

Marmaduke School District No. S-2

Greene County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2010

LEGISLATIVE JOINT AUDITING COMMITTEE



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GREENE COUNTY, ARKANSAS
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JUNE 30, 2010

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Marmaduke School District No. S-2 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Marmaduke School District No. S-2 (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4), and Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, Arkansas
January 14, 2011
EDSD14710

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Marmaduke School District No. S-2 and School Board Members
Legislative Joint Auditing Committee

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

Internal Control Over Financial Reporting

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

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

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

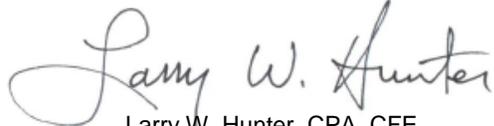
Compliance and Other Matters

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

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

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

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 14, 2011

Sen. Bill Pritchard
Senate Chair
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Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Marmaduke School District No. S-2 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Marmaduke School District No. S-2's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

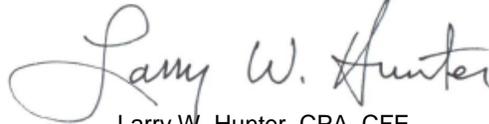
The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 14, 2011

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2010

Exhibit A

	Governmental Funds		
	Major		Fiduciary Fund Types
	General	Special Revenue	
ASSETS			
Cash	\$ 1,128,533	\$ 39,053	\$ 24,877
Investments	912,010		
Accounts receivable	1,918	38,119	
Property taxes receivable	174,954		
TOTAL ASSETS	\$ 2,217,415	\$ 77,172	\$ 24,877
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 18,803	\$ 2,097	\$ 100
Due student groups			24,777
Total Liabilities	18,803	2,097	24,877
Fund Balances:			
Unreserved:			
Undesignated	2,198,612	75,075	
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,217,415	\$ 77,172	\$ 24,877

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

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,134,222		
State assistance	3,853,766	\$ 95,169	
Federal assistance	618	1,974,777	
Activity revenues	137,973		
Meal sales		111,237	
Investment income	17,568		
Other revenues	106,747	31,369	
TOTAL REVENUES	5,250,894	2,212,552	
EXPENDITURES			
Regular programs	2,320,774	45,738	
Special education	254,602	116,931	
Workforce education	170,651		
Compensatory education	336	75,529	
Other instructional programs	286,633		
Student support services	205,869	78,082	
Instructional staff support services	282,685	431,922	
General administration support services	162,164	63,473	
School administration support services	217,450		
Central services support services	110,101	696	
Operation and maintenance of plant services	498,657	1,799	
Student transportation services	285,261	79,141	
Other support services	8,080		
Food services operations	9,744	390,666	
Community services operations	13,240	28,954	
Facilities acquisition and construction services	70,456	865,851	
Activity expenditures	121,348		
Debt Service:			
Principal retirement			\$ 30,000
Interest and fiscal charges			61,084
TOTAL EXPENDITURES	5,018,051	2,178,782	91,084
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	232,843	33,770	(91,084)
OTHER FINANCING SOURCES (USES)			
Transfers in			91,084
Transfers out	(91,084)		
Value of capital lease	50,000		
Refund to grantor	(7,294)		
TOTAL OTHER FINANCING SOURCES (USES)	(48,378)		91,084
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	184,465	33,770	
FUND BALANCES - JULY 1	2,014,147	41,305	
FUND BALANCES - JUNE 30	<u>\$ 2,198,612</u>	<u>\$ 75,075</u>	<u>\$ 0</u>

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

MARMADUKE SCHOOL DISTRICT NO. S-2

GREENE COUNTY, ARKANSAS

Exhibit C

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,138,392	\$ 1,134,222	\$ (4,170)			
State assistance	3,743,292	3,853,766	110,474	\$ 3,000	\$ 95,169	\$ 92,169
Federal assistance	5,000	618	(4,382)	1,465,636	1,974,777	509,141
Activity revenues		137,973	137,973			
Meal sales				102,500	111,237	8,737
Investment income	13,624	17,568	3,944			
Other revenues	83,860	106,747	22,887		31,369	31,369
TOTAL REVENUES	4,984,168	5,250,894	266,726	1,571,136	2,212,552	641,416
EXPENDITURES						
Regular programs	2,394,458	2,320,774	73,684	37,859	45,738	(7,879)
Special education	244,224	254,602	(10,378)	118,640	116,931	1,709
Workforce education	174,387	170,651	3,736	4,000	4,000	
Compensatory education		336	(336)	76,316	75,529	787
Other instructional programs	315,209	286,633	28,576			
Student support services	210,073	205,869	4,204	80,793	78,082	2,711
Instructional staff support services	312,357	282,685	29,672	597,183	431,922	165,261
General administration support services	167,231	162,164	5,067	50,397	63,473	(13,076)
School administration support services	216,101	217,450	(1,349)			
Central services support services	92,204	110,101	(17,897)		696	(696)
Operation and maintenance of plant services	524,958	498,657	26,301	1,000	1,799	(799)
Student transportation services	261,145	285,261	(24,116)	9,412	79,141	(69,729)
Other support services	9,041	8,080	961			
Food services operations	9,120	9,744	(624)	508,083	390,666	117,417
Community services operations	25,363	13,240	12,123	28,106	28,954	(848)
Facilities acquisition and construction services	6,200	70,456	(64,256)	312,267	865,851	(553,584)
Non-programmed costs	38,186		38,186			
Activity expenditures		121,348	(121,348)			
TOTAL EXPENDITURES	5,000,257	5,018,051	(17,794)	1,824,056	2,178,782	(354,726)

