

Marmaduke School District No. S-2

Greene County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



MARMADUKE SCHOOL DISTRICT NO. S-2
GREENE COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2011

Independent Auditor's Report

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Balance Sheet - Regulatory Basis	A
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Regulatory Basis	B
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds - Regulatory Basis	C
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	3
Federal Award Programs - Summary Schedule of Prior Audit Findings	4
Schedule of Selected Information for the Last Five Years - Regulatory Basis (Unaudited)	5

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

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, 2011, 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, 2011, 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, 2011, 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.

As discussed in Note 1 to the financial statements, the District changed the classifications of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 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

A handwritten signature in cursive script that reads "Roger A. Norman".

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

Little Rock, Arkansas
December 8, 2011
EDSD14711

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, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated December 8, 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, 2011, 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

Management of the District is responsible for establishing and maintaining effective 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 2011-1 to be a material weakness.

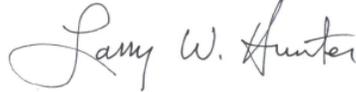
Compliance and Other Matters

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

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

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 8, 2011

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 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 (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 the District's major federal programs for the year ended June 30, 2011. 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, 2011.

Internal Control Over Compliance

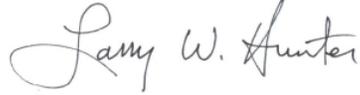
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 8, 2011

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2011

Exhibit A

	Governmental Funds		
	Major		Fiduciary Fund Types
	General	Special Revenue	
ASSETS			
Cash	\$ 1,075,879	\$ 45,061	\$ 22,819
Investments	965,372		
Accounts receivable	23,672	75,977	
Property taxes receivable	169,575		
TOTAL ASSETS	\$ 2,234,498	\$ 121,038	\$ 22,819
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 38,296	\$ 2,627	\$ 489
Due student groups			22,330
Total Liabilities	38,296	2,627	22,819
Fund Balances:			
Restricted	43,452	118,411	
Assigned	59,897		
Unassigned	2,092,853		
Total Fund Balances	2,196,202	118,411	
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,234,498	\$ 121,038	\$ 22,819

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, 2011

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,203,473		
State assistance	3,780,983	\$ 3,764	\$ 19,102
Federal assistance	6,008	1,597,655	320,752
Activity revenues	168,326		
Meal sales		110,692	
Investment income	14,733		
Other revenues	112,404	36,176	
TOTAL REVENUES	5,285,927	1,748,287	339,854
EXPENDITURES			
Regular programs	2,347,901	114,704	
Special education	242,275	112,527	
Workforce education programs	173,411	4,203	
Compensatory education programs	336	77,756	
Other instructional programs	310,619	7,005	
Student support services	210,513	95,340	
Instructional staff support services	264,850	769,317	
General administration support services	169,156	47,637	
School administration support services	221,381	4,376	
Central services support services	93,195		
Operation and maintenance of plant services	556,163	5,510	1,416
Student transportation services	291,903	13,163	
Other support services	10,676		
Food services operations	9,881	426,747	88,132
Community services operations	55,904	23,832	
Facilities acquisition and construction services	4,042		252,306
Activity expenditures	175,052		
Debt Service:			
Principal retirement	16,930		35,000
Interest and fiscal charges	752		59,992
TOTAL EXPENDITURES	5,154,940	1,702,117	436,846
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	130,987	46,170	(96,992)
OTHER FINANCING SOURCES (USES)			
Transfers in		219	94,992
Transfers out	(95,211)		
Value of capital lease			
Refund to grantors	(38,186)	(1,053)	
TOTAL OTHER FINANCING SOURCES (USES)	(133,397)	(834)	94,992
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(2,410)	45,336	(2,000)
FUND BALANCES - JULY 1 (RESTATED)	2,198,612	73,075	2,000
FUND BALANCES - JUNE 30	\$ 2,196,202	\$ 118,411	\$ 0

