

MARION SCHOOL DISTRICT NO. 3
AUDITED FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION

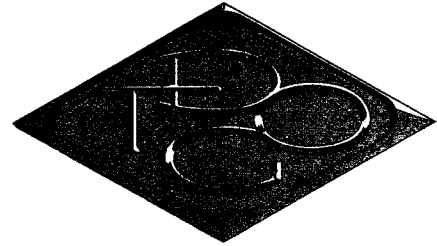
JUNE 30, 2002

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DODGE, THOMAS, GOSS & OWENS, LTD.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Marion School District No. 3 School Board Members
Marion, Arkansas

We have audited the accompanying general purpose financial statements of Marion School District No. 3, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of Marion School District No. 3's management. Our responsibility is to express an opinion on these general purpose 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 in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Marion School District No. 3 as of June 30, 2002 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2002 on our consideration of Marion School District No. 3's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of Marion School District No. 3 taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Dodge, Thomas, Goss & Owens

West Memphis, Arkansas
November 9, 2002

CRITTENDEN COUNTY ARKANSAS
MARION SCHOOL DISTRICT NO. 3
COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>ASSETS</u>				
Cash	\$ 2,214,942	\$ 285,760	\$1,137,659	\$ 179,471
Deferred financing costs	-	-	288,518	-
Property, Plant and Equipment:				
Land	-	-	-	-
Buildings	-	-	-	-
Improvements other than buildings	-	-	-	-
Road vehicles	-	-	-	-
Machinery and equipment	-	-	-	-
Amount available in debt service funds	-	-	-	-
Amount to be provided for retirement of long-term debt	-	-	-	-
Total Assets	<u>\$2,214,942</u>	<u>\$ 285,760</u>	<u>\$1,426,177</u>	<u>\$ 179,471</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Due student groups	-	-	-	-
Unexpended federal funds	-	188,082	-	-
Commercial bonds payable	-	-	-	-
Total Liabilities	<u>-</u>	<u>188,082</u>	<u>-</u>	<u>-</u>
Fund equity:				
Investment in general fixed assets	-	-	-	-
Designated for debt service	-	-	1,426,177	-
Fund balances	<u>2,214,942</u>	<u>97,678</u>	<u>-</u>	<u>179,471</u>
Total fund equity	<u>2,214,942</u>	<u>97,678</u>	<u>1,426,177</u>	<u>179,471</u>
Total Liabilities and Fund Equity	<u>\$ 2,214,942</u>	<u>\$ 285,760</u>	<u>\$1,426,177</u>	<u>\$ 179,471</u>

The accompanying notes to financial statements are an integral part of this statement.

Fiduciary Fund Type Trust and Agency	Account Groups		Memorandum Totals
	General Fixed Assets	General Long- term Debt	June 30, 2002
\$ 34,773	\$ -	\$ -	\$ 3,852,605
-	-	-	288,518
-	757,154	-	757,154
-	21,026,936	-	21,026,936
-	1,246,347	-	1,246,347
-	1,975,677	-	1,975,677
-	4,153,643	-	4,153,643
-	-	1,137,659	1,137,659
-	-	11,751,741	11,751,741
\$ 34,773	\$29,159,757	\$12,889,400	\$46,190,280
34,773	-	-	34,773
-	-	-	188,082
-	-	12,889,400	12,889,400
34,773	-	12,889,400	13,112,255
-	29,159,757	-	29,159,757
-	-	-	1,426,177
-	-	-	2,492,091
-	29,159,757	-	33,078,025
\$ 34,773	\$29,159,757	\$12,889,400	\$46,190,280

CRITTENDEN COUNTY ARKANSAS
MARION SCHOOL DISTRICT NO. 3
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENT FUND TYPES
JUNE 30, 2002

