

Cutter-Morning Star School District No. 21

Garland County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2019



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GARLAND COUNTY, ARKANSAS
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JUNE 30, 2019

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Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT**

INDEPENDENT AUDITOR'S REPORT

Cutter-Morning Star School District No. 21 and School Board Members
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Cutter-Morning Star School District No. 21 (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Governmental 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by the District on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2019, or the changes in financial position for the year then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2019, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Supplementary and Other Information

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 Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Schedule of Capital Assets, and the Schedule of Selected Information for the Last Five Years – Regulatory Basis are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years – Regulatory Basis have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2020 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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
March 4, 2020
EDSD13319

Arkansas

Sen. Jason Rapert
Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



Rep. Richard Womack
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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS 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*

INDEPENDENT AUDITOR'S REPORT

Cutter-Morning Star School District No. 21 and School Board Members
Legislative Joint Auditing Committee

We have audited, in accordance with the 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, the financial statements of each major governmental fund and the aggregate remaining fund information of the Cutter-Morning Star School District No. 21 (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 4, 2020. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting 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 regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2019, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001, that we consider 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 from 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*.

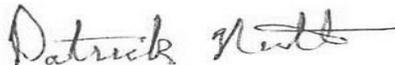
District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "Patrick Nutt". The signature is written in a cursive style with a long horizontal stroke at the end.

Patrick Nutt, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
March 4, 2020

Arkansas



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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT**

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Cutter-Morning Star School District No. 21 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Cutter-Morning Star School District No. 21's (the "District") compliance with the types of compliance requirements described in the *OMB 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, 2019. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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, 2019.

Report on Internal Control Over Compliance

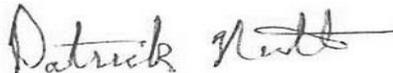
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT



Patrick Nutt, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
March 4, 2020

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2019

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 1,343,492	\$ 63,149	\$ 11,629,082	\$ 23,209
Accounts receivable		107,950	177,379	
Deposit with paying agent			345,019	
TOTAL ASSETS	\$ 1,343,492	\$ 171,099	\$ 12,151,480	\$ 23,209
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 11,424	\$ 3,239	\$ 814,056	
Due student groups				\$ 23,209
Total Liabilities	11,424	3,239	814,056	23,209
Fund Balances:				
Nonspendable			236,631	
Restricted	308,646	167,860	7,833,015	
Assigned	222,773		3,268,778	
Unassigned	800,649			
Total Fund Balances	1,332,068	167,860	11,338,424	
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,343,492	\$ 171,099	\$ 12,152,480	\$ 23,209

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

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2019

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,138,493		
State assistance	3,828,386	\$ 2,150	\$ 823,014
Federal assistance		950,641	9,402
Activity revenues	140,464		
Meal sales		68,914	
Investment income	52,820		146,556
Other revenues	66,048	7,424	
TOTAL REVENUES	6,226,211	1,029,129	978,972
EXPENDITURES			
Regular programs	2,254,414	32,385	
Special education	162,144	121,052	
Career education programs	79,305		
Compensatory education programs	14,344	198,857	
Other instructional programs	294,353		
Student support services	128,645	142,408	
Instructional staff support services	245,039	72,201	
General administration support services	255,654	2,961	
School administration support services	260,763		
Central services support services	82,561		
Operation and maintenance of plant services	606,168		
Student transportation services	207,880		
Other support services	44,247		
Food services operations	1,144	392,071	
Facilities acquisition and construction services	249,449		3,233,691
Non-programmed costs		1,621	
Activity expenditures	129,476		
Debt Service:			
Principal retirement			335,000
Interest and fiscal charges			557,369
TOTAL EXPENDITURES	5,015,586	963,556	4,126,060
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,210,625	65,573	(3,147,088)
OTHER FINANCING SOURCES (USES)			
Transfers in			1,152,118
Transfers out	(1,152,118)		
TOTAL OTHER FINANCING SOURCES (USES)	(1,152,118)		1,152,118
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	58,507	65,573	(1,994,970)
FUND BALANCES - JULY 1	1,273,561	102,287	13,333,394
FUND BALANCES - JUNE 30	\$ 1,332,068	\$ 167,860	\$ 11,338,424

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

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND 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, 2019

