457
Total State Department of Education			361,756
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	7502	26,295
Summer Food Service Program for Children - Cash Assistance	10.559	SA154	6,655
Total State Department of Human Services			32,950
TOTAL CHILD NUTRITION CLUSTER			395,675
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	75-03	157,422
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	75-03	96,221
TOTAL TITLE I, PART A CLUSTER			253,643
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	75-03	166,932
ARRA - Special Education - Grants to States, Recovery Act	84.391	75-03	205,128
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			372,060
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	75-03	262,149
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	75-03	5,151
TOTAL STATE FISCAL STABILIZATION FUND CLUSTER			267,300

DANVILLE SCHOOL DISTRICT NO. 36
 YELL 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
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	75-03	\$ 5,280
Fresh Fruit and Vegetable Program	10.582	75-03	19,997
Total U. S. Department of Agriculture			25,277
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	75-03	1,894
Twenty-First Century Community Learning Centers	84.287	75-03	59,788
English Language Acquisition Grants	84.365	75-03	45,822
Improving Teacher Quality State Grants	84.367	75-03	32,054
Total U. S. Department of Education			139,558
TOTAL OTHER PROGRAMS			164,835
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,453,513

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 Danville School District No. 36 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 \$80,578 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

DANVILLE SCHOOL DISTRICT NO. 36
YELL COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2010-1. Internal Control

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

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

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

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

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

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

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

DANVILLE SCHOOL DISTRICT NO. 36
YELL 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.

DANVILLE SCHOOL DISTRICT NO. 36
 YELL COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Unaudited)

	Year Ended June 30,				
	2010	2009	2008	2007	2006
General Fund					
Total Assets	\$ 1,269,795	\$ 1,062,020	\$ 877,050	\$ 1,016,936	\$ 1,333,490
Total Liabilities	43,747	48,983	59,627	96,064	33,612
Total Fund Balances	1,226,048	1,013,037	817,423	920,874	1,299,878
Total Revenues	7,135,221	7,078,988	7,104,791	6,564,857	6,248,783
Total Expenditures	6,778,012	6,717,722	7,060,533	6,663,205	6,339,154
Total Other Financing Sources (Uses)	(145,198)	(165,652)	(147,709)	(280,655)	371,914
Special Revenue Fund					
Total Assets	89,880	29,908	47,801	32,261	50,413
Total Liabilities	487	2,276	27,253	595	1,731
Total Fund Balances	89,393	27,632	20,548	31,666	48,682
Total Revenues	1,719,027	1,051,101	1,037,248	955,331	843,782
Total Expenditures	1,662,547	1,056,254	1,075,713	980,531	853,009
Total Other Financing Sources (Uses)	5,281	12,237	27,347	8,184	6,502
Other Aggregate Funds					
Total Assets	196,134	196,134	203,517	241,280	237,062
Total Liabilities					23,400
Total Fund Balances	196,134	196,134	203,517	241,280	213,662
Total Revenues	16,096		35,558	63,815	494,998
Total Expenditures	156,013	160,798	193,683	308,668	711,876
Total Other Financing Sources (Uses)	139,917	153,415	120,362	272,471	113,334