	GOVERNMENTAL	
	General	Special Revenue
REVENUES:		
Current taxes	\$1,924,537	\$ -
Delinquent taxes and land redemption	196,184	-
Interest on investments	62,785	-
State assistance	13,059,792	-
Federal assistance	-	1,430,805
Activity revenues	571,048	-
Meal sales	-	489,576
Miscellaneous	<u>275,245</u>	-
Total revenues	<u>16,089,591</u>	<u>1,920,381</u>
EXPENDITURES:		
Regular programs	7,649,263	12,648
Special education	1,297,670	65,086
Vocational education	551,686	-
Compensatory education	2,568	368,429
Other instructional programs	331,785	31,257
Support services	5,305,505	1,371,302
Community services	123,595	26,823
Activity expenditures	545,613	-
Capital outlay	189,384	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
Total expenditures	<u>15,997,069</u>	<u>1,875,545</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	92,522	44,836
Other financing sources (uses):		
Transfers in	-	3,575
Transfers out	(<u>3,575</u>)	-
Total Other Financing Sources (uses)	(<u>3,575</u>)	<u>3,575</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	88,947	48,411
FUND BALANCES, July 1	<u>2,125,995</u>	<u>49,267</u>
FUND BALANCES, June 30	<u>\$ 2,214,942</u>	<u>\$ 97,678</u>

The accompanying notes to financial statements are an integral part of this statement.

FUND TYPES		Memorandum Totals
Debt Service	Capital Projects	June 30, 2002
\$ 1,800,162	\$ 203,971	\$ 3,928,670
-	-	196,184
-	90,431	153,216
-	-	13,059,792
-	-	1,430,805
-	-	571,048
-	-	489,576
-	-	275,245
<u>1,800,162</u>	<u>294,402</u>	<u>20,104,536</u>
-	-	7,661,911
-	-	1,362,756
-	-	551,686
-	-	370,997
-	-	363,042
-	-	6,676,807
-	-	150,418
-	-	545,613
-	1,778,853	1,968,237
627,012	-	627,012
<u>701,227</u>	-	<u>701,227</u>
1,328,239	1,778,853	20,979,706
471,923	(1,484,451)	(875,170)
-	-	3,575
-	-	(3,575)
-	-	-
-	(1,484,451)	(875,170)
<u>954,254</u>	<u>1,663,922</u>	<u>4,793,438</u>
<u>\$1,426,177</u>	<u>\$ 179,471</u>	<u>\$3,918,268</u>

CRITTENDEN COUNTY ARKANSAS
MARION SCHOOL DISTRICT NO. 3
COMBINED STATEMENT OF EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES
June 30, 2002

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
REVENUES:			
Current taxes	\$ 5,086,149	\$ 3,928,670	(\$1,157,479)
Delinquent taxes and land redemption	134,000	196,184	62,184
Interest on investments	120,000	153,216	33,216
State assistance	12,982,778	13,059,792	77,014
Federal assistance	864,729	1,430,805	566,076
Activity revenue	-	571,048	571,048
Meal sales	-	489,576	489,576
Miscellaneous	132,320	275,245	142,925
Total revenue	<u>19,319,976</u>	<u>20,104,536</u>	<u>784,560</u>
EXPENDITURES:			
Regular programs	7,993,267	7,661,911	331,356
Special education	1,473,766	1,362,756	111,010
Vocational education	580,925	551,686	29,239
Compensatory education	405,917	370,997	34,920
Other instructional programs	353,175	363,042	(9,867)
Support services	6,128,794	6,676,807	(548,013)
Community services	151,729	150,418	1,311
Activity expenditures	-	545,613	(545,613)
Capital outlay	1,858,432	1,968,237	(109,805)
Debt service:			
Principal retirement	1,001,422	627,012	374,410
Interest and fiscal charges	298,824	701,227	(402,403)
Total expenditures	<u>20,246,251</u>	<u>20,979,706</u>	<u>(733,455)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(926,275)	(875,170)	51,105
Other financing sources (uses):			
Transfers in	-	3,575	
Transfers out	-	(3,575)	-
Total Other Financing Sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(926,275)	(875,170)	51,105
FUND BALANCE, July 1	4,793,438	4,793,438	-
FUND BALANCE, June 30	<u>\$3,867,163</u>	<u>\$3,918,268</u>	<u>\$ 51,105</u>

The accompanying notes to financial statements are an integral part of this statement.

CRITTENDEN COUNTY ARKANSAS
MARION SCHOOL DISTRICT NO. 3

NOTES TO FINANCIAL STATEMENTS
June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Fund accounting

The accounts of Marion School District ("District") are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses, or expenditures. The following funds and account groups are used by the District:

Governmental Fund Types:

General Fund – The General Fund is the general operating fund of the District. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes,

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 including capital lease obligations, principal, interest, and related costs.