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 2,086,400	\$ 2,138,493	\$ 52,093			
State assistance	3,765,177	3,828,386	63,209	\$ 2,003	\$ 2,150	\$ 147
Federal assistance				908,407	950,641	42,234
Activity revenues		140,464	140,464			
Meal sales				72,081	68,914	(3,167)
Investment income	30,000	52,820	22,820			
Other revenues	83	66,048	65,965		7,424	7,424
TOTAL REVENUES	5,881,660	6,226,211	344,551	982,491	1,029,129	46,638
EXPENDITURES						
Regular programs	2,185,245	2,254,414	(69,169)		32,385	(32,385)
Special education	165,396	162,144	3,252	149,135	121,052	28,083
Career education programs	107,118	79,305	27,813			
Compensatory education programs	21,204	14,344	6,860	194,877	198,857	(3,980)
Other instructional programs	319,098	294,353	24,745			
Student support services	126,745	128,645	(1,900)	182,469	142,408	40,061
Instructional staff support services	303,200	245,039	58,161	95,926	72,201	23,725
General administration support services	307,153	255,654	51,499	2,973	2,961	12
School administration support services	262,174	260,763	1,411			
Central services support services	78,622	82,561	(3,939)			
Operation and maintenance of plant services	748,985	606,168	142,817	36,386		36,386
Student transportation services	257,060	207,880	49,180			
Other support services	35,000	44,247	(9,247)			
Food services operations		1,144	(1,144)	355,411	392,071	(36,660)
Community services operations				5,152		5,152
Facilities acquisition and construction services		249,449	(249,449)			
Non-programmed costs				1,377	1,621	(244)
Activity expenditures		129,476	(129,476)			
TOTAL EXPENDITURES	4,917,000	5,015,586	(98,586)	1,023,706	963,556	60,150

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND 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, 2019

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 964,660	\$ 1,210,625	\$ 245,965	\$ (41,215)	\$ 65,573	\$ 106,788
OTHER FINANCING SOURCES (USES)						
Transfers in	6,679,721		(6,679,721)			
Transfers out	(7,599,511)	(1,152,118)	6,447,393			
TOTAL OTHER FINANCING SOURCES (USES)	(919,790)	(1,152,118)	(232,328)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	44,870	58,507	13,637	(41,215)	65,573	106,788
FUND BALANCES - JULY 1	1,291,977	1,273,561	(18,416)	103,774	102,287	(1,487)
FUND BALANCES - JUNE 30	<u>\$ 1,336,847</u>	<u>\$ 1,332,068</u>	<u>\$ (4,779)</u>	<u>\$ 62,559</u>	<u>\$ 167,860</u>	<u>\$ 105,301</u>

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

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 Cutter-Morning Star 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.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, inclusion of the net pension liability 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 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 acquisition 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
Buildings	50
Equipment	5-20

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.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

F. Property Taxes (Continued)

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2018 calendar year taxes collected by June 30, 2019 and 8 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2019 equaled or exceeded the 8 percent calculation.

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. Nonspendable fund balance – represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
2. 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.
3. 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.
4. 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. Additionally, the District routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

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.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
 GARLAND COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 expenditures are 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 balances 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.

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)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	12,808,832	13,410,633
Total Deposits	\$ 13,058,832	\$ 13,660,633

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 were comprised of the following:

Description	Governmental Funds	
	Major Special Revenue	Other Aggregate
State assistance		\$ 177,379
Federal assistance	\$ 107,950	
Totals	<u>\$ 107,950</u>	<u>\$ 177,379</u>

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2019:

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, 2019	Maturities To June 30, 2019
<u>Bonds</u>					
10/1/15	2/1/35	1 - 3%	\$ 2,000,000	\$ 1,730,000	\$ 270,000
5/1/13	2/1/35	.65 - 2.625%	2,035,000	1,635,000	400,000
3/1/13	6/1/35	1 - 2.6%	3,405,000	2,875,000	530,000
2/1/18	2/1/47	1.75 - 3.5%	5,255,000	5,255,000	
11/1/17	2/1/47	3 - 3.5%	5,000,000	5,000,000	
5/12/11	5/1/26	4.9%	205,000	205,000	
5/1/12	6/1/35	2 - 3.5%	500,000	385,000	115,000
Total Bonds			<u>18,400,000</u>	<u>17,085,000</u>	<u>1,315,000</u>

Changes in Long-term Debt

	Balance July 01, 2018	Issued	Retired	Balance June 30, 2019
Bonds payable	<u>\$ 17,420,000</u>	<u>\$ 0</u>	<u>\$ 335,000</u>	<u>\$ 17,085,000</u>

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

4: COMMITMENTS (Continued)