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (16,089)	\$ 232,843	\$ 248,932	\$ (252,920)	\$ 33,770	\$ 286,690
OTHER FINANCING SOURCES (USES)						
Transfers in	2,662,894		(2,662,894)	3,935		(3,935)
Transfers out	(2,757,883)	(91,084)	2,666,799	(3,935)		3,935
Value of capital lease		50,000	50,000			
Refund to grantor		(7,294)	(7,294)			
TOTAL OTHER FINANCING SOURCES (USES)	(94,989)	(48,378)	46,611	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(111,078)	184,465	295,543	(252,920)	33,770	286,690
FUND BALANCES - JULY 1	2,237,555	2,014,147	(223,408)	67,427	41,305	(26,122)
FUND BALANCES - JUNE 30	<u>\$ 2,126,477</u>	<u>\$ 2,198,612</u>	<u>\$ 72,135</u>	<u>\$ (185,493)</u>	<u>\$ 75,075</u>	<u>\$ 260,568</u>

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

MARMADUKE SCHOOL DISTRICT NO. S-2
GREENE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Marmaduke School District (District). There are no component units.

B. Description of Funds

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

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

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

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

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

Fiduciary Fund types include the following:

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

C. Measurement Focus and Basis of Accounting

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

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

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

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

F. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

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

G. Fund Balance Designations

Undesignated fund balance – indicates that portion of the fund balance not reserved or designated.

H. Budget and Budgetary Accounting

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

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

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

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 1,442,463	\$ 1,523,456
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	662,010	662,010
Total Deposits	\$ 2,104,473	\$ 2,185,466

The above total deposits include certificates of deposit of \$912,010 reported as investments and classified as nonparticipating contracts.

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$40,037 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance		\$ 30,392	\$ 30,392
Activity fund accounts	\$ 18		18
Other	1,900	7,727	9,627
Totals	\$ 1,918	\$ 38,119	\$ 40,037

4: COMMITMENTS

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

Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2010	Maturities To June 30, 2010
12/1/06	2/1/36	3.65 - 4.375%	\$ 1,500,000	\$ 1,440,000	\$ 60,000
3/19/10	7/15/12	4.59%	50,000	50,000	
Totals			\$ 1,550,000	\$ 1,490,000	\$ 60,000

Changes in Long-term Debt

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Bonds payable	\$ 1,470,000		\$ 30,000	\$ 1,440,000
Capital leases		\$ 50,000		50,000
Totals	\$ 1,470,000	\$ 50,000	\$ 30,000	\$ 1,490,000

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

4: COMMITMENTS (Continued)

Long-term Debt Issued and Outstanding (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2011	\$ 51,930	\$ 60,324	\$ 112,254
2012	51,164	59,812	110,976
2013	51,906	57,792	109,698
2014	35,000	55,616	90,616
2015	40,000	54,216	94,216
2016-2020	215,000	246,481	461,481
2021-2025	260,000	199,881	459,881
2026-2030	320,000	142,784	462,784
2031-2035	380,000	69,475	449,475
2036	85,000	3,719	88,719
Totals	<u>\$ 1,490,000</u>	<u>\$ 950,100</u>	<u>\$ 2,440,100</u>

Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2010
Bus	<u>\$ 50,000</u>
	<u>June 30, 2010</u>
Total Minimum Lease Payments	\$ 53,046
Less: Amount Representing Interest	<u>3,046</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 50,000</u>

5: ACCOUNTS PAYABLE

The accounts payable balance of \$21,000 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types	Total
	Major General	Special Revenue		
Vendor payables	<u>\$ 18,803</u>	<u>\$ 2,097</u>	<u>\$ 100</u>	<u>\$ 21,000</u>

MARMADUKE SCHOOL DISTRICT NO. S-2
GREENE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

6: INTERFUND TRANSFERS

The District transferred \$91,084 from the general fund to the other aggregate funds for debt related payments.

7: RETIREMENT PLAN

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2010, 2009, and 2008 were \$530,513, \$487,792, and \$495,004, respectively, equal to the required contributions for each year.

