

Marion School District No. 3
Regulatory Basis Financial Statements
and Other Reports

June 30, 2007

JACKSON, HOWELL & ASSOCIATES, PLLC
CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS CONSULTANTS



Marion School District No. 3
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June 30, 2007

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REGULATORY BASIS FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

The School Board
Marion School District No. 3
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Marion School District No. 3 (the "District"), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2007, or the changes in financial position thereof for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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), Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Supplemental Data Sheet (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Expenditures of Federal Awards (Schedule 2), Federal Award Programs – Findings and Questioned Costs (Schedule 3) and Supplemental Data Sheet (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

Jackson, Howell & Associates, PLLC

West Memphis, Arkansas
November 16, 2007

**INDEPENDENT AUDITORS' 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***

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

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Marion School District No. 3, (the "District"), as of and for the year ended June 30, 2007, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated November 16, 2007. 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. 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 effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 laws, 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 Arkansas Code Annotated 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

Jackson, Howell & Associates, PLLC

West Memphis, Arkansas
November 16, 2007

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

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

Compliance

We have audited the compliance of the Marion School District No. 3 (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs – Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Arkansas Code Annotated 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

West Memphis, Arkansas
November 16, 2007

Jackson, Howell & Associates, PLLC

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
ARKANSAS STATE REQUIREMENTS**

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

We have audited the basic financial statements of Marion School District No. 3 for the year ended June 30, 2007, and have issued our report thereon dated November 16, 2007. Our audit was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In the course of our audit, nothing came to our attention that caused us to believe there has been any lack of substantial compliance with Arkansas Code Annotated 6-1-101 and certain other financial laws or regulations designated by the Arkansas Department of Education other than the collateralization of deposits noted in Note 2 in the financial statements.

West Memphis, Arkansas
November 16, 2007

Jackson, Howell & Associates, PLLC

Marion School District No. 3
Crittenden County, Arkansas
BALANCE SHEET - REGULATORY BASIS
June 30, 2007

Exhibit A

	<u>Governmental Funds</u>			
	<u>Major</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Other Aggregate</u>	<u>Fiduciary Type Funds</u>
ASSETS				
Cash	\$2,308,413	\$867,734	\$ 1,384,297	\$ 35,470
Investments	1,222,667	-	17,113,185	-
Accounts receivable	<u>17,016</u>	<u>28,220</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$3,548,096</u>	<u>\$895,954</u>	<u>\$18,497,482</u>	<u>\$ 35,470</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 147,787	\$ -	\$ -	\$ -
Deferred tax collections	1,178,936	-	-	-
Due to student groups	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,470</u>
TOTAL LIABILITIES	<u>1,326,723</u>	<u>-</u>	<u>-</u>	<u>35,470</u>
FUND BALANCES:				
Reserved:				
Capital projects	-	-	18,497,482	-
Federal expenditures	-	895,954	-	-
Unreserved:				
Undesignated	<u>2,221,373</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>2,221,373</u>	<u>895,954</u>	<u>18,497,482</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$3,548,096</u>	<u>\$895,954</u>	<u>\$18,497,482</u>	<u>\$ 35,470</u>

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

Marion School District No. 3
Crittenden County, Arkansas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS
For the Year Ended June 30, 2007

Exhibit B

	Major		
	General	Special Revenue	Other Aggregate
REVENUES			
Property taxes (including property tax relief distribution)	\$ 7,023,981	\$ -	\$ -
State assistance	18,999,412	13,323	30,197
Federal assistance	-	2,598,126	-
Activity revenues	608,013	-	-
Meal sales	-	645,891	-
Investment income	259,600	24,965	555,572
Other revenue	<u>309,324</u>	<u>4,960</u>	<u>-</u>
TOTAL REVENUES	<u>27,200,330</u>	<u>3,287,265</u>	<u>585,769</u>
EXPENDITURES			
Regular programs	12,782,106	71,319	-
Special education	2,420,561	475,543	-
Workforce education	943,891	-	-
Compensatory education	38,059	481,851	-
Other instructional programs	654,163	-	-
Student support services	1,250,510	302,864	-
Instructional staff support	1,401,205	275,731	-
General administration support services	772,324	78,020	-
School administration support services	1,903,686	88	-
Business support services	308,393	-	-
Operation and maintenance of plant services	2,153,882	-	-
Student transportation services	1,850,696	538	-
Central support services	-	-	-
Other support services	32,522	-	-
Food service operations	-	1,611,091	-
Community services	16,372	4,298	-
Non-programmed costs	1,646	-	-
Activity expenditures	746,729	-	-
Capital outlay	112,432	-	1,185,906
Debt service:			
Principal retirement	-	-	1,370,000
Interest and fiscal charges	-	-	713,725
TOTAL EXPENDITURES	<u>27,389,177</u>	<u>3,301,343</u>	<u>3,269,631</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(188,847)</u>	<u>(14,078)</u>	<u>(2,683,862)</u>