Future Principal and Interest Payments

Year Ended June 30,	Bonds		
	Principal	Interest	Total
2020	\$ 370,000	\$ 508,129	\$ 878,129
2021	415,000	501,501	916,501
2022	420,000	493,356	913,356
2023	430,000	484,581	914,581
2024	430,000	475,464	905,464
2025-2029	2,590,000	2,187,399	4,777,399
2030-2034	2,760,000	1,829,526	4,589,526
2035-2039	2,615,000	1,399,259	4,014,259
2040-2044	3,655,000	843,669	4,498,669
2045-2047	3,400,000	183,750	3,583,750
Totals	<u>\$ 17,085,000</u>	<u>\$ 8,906,634</u>	<u>\$ 25,991,634</u>

Qualified School Construction Bonds

On May 12, 2011, the District obtained funding of \$205,000 from Qualified School Construction Bonds, a debt financial arrangement authorized by the American Recovery and Reinvestment Act of 2009. The District will deposit a specified amount annually into a sinking fund for 15 years. This amount plus interest earned will be used to retire the debt when due.

Security for Debt Payments

Ark. Code Ann. § 6-20-1204 specifies procedures to be followed if a school district is delinquent in a payment to the paying agent for bonded debt. As additional security, any delinquent payment for bonded debt will be satisfied by the Arkansas Department of Education (ADE). Depending on the date of the bond issue, ADE will recover the full amount of any delinquency payment through the withholding of a school district's state funding or a direct payment from the school district. There were no delinquent bond payments incurred by the District during the audit period.

5: ACCOUNTS PAYABLE

Accounts payable at June 30, 2019 were comprised of the following:

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Vendor payables	<u>\$ 11,424</u>	<u>\$ 3,239</u>	<u>\$ 814,056</u>

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

6: INTERFUND TRANSFERS

The District transferred \$1,152,118 from the general fund to the other aggregate funds for debt related payments of \$899,111 and for future capital projects of \$253,007.

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 employees of schools and education-related agencies, except certain non-teaching school employees. 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, by calling 1-800-666-2877, or by visiting the ATRS website at www.artss.gov.

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 District's contributions to ATRS for the year ended June 30, 2019 were \$405,979 equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2018 (actuarial valuation date and measurement date) was \$3,276,812.

8: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$18,400,000 issued from May 12, 2011 to February 1, 2018. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$25,991,634 payable through February 1, 2047. Principal and interest paid for the current year and total property taxes pledged for debt service were \$889,436 and \$1,045,194, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 85.10 percent.

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 and student accidents.

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.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

9: RISK MANAGEMENT (Continued)

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 \$300,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The District participates in the Arkansas Public School Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member districts, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

Settled claims have not exceeded 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.

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 \$87,243 for the year ended June 30, 2019.

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

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Fund Balances:			
Nonspendable:			
Deposit with paying agent			\$ 236,631
Restricted for:			
Alternative learning environment	\$ 10,036		
Educational programs - national school lunch state categorical funding	30,446		
English-language learners	19,685		
Professional development	51,619		
Capital projects			7,723,626
Child nutrition programs		\$ 54,332	
Debt service	31,394		109,389
Medical services		74,659	
Special education programs	2,770		
Secondary vocational center	155,730		
Other purposes	6,966	38,869	
Total Restricted	<u>308,646</u>	<u>167,860</u>	<u>7,833,015</u>
Assigned to:			
Capital projects			3,268,778
Student activities	162,429		
Other purposes	60,344		
Total Assigned	<u>222,773</u>		<u>3,268,778</u>
Unassigned	<u>800,649</u>		
Totals	<u>\$ 1,332,068</u>	<u>\$ 167,860</u>	<u>\$ 11,338,424</u>

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

12. CONSTRUCTION IN PROGRESS

At June 30, 2019, the District had a construction in progress balance of \$3,077,340 as reflected at Schedule 1. The balance was comprised of costs for the construction of a new high school building. There were no construction commitments for this project at June 30, 2019, or in the subsequent period as of the audit report date.

13: SUBSEQUENT EVENTS

On November 1, 2019, the District issued refunding bonds of \$5, 470,000 for the purpose of refunding the February 1, 2018 bond issue.

On February 1, 2020, the District issued refunding bonds of \$5,135,000 for the purpose of refunding the November 1, 2017 bond issue.