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, 2011

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,094,895	\$ 1,203,473	\$ 108,578			
State assistance	3,871,810	3,780,983	(90,827)	\$ 3,100	\$ 3,764	\$ 664
Federal assistance		6,008	6,008	1,002,739	1,597,655	594,916
Activity revenues		168,326	168,326			
Meal sales				104,800	110,692	5,892
Investment income	13,600	14,733	1,133			
Other revenues	90,200	112,404	22,204		36,176	36,176
TOTAL REVENUES	5,070,505	5,285,927	215,422	1,110,639	1,748,287	637,648
EXPENDITURES						
Regular programs	2,310,803	2,347,901	(37,098)	36,523	114,704	(78,181)
Special education	274,166	242,275	31,891	82,051	112,527	(30,476)
Workforce education programs	183,017	173,411	9,606	20,875	4,203	16,672
Compensatory education programs	335	336	(1)	76,379	77,756	(1,377)
Other instructional programs	328,013	310,619	17,394		7,005	(7,005)
Student support services	218,120	210,513	7,607	102,322	95,340	6,982
Instructional staff support services	324,434	264,850	59,584	227,568	769,317	(541,749)
General administration support services	178,393	169,156	9,237	46,324	47,637	(1,313)
School administration support services	215,084	221,381	(6,297)		4,376	(4,376)
Central services support services	96,651	93,195	3,456			
Operation and maintenance of plant services	573,577	556,163	17,414		5,510	(5,510)
Student transportation services	315,185	291,903	23,282	9,789	13,163	(3,374)
Other support services	7,506	10,676	(3,170)			
Food services operations	9,789	9,881	(92)	391,569	426,747	(35,178)
Community services operations	57,777	55,904	1,873	25,697	23,832	1,865
Facilities acquisition and construction services	43,090	4,042	39,048	54,496		54,496
Activity expenditures		175,052	(175,052)			
Debt Service:						
Principal retirement		16,930	(16,930)			
Interest and fiscal charges		752	(752)			
TOTAL EXPENDITURES	5,135,940	5,154,940	(19,000)	1,073,593	1,702,117	(628,524)

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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (65,435)	\$ 130,987	\$ 196,422	\$ 37,046	\$ 46,170	\$ 9,124
OTHER FINANCING SOURCES (USES)						
Transfers in	7,091,223		(7,091,223)	11,685	219	(11,466)
Transfers out	(7,196,652)	(95,211)	7,101,441			
Refund to grantors		(38,186)	(38,186)		(1,053)	(1,053)
TOTAL OTHER FINANCING SOURCES (USES)	(105,429)	(133,397)	(27,968)	11,685	(834)	(12,519)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(170,864)	(2,410)	168,454	48,731	45,336	(3,395)
FUND BALANCES - JULY 1	2,230,801	2,198,612	(32,189)	116,808	73,075	(43,733)
FUND BALANCES - JUNE 30	<u>\$ 2,059,937</u>	<u>\$ 2,196,202</u>	<u>\$ 136,265</u>	<u>\$ 165,539</u>	<u>\$ 118,411</u>	<u>\$ (47,128)</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, 2011

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 used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the District's food services operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

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

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Fund – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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.

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Revenue Recognition Policies

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

E. Capital Assets

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

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

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

MARMADUKE SCHOOL DISTRICT NO. S-2
GREENE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

F. Property Taxes

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

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

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

G. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

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.

MARMADUKE SCHOOL DISTRICT NO. S-2
GREENE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

H. Budget and Budgetary Accounting (Continued)

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.

I. Stabilization Arrangements

The District's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

J. Minimum Fund Balance Policies

The District's Board of Education has not formally adopted a minimum fund balance policy.

K. Fund Balance Classification Policies and Procedures

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The District's Board of Education has not adopted a formal policy addressing this authorization.

The District's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the District's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The District does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

L. Encumbrances

The District does not utilize encumbrance accounting.