Marion School District No. 3
Crittenden County, Arkansas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS
For the Year Ended June 30, 2007

Exhibit B

	Major		
	General	Special Revenue	Other Aggregate
OTHER FINANCING SOURCES (USES)			
Transfers in	2,547,946	1,536,795	2,574,089
Transfer out	(4,110,885)	(1,533,612)	(1,014,333)
Proceeds from sale of bonds	-	-	17,320,000
Other cost of bond issue	-	-	(317,648)
TOTAL OTHER FINANCING SOURCES (USES)	(1,562,939)	3,183	18,562,108
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,751,786)	(10,895)	15,878,246
FUND BALANCES - JULY 1	3,973,159	906,849	2,619,236
FUND BALANCES - JUNE 30	\$ 2,221,373	\$ 895,954	\$18,497,482

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

Marion School District No. 3
Crittenden 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, 2007

	<u>General</u>		Exhibit C
	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes (including property tax relief distribution)	\$ 8,370,545	\$ 7,023,981	\$(1,346,564)
State assistance	19,262,796	18,999,412	(263,384)
Federal assistance	-	-	-
Activity revenue	100,000	608,013	508,013
Meal sales	-	-	-
Investment income	170,000	259,600	89,600
Other revenues	<u>248,900</u>	<u>309,324</u>	<u>60,424</u>
TOTAL REVENUES	<u>28,152,241</u>	<u>27,200,330</u>	<u>(951,911)</u>
EXPENDITURES			
Regular programs	13,518,074	12,782,106	735,968
Special education	2,651,118	2,420,561	230,557
Workforce education	964,571	943,891	20,680
Compensatory education	79,655	38,059	41,596
Other instructional programs	393,095	654,163	(261,068)
Student support services	1,202,849	1,250,510	(47,661)
Instructional staff support services	1,607,766	1,401,205	206,561
General administration support services	912,882	772,324	140,558
School administration support services	1,954,731	1,903,686	51,045
Business support services	289,514	308,393	(18,879)
Operation and maintenance of plant services	2,799,493	2,153,882	645,611
Student transportation services	1,368,693	1,850,696	(482,003)
Central supplies services	-	-	-
Other support services	19,050	32,522	(13,472)
Food services operations	-	-	-
Community services	15,737	16,372	(635)
Other non-instructional	-	-	-
Non-programmed costs	-	1,646	(1,646)
Activity expenditures	-	746,729	(746,729)
Capital outlay	165,032	112,432	52,600
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
TOTAL EXPENDITURES	<u>27,942,260</u>	<u>27,389,177</u>	<u>553,083</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>209,981</u>	<u>(188,847)</u>	<u>(398,828)</u>

Special Revenue

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ -	\$ -	\$ -
-	-	-
-	13,323	13,323
1,906,868	2,598,126	691,258
-	-	-
-	645,891	645,891
-	24,965	24,965
-	4,960	4,960
<u>1,906,868</u>	<u>3,287,265</u>	<u>1,380,397</u>
54,000	71,319	(17,319)
630,855	475,543	155,312
-	-	-
524,873	481,851	43,022
-	-	-
374,434	302,864	71,570
331,032	275,731	55,301
101,100	78,020	23,080
-	88	(88)
-	-	-
-	-	-
2,000	538	1,462
-	-	-
-	-	-
-	1,611,091	(1,611,091)
11,000	4,298	6,702
-	-	-
-	-	-
-	-	-
-	-	-
<u>2,029,294</u>	<u>3,301,343</u>	<u>(1,272,049)</u>
<u>(122,426)</u>	<u>(14,078)</u>	<u>108,348</u>

Marion School District No. 3
Crittenden 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, 2007

	Exhibit C		
	General		Variance
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	15,015,220	2,547,946	(12,467,274)
Transfers out	(16,946,168)	(4,110,885)	12,835,283
TOTAL OTHER FINANCING			
SOURCES (USES)	(1,930,948)	(1,562,939)	368,009
 EXCESS OF REVENUES AND OTHER SOURCES			
OVER (UNDER) EXPENDITURES AND			
OTHER USES	(1,720,967)	(1,751,786)	(30,819)
 FUND BALANCES - JULY 1	3,918,614	3,973,159	54,545
 FUND BALANCES - JUNE 30	\$ 2,197,647	\$2,221,373	\$ 23,726

