

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

June 30, 2005



Marion School District No. 3
C O N T E N T S
June 30, 2005

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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, 2005, 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, 2005, 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, 2005, 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 February 8, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, Federal Award Programs – Findings and Questioned Costs (Schedule 3) and 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

February 8, 2006

**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, 2005, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 8, 2006. 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, 2005, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements and not to provide an opinion on the internal control over financial reporting. 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the regulatory basis of financial statements being audited 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 operation that we consider to be material weaknesses.

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 governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jackson, Howell & Associates, PLLC

West Memphis, Arkansas
February 8, 2006

**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, 2005. 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, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than those specified parties.

Jackson, Howell, & Associates, PLLC

West Memphis, Arkansas
February 8, 2006

**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, 2005, and have issued our report thereon dated February 8, 2006. 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 as 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.

Jackson, Howell & Associates, PLLC

West Memphis, Arkansas
February 8, 2006

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Marion School District No. 3
Crittenden County, Arkansas
BALANCE SHEET – REGULATORY BASIS
June 30, 2005

Exhibit A

	Governmental Funds			
	Major			
	<u>General</u>	<u>Special Revenue</u>	<u>Other Aggregate</u>	<u>Fiduciary Type Funds</u>
ASSETS				
Cash	\$ 2,571,199	\$596,570	\$ 2,177,611	\$ 40,110
Investments	2,149,259	-	-	-
Accounts receivable	1,800	-	-	-
Property taxes receivable	464,668	-	-	-
TOTAL ASSETS	<u>\$5,186,926</u>	<u>\$596,570</u>	<u>\$2,177,611</u>	<u>\$ 40,110</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 84,012	\$ 16,345	\$ 6,517	\$ -
Due to student groups	-	-	-	40,110
TOTAL LIABILITIES	<u>84,012</u>	<u>16,345</u>	<u>6,517</u>	<u>40,110</u>
FUND BALANCES:				
Reserved:				
Capital projects	-	-	2,171,094	-
Federal expenditures	-	580,225	-	-
Unreserved:				
Undesignated	5,102,914	-	-	-
TOTAL FUND BALANCES	<u>5,102,914</u>	<u>580,225</u>	<u>2,171,094</u>	-
TOTAL LIABILITIES AND FUND BALANCES	<u>\$5,186,926</u>	<u>\$596,570</u>	<u>\$2,177,611</u>	<u>\$ 40,110</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 BALANCE-
GOVERNMENTAL FUNDS – REGULATORY BASIS**
For the Year Ended June 30, 2005

Exhibit B

	Major		
	General	Special Revenue	Other Aggregate
REVENUES			
Property taxes	\$ 6,722,861	\$ -	\$ -
Property tax relief trust distribution	241,383	-	-
State assistance	18,578,708	13,864	-
Federal assistance	-	2,416,882	-
Activity revenues	543,631	-	-
Meal sales	-	592,526	-
Investment income	221,574	-	44,691
Other revenue	183,554	27,150	-
TOTAL REVENUES	<u>26,491,711</u>	<u>3,050,422</u>	<u>44,691</u>
 EXPENDITURES			
Regular programs	11,114,447	124,013	-
Special education	1,806,155	320,372	-
Workforce education	809,024	-	3,240
Compensatory education	50,175	448,227	-
Other instructional programs	286,006	-	-
Student support services	1,041,521	173,522	-
Instructional staff support	828,857	282,608	-
General administration support services	802,115	84,204	-
School administration support services	1,662,012	-	-
Business support services	163,057	1,240	226,105
Operation and maintenance of plant services	1,856,338	-	-
Student transportation services	1,163,174	8,220	-
Central support services	376,135	-	-
Other support services	68,124	-	-
Food service operations	32,838	1,465,904	-
Community services	3,550	6,790	-
Other non-instructional	-	-	-
Non-programmed costs	330	24,092	-
Activity expenditures	470,950	-	-
Capital outlay	994,302	-	1,535,192
Debt service:			
Principal retirement	-	-	1,090,000
Interest and fiscal charges	-	-	457,441
TOTAL EXPENDITURES	<u>23,529,110</u>	<u>2,939,192</u>	<u>3,311,978</u>
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,962,601</u>	<u>111,230</u>	<u>(3,267,287)</u>
 OTHER FINANCING SOURCES (USES)			
Transfers in	1,373,126	1,373,126	1,594,053
Transfer out	(2,967,179)	(1,373,126)	-
Proceeds from sale of bonds	-	-	3,590,000
Net bond issue costs	-	-	(77,185)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,594,053)</u>	<u>-</u>	<u>5,106,868</u>