M. Change in Accounting Principle

The District adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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)	\$ 500,000	\$ 500,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	1,609,131	1,724,661
Total Deposits	\$ 2,109,131	\$ 2,224,661

The above total deposits include certificates of deposit of \$965,372 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$99,649 at June 30, 2011 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 13,657		\$ 13,657
Federal assistance		\$ 63,068	63,068
Meal sales		255	255
Other	10,015	12,654	22,669
Totals	\$ 23,672	\$ 75,977	\$ 99,649

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2011:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
Kitchen renovation	August 8, 2011	\$ 44,750

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

4: COMMITMENTS (Continued)

B. 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, 2011	Maturities To June 30, 2011
12/1/06	2/1/36	3.65 - 4.375%	\$ 1,500,000	\$ 1,405,000	\$ 95,000
3/19/10	7/15/12	4.59%	50,000	33,070	16,930
Totals			<u>\$ 1,550,000</u>	<u>\$ 1,438,070</u>	<u>\$ 111,930</u>

Changes in Long-term Debt

	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011
Bonds payable	\$ 1,440,000		\$ 35,000	\$ 1,405,000
Capital leases	50,000		16,930	33,070
Totals	<u>\$ 1,490,000</u>	<u>\$ 0</u>	<u>\$ 51,930</u>	<u>\$ 1,438,070</u>

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

Year Ended June 30,	Principal	Interest	Total
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	40,000	52,616	92,616
2017-2021	225,000	237,881	462,881
2022-2026	270,000	189,482	459,482
2027-2031	330,000	129,424	459,424
2032-2036	395,000	52,938	447,938
Totals	<u>\$ 1,438,070</u>	<u>\$ 889,777</u>	<u>\$ 2,327,847</u>

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

4: COMMITMENTS (Continued)

B. Long-term Debt Issued and Outstanding (Continued)

Capital Leases

The District has executed the following capital lease:

Class of Property	Asset Balance June 30, 2011
Bus	\$ 50,000
	June 30, 2011
Total Minimum Lease Payments	\$ 35,364
Less: Amount Representing Interest	2,294
Total Present Value of Net Minimum Lease Payments	\$ 33,070

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$41,412 at June 30, 2011 was comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types	Total
	Major			
	General	Special Revenue		
Vendor payables	\$ 25,317	\$ 2,627	\$ 489	\$ 28,433
Due to grantors	8,703			8,703
Other	4,276			4,276
Totals	\$ 38,296	\$ 2,627	\$ 489	\$ 41,412

6: INTERFUND TRANSFERS

The District transferred \$94,992 from the general fund to the other aggregate funds for debt related payments. Additionally, the District transferred \$219 from the general fund to the special revenue fund to supplement its food services operations.

MARMADUKE SCHOOL DISTRICT NO. S-2
GREENE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011, 2010, and 2009 were \$547,938, \$530,513, and \$487,792, respectively, equal to the required contributions for each year.

8: PRIOR YEAR RESTATEMENT

The beginning fund balances of the special revenue fund and the other aggregate funds were decreased and increased, respectively, by \$2,000 to comply with the provisions of GASB Statement no. 54.

9: RISK MANAGEMENT

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

The District carries commercial insurance for 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, 2011

10: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$123,568 for the year ended June 30, 2011.

11: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 1,637		\$ 1,637
Educational programs - National school lunch state categorical funding	11,576		11,576
Professional development	10,234		10,234
Child nutrition programs		\$ 110,926	110,926
Medical services		5,714	5,714
Other purposes	20,005	1,771	21,776
Total Restricted	<u>43,452</u>	<u>118,411</u>	<u>161,863</u>
Assigned to:			
Student activities	31,984		31,984
Other purposes	27,913		27,913
Total Assigned	<u>59,897</u>		<u>59,897</u>
Unassigned	<u>2,092,853</u>		<u>2,092,853</u>
Totals	<u>\$ 2,196,202</u>	<u>\$ 118,411</u>	<u>\$ 2,314,613</u>