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

Special Revenue

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
-	1,536,795	1,536,795
-	<u>(1,533,612)</u>	<u>(1,533,612)</u>
-	3,183	3,183
(122,426)	(10,895)	111,531
<u>501,033</u>	<u>906,849</u>	<u>405,816</u>
<u>\$ 378,607</u>	<u>\$ 895,954</u>	<u>\$ 517,347</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The District is a political subdivision of the Arkansas Department of Education, governed by an elected seven-member school board, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Marion School District (District). The statements reflect all funds and accounts directly under the control of the District. Using the criteria of financial accountability, there are no component units that are or should be included in the District's reporting entity.

B. Description of Funds

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

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

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

Other governmental funds consist of the following:

Capital Projects Fund – The Capital Project 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 for the reporting government in a purely custodial capacity (assets equals liabilities).

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2007

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 Arkansas Code Annotated 10-4-412(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

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.

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).

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2007

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Buildings	50
Equipment	5 - 25
Improvements/infrastructure	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, 2007. Arkansas law defines revenue receipts of a school district and includes forty percent (40%) of the proceeds of local taxes which are not pledged to secure bonded indebtedness or forty percent (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 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.

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2007

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. 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. The undesignated fund balance in the General Fund includes restricted state money received that has not been spent by year end.

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.

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2007

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:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$17,213,185	\$17,213,185
Collateralized		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	5,718,581	7,073,231
Uncollateralized funds	-	163,393
Total Deposits	<u>\$22,931,766</u>	<u>\$24,449,809</u>

The above total deposits include certificates of deposit of \$18,335,852 reported as investments.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2007, \$163,393 of the District's bank balance of \$24,449,809 was exposed to custodial credit risk as follows:

Uninsured and collateral not pledged by the bank or bank's trust department in the District's name	<u>\$163,393</u>
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3: RECEIVABLES

The receivables of \$45,236 at June 30, 2007, are as follows:

<u>Class of Receivable</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Federal programs	\$ -	\$14,896	\$14,896
Other	17,016	13,324	13,324
	<u>\$17,016</u>	<u>\$28,220</u>	<u>\$45,236</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2007

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2007:

A. Construction Contract

<u>Project Name</u>	<u>Estimated Completion Date</u>	<u>Contract Balance</u>
Roofing Restoration	8/01/2007	\$ 33,107
Pat Magruder - New Junior High	8/15/2009	<u>1,183,500</u>
		<u>\$1,216,607</u>

B. Operating Lease (noncapital leases with initial noncancellable lease terms in excess of one year).

General description of lease and leasing arrangements:

Danka Office Imaging Commercial Finance Group

1. Future minimum rental payments (aggregate) at June 30, 2007: \$94,441
2. Basis on which contingent rental payments are determined: if district-wide usage exceeds 420,250 copies per month, overages are billed at \$0.55 per copy
3. Extension of original 60 month lease dated 2/23/04. Lease payments are \$4,497.
4. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30</u>	<u>Amount</u>
2008	\$53,966
2009	<u>40,475</u>
	<u>\$94,441</u>

General description of lease and leasing arrangements:

Arkansas Copier Center Copystart CS-5050 Copier

1. Future minimum rental payments (aggregate) at June 30, 2007: \$20,925
2. Basis on which contingent rental payments are determined: if district-wide usage exceeds 255,500 copies per year, overages are billed at \$0.01 per copy.
3. 36 month lease beginning 1/25/07. Payments are \$675 per month for 10 months per year.
4. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$ 6,750
2009	6,750
2010	<u>7,425</u>
	<u>\$20,925</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2007

4: COMMITMENTS - CONTINUED

- B. Operating Lease (noncapital leases with initial noncancellable lease terms in excess of one year) - continued

General description of lease and leasing arrangements:

Arkansas Copier Center Copystart 8030 Copier

1. Future minimum rental payments (aggregate) at June 30, 2007: \$27,930
2. Basis on which contingent rental payments are determined: if district-wide usage exceeds 800,000 copies per year, overages are billed at \$0.0085 per copy.
3. Lease payments are \$735 per year for 12 months per year. 60 month lease beginning on 9/1/05.
4. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$ 8,820
2009	8,820
2010	8,820
2011	<u>1,470</u>
	<u>\$27,930</u>

General description of lease and leasing arrangements:

Arkansas Copier Center CS 4035 Copier

1. Future minimum rental payments (aggregate) at June 30, 2007: \$7,254
2. Basis on which contingent rental payments are determined: if district-wide usage exceeds 360,000 copies per year, overages are billed at \$0.0069 per copy.
3. 36 month lease beginning on 9/7/06. Lease payments are \$279 per month for 12 months per year.
4. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$3,348
2009	3,348
2010	<u>558</u>
	<u>\$7,254</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2007

C. Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2007</u>	<u>Maturities to June 30, 2007</u>
04/01/1999	06/01/2009	3.75	\$2,275,925	\$ 820,000	\$1,455,925
06/01/1999	02/01/2017	3.75 - 4.50	2,559,400	1,535,000	1,024,400
05/01/2001	02/01/2017	4.00 - 4.60	592,695	425,000	167,695
05/01/2003	02/01/2017	3.00 - 3.90	5,648,625	4,865,000	783,625
09/01/2003	02/01/2012	2.00 - 3.625	2,895,000	1,615,000	1,280,000
11/01/2004	02/01/2017	1.70 - 3.50	3,590,000	2,870,000	720,000
05/01/2006	02/01/2017	4.00 - 4.25	2,770,000	2,535,000	235,000
05/01/2006	03/15/2012	4.65	633,666	536,880	96,786
11/15/2006	02/01/2036	4.00 - 4.50	<u>17,320,000</u>	<u>17,320,000</u>	<u>-</u>
Totals			<u>\$38,285,311</u>	<u>\$32,521,880</u>	<u>\$5,763,431</u>

Changes in Long-term debt:

	<u>Balance June 30, 2006</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2007</u>
Bonds payable	\$16,035,000	\$17,320,000	\$1,370,000	\$31,985,000
Capital leases	<u>633,666</u>	<u>-</u>	<u>96,786</u>	<u>536,880</u>
Total	<u>\$16,668,666</u>	<u>\$17,320,000</u>	<u>\$1,466,786</u>	<u>\$32,521,880</u>

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,817,738	\$ 1,300,304	\$ 3,118,042
2009	1,877,336	1,235,730	3,113,066
2010	1,947,149	1,167,653	3,114,802
2011	2,017,190	1,097,640	3,114,830
2012	2,087,467	1,022,745	3,110,212
2013-2017	9,400,000	4,024,924	13,424,924
2018-2022	2,600,000	2,693,181	5,293,181
2023-2027	3,155,000	2,107,906	5,262,906
2028-2032	3,870,000	1,365,906	5,235,906
2033-2037	<u>3,750,000</u>	<u>430,875</u>	<u>4,180,875</u>
Total	<u>\$32,521,880</u>	<u>\$16,446,864</u>	<u>\$48,968,744</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2007

4: COMMITMENTS - CONTINUED

D. Capital Leases

The District has executed the following capital leases:

<u>Class of Property</u>	<u>Asset Balance June 30, 2007</u>
Vehicles (buses)	<u>\$539,904</u>
	<u>June 30, 2007</u>
Total minimum lease payments	\$607,898
Less: amount representing interest	<u>71,018</u>
Total present value of net minimum lease payment	<u>\$536,880</u>

5: ACCOUNTS, SALARIES AND OTHER PAYABLES

The payables of \$147,787 at June 30, 2007 are as follows:

<u>General Fund</u>	
Accounts payable	<u>\$147,787</u>

6: INTERFUND TRANSFERS

The following details the transfers between governmental funds for operating purposes:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Aggregate</u>	<u>Total</u>
Transfers in	\$2,547,946	\$1,536,795	\$2,574,089	\$6,658,830
Transfers out	<u>(4,110,885)</u>	<u>(1,533,612)</u>	<u>(1,014,333)</u>	<u>(6,658,830)</u>
	<u>\$1,562,939</u>	<u>\$ 3,183</u>	<u>\$1,559,756</u>	<u>\$ -0-</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2007

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 prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%. The District's contributions to ATRS for the years ended June 30, 2007, 2006 and 2005 were \$2,344,599, \$2,177,564 and \$2,018,099 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 (PERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteaching Arkansas public school employees hired before July 1, 1989. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information to PERS. That report may be obtained by writing to Arkansas Public Employee Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2007, 2006, and 2005 were \$8,409, \$8,080 and \$8,029, respectively, equal to the required contributions for each year.