Marion School District No. 3
Crittenden County, Arkansas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
GOVERNMENTAL FUNDS – REGULATORY BASIS
For the Year Ended June 30, 2005

Exhibit B

	Major		
	General	Special Revenue	Other Aggregate
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,368,548	111,230	1,839,581
FUND BALANCES – JULY 1	<u>3,734,366</u>	<u>468,995</u>	<u>331,513</u>
FUND BALANCES – JUNE 30	<u>\$5,102,914</u>	<u>\$580,225</u>	<u>\$2,171,094</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 BALANCE
BUDGET AND ACTUAL – GENERAL AND SPECIAL REVENUE FUNDS – REGULATORY BASIS
For the Year Ended June 30, 2005

Exhibit C

	General		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Property taxes	\$ 6,186,190	\$ 6,722,861	\$ 536,671
Property tax relief distribution	200,000	241,383	41,383
State assistance	17,888,320	18,578,708	690,388
Federal assistance	-	-	-
Activity revenue	-	543,631	543,631
Meal sales	-	-	-
Investment income	10,000	221,574	211,574
Other income	<u>126,700</u>	<u>183,554</u>	<u>56,854</u>
TOTAL REVENUES	<u>24,411,210</u>	<u>26,491,711</u>	<u>2,080,501</u>
EXPENDITURES			
Regular programs	11,105,568	11,114,447	(8,879)
Special education	1,811,328	1,806,155	5,173
Workforce education	846,501	809,024	37,477
Compensatory education	-	50,175	(50,175)
Other instructional programs	310,550	286,006	24,544
Student support services	1,072,853	1,041,521	31,332
Instructional staff support services	828,767	828,857	(90)
General administration support services	774,006	802,115	(28,109)
School administration support services	1,702,166	1,662,012	40,154
Business support services	143,075	163,057	(19,982)
Operation and maintenance of plant services	2,561,125	1,856,338	704,787
Student transportation services	1,168,285	1,163,174	5,111
Central supplies services	437,473	376,135	61,338
Other support services	45,978	68,124	(22,146)
Food services operations	12,300	32,838	(20,538)
Community services	-	3,550	(3,550)
Other non-instructional	-	-	-
Non-programmed costs	6,000	330	5,670
Activity expenditures	-	470,950	(470,950)
Capital outlay	1,215,936	994,302	221,634
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
TOTAL EXPENDITURES	<u>24,041,911</u>	<u>23,529,110</u>	<u>512,801</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>369,299</u>	<u>2,962,601</u>	<u>2,593,302</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	12,383,909	1,373,126	(11,010,783)
Transfers out	<u>(14,087,909)</u>	<u>(2,967,179)</u>	<u>11,120,730</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,704,000)</u>	<u>(1,594,053)</u>	<u>109,947</u>

Special Revenue

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ -	\$ -	\$ -
-	-	-
-	13,864	13,864
1,430,464	2,416,882	986,418
-	-	-
-	592,526	592,526
-	-	-
-	27,150	27,150
<u>1,430,464</u>	<u>3,050,422</u>	<u>1,619,958</u>
113,500	124,013	(10,513)
330,444	320,372	10,072
-	-	-
466,440	448,227	18,213
-	-	-
160,033	173,522	(13,489)
299,020	282,608	16,412
97,664	84,204	13,460
-	-	-
-	1,240	(1,240)
-	-	-
9,556	8,220	1,336
-	-	-
-	-	-
-	1,465,904	(1,465,904)
16,200	6,790	9,410
-	-	-
59,160	24,092	35,068
-	-	-
-	-	-
-	-	-
<u>1,552,017</u>	<u>2,939,192</u>	<u>(1,387,175)</u>
<u>(121,553)</u>	<u>111,230</u>	<u>232,783</u>
-	1,373,126	1,373,126
-	1,373,126	(1,373,126)
-	-	-

Marion School District No. 3
Crittenden County, Arkansas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL AND SPECIAL REVENUE FUNDS – REGULATORY BASIS
For the Year Ended June 30, 2005

Exhibit C

	General		Variance
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,334,701)	1,368,548	2,703,249
FUND BALANCES – JULY 1	<u>3,734,366</u>	<u>3,734,366</u>	-
FUND BALANCES – JUNE 30	<u>\$2,399,665</u>	<u>\$5,102,914</u>	<u>\$2,703,249</u>

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

Special Revenue

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
(121,553)	111,230	232,783
<u>468,995</u>	<u>468,995</u>	<u>-</u>
<u>\$ 347,442</u>	<u>\$ 580,225</u>	<u>\$ 232,783</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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. 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).