Capital Projects Funds – Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary funds, special assessment funds or trust funds.

Fiduciary Fund Types:

Trust and Agency Funds – Trust and Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust funds, nonexpendable trust funds, pension trust funds and agency funds.

General Fixed Assets and General Long-Term Debt Account Groups:

General Fixed Assets Account Group – The General Fixed Assets Account Group is used to account for fixed assets used in governmental fund type operations for control purposes. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date of donation. No depreciation is recorded on general fixed assets.

General Long-Term Debt Account Group – The General Long-term Debt Account Group is used to account for the unmatured principal of long-term debt not accounted for in proprietary funds, special assessment funds or trust funds.

MARION SCHOOL DISTRICT NO. 3
 NOTES TO FINANCIAL STATEMENTS (continued)
 June 30, 2002

Inventories

Amounts for expendable supplies and items for resale on hand at year-end are not reflected in the financial statements due to the immateriality of the amounts involved.

Liability of Compensated Absences

Financial Accounting Standards Board Statement No. 43 requires an employer to accrue a liability for employees' rights to receive compensation for future absences if certain conditions are met. The accompanying financial statements do not provide for this liability as the small number of district personnel eligible for compensated absences indicates an immaterial obligation on the part of the district.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – MEMORANDUM TOTALS

Combined financial statements of fund types and account groups have a "total" column that aggregates the columnar statements by fund type and account group. The total column is captioned "memorandum total" as the total column on a combined financial statement is not comparable to a consolidation.

NOTE 3 – BUDGET VERSUS ACTUAL COMPENSATION

Revenues and expenditures of the activity and food service funds and certain transfers among funds are not required to be budgeted. Therefore, a budgeted to actual comparison is not shown.

NOTE 4 – LONG – TERM DEBT

Long-term debt at June 30, 2002 consists of the following:

<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Rate of Interest</u>	<u>Outstanding June 30, 2001</u>	<u>Proceeds</u>	<u>Retirement</u>	<u>Outstanding June 30, 2002</u>
6-1-92	2-1-07	4.60 – 5.60	\$ 260,000	-	35,000	225,000
11-1-97	2-1-17	4.35 – 4.75	2,628,532	-	28,532	2,600,000
4-1-99	6-1-09	3.40 – 3.75	1,975,000	-	175,000	1,800,000
5-1-99	6-1-12	3.10 – 4.00	3,275,000	-	235,000	3,040,000
6-1-99	2-1-17	3.75 – 4.50	2,364,400	-	135,000	2,229,400
3-1-00	2-1-17	4.55 – 5.50	2,495,000	-	70,000	2,425,000
5-1-01	2-1-17	4.00 – 4.80	592,695	-	22,695	570,000
	Bonds		<u>13,590,627</u>	<u>-</u>	<u>701,227</u>	<u>12,889,400</u>

MARION SCHOOL DISTRICT NO. 3
 NOTES TO FINANCIAL STATEMENTS (continued)
 June 30, 2002

Future minimum payments by year and in the aggregate are:

2003	734,400
2004	760,000
2005	780,000
2006	810,000
2007	840,000
2008 and thereafter	<u>8,965,000</u>
	<u>\$12,889,400</u>

NOTE 5 – GENERAL FIXED ASSETS

A summary of changes in general fixed assets is as follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
Land	\$ 757,154	\$ -	\$ -	\$ 757,154
Buildings	19,589,706	1,437,230	-	21,026,936
Improvements other than buildings	1,140,043	106,304	(343,443)	1,246,347
Equipment	<u>5,857,571</u>	<u>615,192</u>	-	<u>6,129,320</u>
Totals	<u>\$27,344,474</u>	<u>\$ 2,158,726</u>	<u>(\$ 343,443)</u>	<u>\$29,159,757</u>

NOTE 6 – CASH AND INVESTMENTS

The District's cash balances at June 30, 2002 are \$3,852,605. The District obtains collateralization for all accounts whose balances exceed the FDIC insurance ceiling.

NOTE 7 – RETIREMENT PLANS

The District participates in two state-operated cost sharing multiple employer retirement systems, covering substantially all employees of the District. The systems are the Arkansas Teacher Retirement System (ATRS) and to a lesser degree the Arkansas Public Employees Retirement System (APRS).