Marion School District No. 3
Crittenden County, Arkansas
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2007

Schedule 1

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclass- fications</u>	<u>Balance</u> <u>June 30, 2007</u>
Nondepreciable capital assets:					
Land	\$ 1,950,722	\$ -	\$ -	\$ -	\$ 1,950,722
Construction in progress	<u>3,533,771</u>	<u>192,216</u>	<u>-</u>	<u>(3,528,911)</u>	<u>197,076</u>
Total nondepreciable capital assets	<u>5,484,493</u>	<u>192,216</u>	<u>-</u>	<u>(3,528,911)</u>	<u>2,147,798</u>
Depreciable capital assets:					
Buildings	21,109,574	650,770	-	3,583,811	25,344,155
Improvements	1,692,217	336,733	-	(54,900)	1,974,051
Machinery and equipment	<u>6,924,189</u>	<u>1,037,229</u>	<u>204,688</u>	<u>-</u>	<u>7,756,730</u>
Total depreciable capital assets	<u>29,725,980</u>	<u>2,024,732</u>	<u>204,688</u>	<u>3,528,911</u>	<u>35,074,936</u>
Less accumulated depreciation for:					
Buildings	5,617,567	446,082	-	-	6,063,650
Improvements	772,152	89,446	-	-	861,598
Machinery and equipment	<u>4,466,832</u>	<u>626,986</u>	<u>200,874</u>	<u>-</u>	<u>4,892,944</u>
Total accumulated depreciation	<u>10,856,551</u>	<u>1,162,514</u>	<u>200,874</u>	<u>-</u>	<u>11,818,192</u>
Total depreciable capital assets, net	<u>18,869,429</u>	<u>862,218</u>	<u>3,814</u>	<u>3,528,911</u>	<u>23,256,744</u>
Capital assets, net	<u>\$24,353,922</u>	<u>\$1,054,434</u>	<u>\$ 3,814</u>	<u>\$ -</u>	<u>\$25,404,542</u>

Marion School District No. 3
Crittenden County, Arkansas
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

Schedule 2

<u>Program</u>	<u>Federal Agency Pass-through Entity</u>	<u>CFDA Number</u>	<u>Amount Expended</u>
<u>U.S. Department of Education</u>			
E.S.E.A Title I, Part A Title I Grants to Local Education Agencies	AR Department of Education	84.010	\$554,591
E.S.E.A Title I, Part C Migrant Education	AR Department of Education	84.011	21,419
E.S.E.A Title I, Part D Program for Neglected and Delinquent Children	AR Department of Education	84.013	4,404
E.S.E.A Title VI, Part B Education of All Handicapped Children	AR Department of Education	84.027	683,673
Carl Perkins – Basic Entitlement	AR Department of Workforce Education	84.048	44,916
E.S.E.A Title IV – Safe and Drug Free School	AR Department of Education	84.186a	13,835
Education for Homeless Children and Youth	AR Department of Workforce Education	84.196	20,869
E.S.E.A Title V, Part A – Innovative Education Program Strategies	AR Department of Education	84.298	5,404
Title II, Part A Improving Teacher Quality State Grants	AR Department of Education	84.367	181,686
Hurricane Education Recovery	AR Department of Education	84.938C	14,644

Marion School District No. 3
Crittenden County, Arkansas
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
For the Year Ended June 30, 2007

Schedule 2

<u>Program</u>	<u>Federal Agency Pass-through Entity</u>	<u>CFDA Number</u>	<u>Amount Expended</u>
	<u>U.S. Department of Agriculture</u>		
Food Distribution	AR Department of Human Service	10.550	89,837
Children Nutrition Cluster			
School Breakfast Program	AR Department of Education	10.553	230,155
National School Lunch Program	AR Department of Education	10.555	<u>677,619</u>
 TOTAL FEDERAL AWARDS			 <u>\$2,543,052</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
For the Year Ended June 30, 2007

Schedule 2

1. This schedule includes the federal awards of Marion School District No. 3 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Medicaid reimbursements are defined as contracts for services and not federal awards; therefore such reimbursements, which totaled \$148,619 for the year ending June 30, 2007, are not covered by the reporting requirements of OMB Circular A-133.
3. Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.

Marion School District No. 3
Crittenden County, Arkansas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended June 30, 2007

Schedule 3

Section II – Financial Statement Findings

None

Section III – Federal Award Program Findings and Questioned Costs

None

Prior year findings and questioned costs:

None

Marion School District No. 3
Crittenden County, Arkansas
SUPPLEMENTAL DATA SHEET
June 30, 2007

Schedule 4

Name and address:	Marion School District No. 3 200 Manor Street Marion, Arkansas 72364
Employer Identification Number:	71-6020624
Telephone number:	870-739-5100
Superintendent	Dan Shepherd
Contact person:	Marjorie Brinkley