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

Schedule 1

	Balance June 30, 2011
<i>Nondepreciable capital assets:</i>	
Land	\$ 46,532
Construction in progress	47,921
Total nondepreciable capital assets	94,453
 <i>Depreciable capital assets:</i>	
Buildings	9,817,411
Improvements/infrastructure	505,502
Equipment	1,741,114
Total depreciable capital assets	12,064,027
 Less accumulated depreciation for:	
Buildings	1,932,709
Improvements/infrastructure	205,201
Equipment	897,211
Total accumulated depreciation	3,035,121
Total depreciable capital assets, net	9,028,906
Capital assets, net	\$ 9,123,359

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	28-03-000	\$ 93,860
National School Lunch Program - Cash Assistance	10.555	28-03-000	205,680
Total State Department of Education			299,540
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555	2803000	22,410
Summer Food Service Program for Children - Cash Assistance	10.559	SA057	13,529
Total State Department of Human Services			35,939
TOTAL CHILD NUTRITION CLUSTER			335,479
 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	278,043
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2803000	10,223
TOTAL TITLE I, PART A CLUSTER			288,266
 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	162,848
ARRA - Special Education - Grants to States, Recovery Act	84.391	2803000	18,119
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			180,967
 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	14,255
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Unavailable	7,334
TOTAL CCDF CLUSTER			21,589
 OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program	10.582	28-03-000	23,038

MARMADUKE SCHOOL DISTRICT NO. S-2
 GREENE COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. Department of Education</u>			
Direct Programs:			
Impact Aid	84.041		\$ 6,008
Improving Literacy Through School Libraries	84.364		460,105
Total Direct Programs			466,113
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	2803	334
Rural Education	84.358	2803	13,569
Improving Teacher Quality State Grants	84.367	2803	39,760
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	2803000	368,016
ARRA - Education Jobs Fund, Recovery Act	84.410	2803000	134,836
Total State Department of Education			556,515
Total U. S. Department of Education			1,022,628
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Human Services:			
Foster Care - Title IV-E	93.658	Unavailable	1,506
ARRA - Foster Care - Title IV-E	93.658	Unavailable	65
Total State Department of Health and Human Services			1,571
<u>U. S. Department of Homeland Security</u>			
Passed Through State Department of Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1636-DR-AR	58,217
TOTAL OTHER PROGRAMS			1,105,454
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,931,755

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 (the "Schedule") includes the federal grant activity of Marmaduke School District No. S-2 (District) under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2011, the District received Medicaid funding of \$26,185 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, 2011

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
84.364	Improving Literacy Through School Libraries
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

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, 2011

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2011-1. 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. Specifically, payroll checks are prepared by the same employee responsible for changes in the payroll amounts, without compensating controls.

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 assertion 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, 2011

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, 2011
 (Unaudited)

General Fund	Year Ended June 30,				
	2011	2010	2009	2008	2007
Total Assets	\$ 2,234,498	\$ 2,217,415	\$ 2,042,429	\$ 2,853,765	\$ 2,935,139
Total Liabilities	38,296	18,803	28,282	3,479	
Total Fund Balances	2,196,202	2,198,612	2,014,147	2,850,286	2,935,139
Total Revenues	5,285,927	5,250,894	5,218,699	5,338,297	5,308,497
Total Expenditures	5,154,940	5,018,051	5,196,342	5,283,538	7,389,922
Total Other Financing Sources (Uses)	(133,397)	(48,378)	(858,496)	(139,612)	2,306,043
 Special Revenue Fund					
Total Assets	121,038	77,172	52,432	38,245	76,348
Total Liabilities	2,627	2,097	11,127		
Total Fund Balances	118,411	75,075	41,305	38,245	76,348
Total Revenues	1,748,287	2,212,552	1,026,660	891,393	940,879
Total Expenditures	1,702,117	2,178,782	1,023,600	929,496	923,837
Total Other Financing Sources (Uses)	(834)				
 Other Aggregate Funds					
Total Assets				1,250,938	1,272,470
Total Liabilities				1,003,965	
Total Fund Balances				246,973	1,272,470
Total Revenues	339,854		1,421,225	996,750	21,455
Total Expenditures	436,846	91,084	2,526,694	2,161,859	214,901
Total Other Financing Sources (Uses)	94,992	91,084	858,496	139,612	1,465,916