Arkansas Teacher Retirement System

The District contributes 12% of all covered employees' salaries except employees whose salaries are funded by federal programs administered by the District. The federal government contributes 12% of all covered employees' salaries paid from federally funded programs administered by the District. Required contributions to the Plan for the past three fiscal years were:

<u>Fiscal</u> <u>Year</u>	<u>Amount</u> <u>Contributed</u>	<u>Percentage</u> <u>Contributed</u>
2000	1,156,809	100
2001	1,238,897	100
2002	1,242,066	100

Under certain conditions, employees may voluntarily contribute 6% of salary.

The above contributions are required under Arkansas Law, Title 24, Chapter 7.

MARION SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2002

Covered employees include all teachers whose employment requires state certification and any other person employed in a regular or special position, but specifically excludes janitors, bus drivers, cafeteria workers and other non-certified employees until July 1, 1989, when Act 653 of 1989 included all employees under the system.

A plan participant may retire at age 60 after 10 years of credited service with an age and service annuity, or after 28 years of credited service regardless of age. Upon early retirement with more than 25 years but less than 28 years of credited service and less than age 60, a retiree may receive an age and service annuity reduced by 5/12 of one percent multiplied by the number of months by which time early retirement precedes the earlier of completion of 28 years service or 60 years of age. An active member, with 10 or more years of credited service who becomes totally and permanently disabled, may be retired and receive a disability annuity computed in the same manner as an age and service annuity.

For post-retirement increases, each July 1, every member's annuity is adjusted to be equal to his base annuity times 100% plus 3% for each full year in the period from the effective date of his base annuity to the current July 1, provided the cumulative increase in the consumer price index has been at least 3% per year. The base annuity is the amount of the member's annuity on the later of July 1, 1986, or the effective date of retirement, as determined by Act 802 of 1987.

Survivor benefits are also payable upon death of an active member who has five years or more of credited service.

Copies of the pension plan report are available from:

Arkansas Teacher Retirement System
1400 W. Capital
Little Rock, Arkansas 72201

Arkansas Public Employees Retirement System

Certain other district personnel are covered by the Arkansas Public Employees Retirement System. The District contributes 4% of applicable wages to the plan. As presently constituted, the retirement system has no legal basis for a claim against the District relative to the adequacy of contributions to the system and the actuarial soundness of the system. The Public Employees Retirement System became a closed system for non-teaching service after July 1, 1989, when Act 653 of 1989 mandated that all non-teaching positions be included under the Arkansas Teachers Retirement System, and those non-teachers who began service before that date shall be considered members of the closed system. The employer contribution rate for this enclosed system shall be established by PERS at a rate necessary to fund all present and future liabilities until such time as there are no longer members, retirants, or deferred annuitants.

Required contributions to the plan for the past three fiscal years were:

<u>Fiscal Year</u>	<u>Amount Contributed</u>	<u>Percentage Contributed</u>
2000	13,070	100
2001	12,078	100
2002	10,601	100

Copies of the pension plan report are available from:

Arkansas Public Employees Retirement System
1 Union National Plaza
124 W. Capital, Suite 400
Little Rock, Arkansas 72201

MARION SCHOOL DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2002

NOTE 8 – U.S. DEPARTMENT OF AGRICULTURE FOOD DISTRIBUTION PROGRAM

The Marion School District participates in the U.S. Department of Agriculture Food Distribution Program as administered through the Arkansas Department of Human Services. The monetary value of commodities received by the District for the year ended June 30, 2002 was not made available to the District.

OTHER FINANCIAL INFORMATION

CRITTENDEN COUNTY ARKANSAS
MARION SCHOOL DISTRICT NO. 3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2002

<u>Federal Grantor/Pass-through Grantor/ Disbursements/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>		
Passed Through State		
Department of Education:		
Title 1 – Neglected Children	84.013	\$ 7,558
Title 1 – Grants to LEA's	84.010	325,453
Education for homeless children and youth	84.196	19,954
Innovative Education Program Strategies	84.298	19,010
Special Education	84.027	298,409
Vocational-Education Basic Grants to States	84.048	39,040
Class size reduction	84.340	66,619
Drug Free Schools and Communities	84.186	31,257
Eisenhower Math & Science	84.302	10,847
 <u>U.S. Department of Agriculture</u>		
Passed Through State		
Department of Education:		
School Breakfast Program	10.553	149,951
National School Lunch Program	10.555	<u>426,978</u>
 Totals		 <u>\$1,395,076</u>

BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of Marion School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note – Medical Assistance program expenditures were \$39,301.