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.

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

E. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Buildings	50
Vehicles	8
Equipment	5 - 25

F. Property Taxes

Property taxes are levied in November based on the assessed value of taxable property as of January 1 of that year. The tax records are opened and taxes are billed in March of the year following the levy. Taxes not received by October 10 of the year following the levy are considered delinquent and are subject to penalties. Property taxes that are due at the end of the fiscal year and collected within 60 days are accrued. Deferred property taxes are not recognized.

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.

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Budget and Budgetary Accounting (continued)

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.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The School District's policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bonds or other obligations; bonds of the State of Arkansas or by bonds of a political subdivision thereof which has never defaulted on any of its obligations, in an amount at least equal to the amount of such deposit or by a bond executed by a surety company authorized to do business in the State of Arkansas. The Director of Education must approve the surety company.

At December 31, none of the District's bank balances of \$5,385,490 were exposed to custodial credit risk.

Summary of Carrying Values

The carrying values of deposits shown above are included in the fund financial statements at June 30, 2005 as follows:

Cash		
General fund	\$2,571,199	
Special revenue	596,570	
Other aggregate	2,177,611	
Fiduciary	<u>40,110</u>	
Total cash		<u>\$5,385,490</u>

3: INVESTMENTS

Investments consist of certificates of deposit and are reported at cost. The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent not in the District's name.

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificate of Deposit					
General Fund	<u>\$2,149,259</u>			<u>\$2,149,259</u>	<u>\$2,149,259</u>
	<u>\$2,149,259</u>			<u>\$2,149,259</u>	<u>\$2,149,259</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

4: RECEIVABLES

The receivables of \$466,468 at June 30, 2005, are as follows:

<u>Class of Receivable</u>	<u>General Fund</u>
Accounts receivable	
State assistance	\$ 1,800
Property taxes receivable	<u>464,668</u>
	<u>\$466,468</u>

5: COMMITMENTS

The District was contractually obligated for the following at June 30, 2005:

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, 2005</u>	<u>Maturities to June 30, 2005</u>
4/1/1999	6/1/2009	3.40 - 3.75	\$2,275,925	\$ 1,230,000	\$1,045,925
9/1/2003	2/1/2012	1.40 - 3.60	2,895,000	2,265,000	630,000
5/1/2003	2/1/2017	3.00 - 3.90	5,648,625	5,225,000	423,625
6/1/1999	2/1/2017	3.75 - 4.50	2,559,400	1,820,000	739,400
5/1/2001	2/1/2017	4.00 - 4.80	592,695	485,000	107,695
11/1/2004	2/1/2017	1.70 - 3.50	3,590,000	3,345,000	245,000
3/25/2003	3/25/2008	4.80	<u>468,000</u>	<u>187,200</u>	<u>280,800</u>
	Totals		<u>\$18,029,645</u>	<u>\$14,557,200</u>	<u>\$3,472,445</u>

Change in Long-term debt

	<u>Balance June 30, 2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2005</u>
Bonds payable	\$11,870,000	\$3,590,000	\$1,090,000	\$14,370,000
Capital leases	<u>280,800</u>	-	<u>93,600</u>	<u>187,200</u>
Totals	<u>\$12,150,800</u>	<u>\$3,590,000</u>	<u>\$1,183,600</u>	<u>\$14,557,200</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>
2006	\$ 1,198,600	\$505,179	\$1,703,779
2007	1,228,600	474,577	1,703,177
2008	1,170,000	437,119	1,607,119
2009	1,210,000	399,143	1,609,143
2010	1,250,000	358,479	1,608,479
2011-2015	6,050,000	1,188,348	7,238,348
2016-2020	<u>2,450,000</u>	<u>143,388</u>	<u>2,593,388</u>
Totals	<u>\$14,557,200</u>	<u>\$3,506,233</u>	<u>\$18,063,433</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

5: COMMITMENTS (continued)