8: RISK MANAGEMENT

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

The District carries commercial insurance for board liability, student accident, earthquake, and business trip accidental death and dismemberment coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

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

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

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

MARMADUKE SCHOOL DISTRICT NO. S-2
GREENE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

9: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$92,974 for the year ended June 30, 2010.

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Unaudited)

Schedule 1

	Balance June 30, 2010
<i>Nondepreciable capital assets:</i>	
Land	\$ 46,532
<i>Depreciable capital assets:</i>	
Buildings	9,817,411
Improvements/infrastructure	436,406
Equipment	1,486,554
Total depreciable capital assets	<u>11,740,371</u>
Less accumulated depreciation for:	
Buildings	1,736,362
Improvements/infrastructure	188,401
Equipment	824,419
Total accumulated depreciation	<u>2,749,182</u>
Total depreciable capital assets, net	<u>8,991,189</u>
Capital assets, net	<u>\$ 9,037,721</u>

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	28-03-000	\$ 86,422
National School Lunch Program - Cash Assistance	10.555	28-03-000	197,515
Total State Department of Education			283,937
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	2803A2010	24,339
Summer Food Service Program for Children - Cash Assistance	10.559	SA057	10,022
Total State Department of Human Services			34,361
TOTAL CHILD NUTRITION CLUSTER			318,298
 TITLE I, PART A CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	28-03	301,461
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2803000	150,093
TOTAL TITLE I, PART A CLUSTER			451,554
 SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	2803	143,676
ARRA - Special Education - Grants to States, Recovery Act	84.391	2803000	138,095
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			281,771
 STATE FISCAL STABILIZATION FUND CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	2803000	315,607
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	2803000	12,022
TOTAL STATE FISCAL STABILIZATION FUND CLUSTER			327,629
 CCDF CLUSTER			
<u>U. S. Department of Health and Human Services:</u>			
Passed Through State Department of Human Services:			
Child Care and Development Block Grant	93.575	Unavailable	4,076
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Unavailable	1,290
ARRA - Child Care and Development Block Grant	93.713	Unavailable	22,309
TOTAL CCDF CLUSTER			27,675

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>OTHER PROGRAMS</u>			
<u>U. S. Department of Education</u>			
Direct Program:			
Impact Aid	84.041		\$ 618
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	2803	4,133
Rural Education	84.358	2803	11,254
Improving Teacher Quality State Grants	84.367	2803	40,918
Total State Department of Education			<u>56,305</u>
Total U. S. Department of Education			<u>56,923</u>
<u>U. S. Department of Homeland Security</u>			
Passed Through State Department of Emergency Management:			
Hazard Mitigation Grant	97.039	1636-DR-AR	519,643
TOTAL OTHER PROGRAMS			<u>576,566</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,983,493</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Marmaduke School District No. S-2 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the regulatory basis financial statements.
- Note 2: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 3: During the year ended June 30, 2010, the District received Medicaid funding of \$22,121 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010 and 84.389	Title I, Part A Cluster
84.027 and 84.391	Special Education Cluster (IDEA)
84.394 and 84.397	State Fiscal Stabilization Fund Cluster
97.039	Hazard Mitigation Grant

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

Auditee qualified as low-risk auditee? yes no

MARMADUKE SCHOOL DISTRICT NO. S-2
GREENE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2010-1. Internal Control

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

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

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

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

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

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

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

MARMADUKE SCHOOL DISTRICT NO. S-2
GREENE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 4

There were no findings in the prior audit.

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Unaudited)

	Year Ended June 30,				
	2010	2009	2008	2007	2006
<u>General Fund</u>					
Total Assets	\$ 2,217,415	\$ 2,042,429	\$ 2,853,765	\$ 2,935,139	\$ 3,029,704
Total Liabilities	18,803	28,282	3,479		319,183
Total Fund Balances	2,198,612	2,014,147	2,850,286	2,935,139	2,710,521
Total Revenues	5,250,894	5,218,699	5,338,297	5,308,497	5,530,363
Total Expenditures	5,018,051	5,196,342	5,283,538	7,389,922	5,926,357
Total Other Financing Sources (Uses)	(48,378)	(858,496)	(139,612)	2,306,043	553,068
<u>Special Revenue Fund</u>					
Total Assets	77,172	52,432	38,245	76,348	59,306
Total Liabilities	2,097	11,127			
Total Fund Balances	75,075	41,305	38,245	76,348	59,306
Total Revenues	2,212,552	1,026,660	891,393	940,879	980,566
Total Expenditures	2,178,782	1,023,600	929,496	923,837	940,900
Total Other Financing Sources (Uses)					
<u>Other Aggregate Funds</u>					
Total Assets			1,250,938	1,272,470	
Total Liabilities			1,003,965		
Total Fund Balances			246,973	1,272,470	
Total Revenues		1,421,225	996,750	21,455	
Total Expenditures	91,084	2,526,694	2,161,859	214,901	121,932
Total Other Financing Sources (Uses)	91,084	858,496	139,612	1,465,916	121,932