The accompanying notes to financial statements are an integral part of this statement.

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

Marion School District No. 3 School Board Members
Marion, Arkansas

We have audited the financial statements of the Marion School District No. 3, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 9, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Marion School District No. 3's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marion School District No. 3's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the Marion School Board Members, school administrators, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Dodge, Thomas, Goss & Owen

West Memphis, Arkansas
November 9, 2002

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

Marion School District No. 3 School Board Members
Marion, Arkansas

Compliance

We have audited the compliance of the Marion School District No. 3 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Marion School District No. 3's major federal programs are identified in the accompanying schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Marion School District No. 3's management. Our responsibility is to express an opinion on Marion School District No. 3'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 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 Marion School District No. 3's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marion School District No. 3's compliance with those requirements.

In our opinion, Marion School District No. 3 complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of Marion School District No. 3 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Marion School District No. 3's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended for the information of the Marion School Board Members, school administrators, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Dodge, Thomas, Boer & Owen

West Memphis, Arkansas
November 9, 2002

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
PROVISIONS LISTED IN ARKANSAS CODE ANN. 6-1-101 AND
ADDITIONAL COMPLIANCE REQUIREMENTS IDENTIFIED ON FORM OCI 9596

Marion School District No. 3 School Board Members
Marion, Arkansas

We have audited the general purpose financial statements of the Marion School District No. 3 (the "District") as of and for the year ended June 30, 2002, and have issued our report thereon date November 9, 2002.

We have applied procedures to test the Marion School District No. 3's compliance with provisions listed in Arkansas Code Ann. 6-1-101 as well as the additional compliance requirements identified on form OCI 9596. The management of Marion School District No. 3 is responsible for the District's compliance with these requirements. Our responsibility is to express an opinion based on our audit. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our tests indicate that with respect to the items tested, Marion School District No. 3 complied in all material respects with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the District had not complied in all material respects with these provisions.

This report is intended for the information of the members of the board of the Marion School District No. 3, the Legislative Joint Auditing Committee, Arkansas Education Department, and the cognizant federal audit agency. However, this report is a matter of public record and its distribution is not limited.

Podge, Thomas, Goss & Owens

West Memphis, Arkansas
November 9, 2002

CRITTENDEN COUNTY, ARKANSAS
MARION SCHOOL DISTRICT NO. 3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2002

Section I – Summary of Auditors’ Results

1. The auditors’ report expresses an unqualified opinion on the financial statements of West Memphis School District No. 4
2. No reportable conditions in the Report on Compliance and on Internal Control Over Financial Reporting were disclosed by the audit.
3. No instances of noncompliance material to the financial statements of the West Memphis School District No. 4 were disclosed during the audit.
4. No reportable conditions in internal control over major programs were disclosed by the audit.
5. The auditors’ report on Compliance for the Major Federal Award Programs for the West Memphis School District No. 4 expresses an unqualified opinion on the report.
6. There were no audit findings relative to the Major Federal Award Programs for the West Memphis School District No. 4.
7. The programs tested as major programs are as follows:

Title 1 Grants to LEA’s	CFDA No. 84.010
National School Lunch Programs	CFDA No. 10.555
8. The threshold for distinguishing types A and B programs was \$300,000.00.
9. The West Memphis School District No. 4 qualified as a low-risk auditee.

Section II – Financial Statement Audit

There were no findings relating to the financial statements which are required to be reported in accordance with GAGAS.

Section III – Major Federal Award Program Audit

There were no findings or questioned costs related to the Major Federal Award Programs.

West Memphis, Arkansas
November 9, 2002

CRITTENDEN COUNTY, ARKANSAS
MARION SCHOOL DISTRICT NO. 3
SUPPLEMENTAL DATA SHEET
June 30, 2002

Marion School District
200 Manor Street
Marion, Arkansas 72364

Dan Shepherd, Superintendent

Marjorie Brinkley, District Treasurer

Cost of Audit \$12,000.00

I.D. No. 71-6020624

870-739-5100

West Memphis, Arkansas
November 9, 2002