Capital leases

The District has executed the following capital leases:

<u>Class of Property</u>	<u>Asset balance June 30, 2005</u>
Vehicles (buses)	<u>\$ 468,000</u>
Total minimum lease payments	\$ 196,326
Less: amounts representing interest	<u>9,126</u>
Total present value of net minimum lease payment	<u>\$ 187,200</u>

6: INTERFUND TRANSFERS

The financial statements reflect the following interfund transfers from the general fund:

<u>Transfer to</u>	<u>Amount</u>
Food service (Special Revenue)	\$1,373,126
Debt service (Other Aggregate)	1,547,441
Capital projects (Other Aggregate)	<u>46,612</u>
	<u>\$2,967,179</u>

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, 2005, 2004 and 2003 were \$2,018,099, \$1,364,002 and \$1,255,140, respectively, equal to the required contributions for each year.

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

7: RETIREMENT PLANS (continued)

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, 2005, 2004, and 2003 were \$8,029, \$8,428 and \$10,510, 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, 2005

Schedule 1

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclass-</u> <u>fications</u>	<u>Balance</u> <u>June 30, 2005</u>
Nondepreciable capital assets:					
Land	\$ 757,154	\$ -	\$ -	\$ -	\$ 757,154
Construction in progress	<u>263,108</u>	<u>2,229,103</u>	-	-	<u>2,492,211</u>
Total nondepreciable capital assets	<u>1,020,262</u>	<u>2,229,103</u>	-	-	<u>3,249,365</u>
Depreciable capital assets:					
Buildings	21,015,022	-	-	-	21,015,022
Improvements	1,355,361	-	99,331	-	1,256,030
Machinery and equipment	<u>5,961,841</u>	<u>913,052</u>	<u>355,799</u>	-	<u>6,519,094</u>
Total depreciable capital assets	<u>28,332,224</u>	<u>913,052</u>	<u>455,130</u>	-	<u>28,790,146</u>
Less accumulated depreciation for:					
Buildings	5,446,651	401,868	-	-	5,848,519
Improvements	651,691	63,646	-	-	715,337
Machinery and equipment	<u>3,873,487</u>	<u>495,184</u>	<u>335,250</u>	-	<u>4,033,421</u>
Total accumulated depreciation	<u>9,971,829</u>	<u>960,698</u>	<u>335,250</u>	-	<u>10,597,277</u>
Total depreciable capital assets, net	<u>18,360,395</u>	<u>(47,646)</u>	<u>119,880</u>	-	<u>18,192,869</u>
Capital assets, net	<u>\$19,380,657</u>	<u>\$2,181,457</u>	<u>\$119,880</u>	\$ -	<u>\$21,442,234</u>

**Marion School District No. 3
Crittenden County, Arkansas
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005**

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	\$487,792
E.S.E.A Title I, Part C Migrant Education	AR Department of Education	84.011	21,547
E.S.E.A Title I, Part D Program for Neglected and Delinquent Children	AR Department of Education	84.013	3,315
E.S.E.A Title VI, Part B Education of All Handicapped Children	AR Department of Education	84.027	587,372
Carl Perkins – Basic Entitlement	AR Department of Workforce Education	84.048	43,546
E.S.E.A Title IV – Safe and Drug Free School	AR Department of Education	84.186a	21,538
Education for Homeless Children and Youth	AR Department of Education	84.196	38,484
E.S.E.A Title VI – Innovative Education Program Strategies	AR Department of Education	84.298	23,216
Title II, Part D Curriculum Instruction Improvement	AR Department of Education	84.318	26,243
E.S.E.A Title I, Part E and Title V, Part D Comprehensive School Reform Demonstration	AR Department of Education	84.332	14,063
Title II, Part A Improving Teacher Quality State Grants	AR Department of Education	84.367	157,313
	<u>U.S. Department of Agriculture</u>		
Food Distribution	AR Department of Human Service	10.550	92,984
Children Nutrition Cluster School Breakfast Program	AR Department of Education	10.553	203,955
National School Lunch Program	AR Department of Education	10.555	<u>603,497</u>
TOTAL FEDERAL AWARDS			<u>\$2,324,865</u>

Marion School District No. 3
Crittenden County, Arkansas
NOTES TO SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
For the Year Ended June 30, 2005

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. Medical assistance program expenditures were \$47,083.
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
SUPPLEMENTAL DATA SHEET
June 30, 2005**

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