The District reached a settlement with a former employee on November 22, 2019, resulting in the District paying \$36,682 to the Arkansas Teacher Retirement system.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2019
(Unaudited)

Schedule 1

	Balance June 30, 2019
<i>Nondepreciable capital assets:</i>	
Land	\$ 956,517
Construction in progress	3,077,340
Total nondepreciable capital assets	4,033,857
 <i>Depreciable capital assets:</i>	
Buildings	7,374,252
Improvements/infrastructure	946,835
Equipment	1,641,266
Total depreciable capital assets	9,962,353
 Less accumulated depreciation for:	
Buildings	3,423,056
Improvements/infrastructure	562,892
Equipment	1,236,597
Total accumulated depreciation	5,222,545
 Total depreciable capital assets, net	4,739,808
 Capital assets, net	\$ 8,773,665

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
CHILD NUTRITION CLUSTER				
<u>U. S. Department of Agriculture</u>				
Arkansas Department of Education - School Breakfast Program	10.553	2601		\$ 98,872
National School Lunch Program (Note 3)	10.555			7,997
Arkansas Department of Education - National School Lunch Program	10.555	2601		198,194
Arkansas Department of Human Services - National School Lunch Program (Note 4)	10.555	2601000		13,674
Total for National School Lunch Program				<u>219,865</u>
Total U. S. Department of Agriculture				<u>318,737</u>
TOTAL CHILD NUTRITION CLUSTER				<u>318,737</u>
SPECIAL EDUCATION CLUSTER (IDEA)				
<u>U. S. Department of Education</u>				
Arkansas Department of Education - Special Education - Grants to States	84.027	2601		165,111
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				<u>165,111</u>
OTHER PROGRAMS				
<u>U. S. Department of Agriculture</u>				
Arkansas Department of Education - Fresh Fruit and Vegetable Program	10.582	2601		17,857
Total U. S. Department of Agriculture				<u>17,857</u>
<u>U. S. Department of Education</u>				
Arkansas Department of Education - Title I Grants to Local Educational Agencies	84.010	2601		187,514
Rural Education	84.358			32,385
Arkansas Department of Education - Supporting Effective Instruction State Grants	84.367	2601		28,161
Arkansas Department of Education - Student Support and Academic Enrichment Program	84.424	2601		19,929
Total U. S. Department of Education				<u>267,989</u>
TOTAL OTHER PROGRAMS				<u>285,846</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 0</u>	<u>\$ 769,694</u>

The accompanying notes are an integral part of this schedule.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Schedule 2

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 award activity of Cutter-Morning Star School District No. 21 (District) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.
- Note 5: The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
- Note 6: During the year ended June 30, 2019, the District received Medicaid funding of \$127,512 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
 GARLAND COUNTY, ARKANSAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2019

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Types of auditor's reports issued on whether the financial statements audited were prepared in accordance with:

Generally accepted accounting principles (GAAP) - adverse
 Regulatory basis - unmodified

Internal control over financial reporting:

<input checked="" type="radio"/> Material weakness(es) identified?	<input checked="" type="checkbox"/>	yes	<input type="checkbox"/>	no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	none reported

Noncompliance material to financial statements noted?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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FEDERAL AWARDS

Internal control over major federal programs:

<input checked="" type="radio"/> Material weakness(es) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs:	<u>\$</u>	<u>750,000</u>
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Auditee qualified as low-risk auditee?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
--	--------------------------	-----	-------------------------------------	----

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2019-001. Internal Control

Criteria: 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: Deficiencies 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. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: payroll checks are prepared by the same employee responsible for preparing contracts, adding new employees, and processing payroll, without compensating controls. Non-payroll checks are prepared by the same employee responsible for adding new vendors and processing invoices, without compensating controls.

Cause: District management, due to cost/benefit implications, which hindered the District's ability to hire sufficient personnel, did not effectively address the deficiencies in internal control.

Effect or potential 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 weaknesses in the above internal control component.

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

Views of responsible officials: We concur with the recommendation and will implement corrective procedures to the extent possible.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



Cutter Morning Star School

2800 Spring Street
Hot Springs, Arkansas 71901
Tel: (501) 262-2414 | Fax: (501) 262-0670

Schedule 4

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

Financial Statement Findings

2018 – Report on Internal Control Over Financial Reporting Finding: Internal Control

Condition: Deficiencies 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. Financial accounting duties were not segregated among employees. Specifically, certain key weaknesses included the following: Payroll checks are prepared by the same employee responsible for preparing contracts, adding new employees, and processing payroll, without compensating controls. Non-payroll checks are prepared by the same employee responsible for adding new vendors and processing invoices, without compensating controls. Revenues were receipted by the same employee responsible for preparing deposits and posting revenues into the general ledger.

Current Status: Areas involving lack of segregation of financial accounting duties has not been corrected by the District. See finding 2019-001 at Schedule 3.

2017 – Report on Internal Control Over Financial Reporting Finding: Internal Control

Condition: Deficiencies 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. Financial accounting duties were not segregated among employees. Specifically, certain key weaknesses included the following: Payroll checks are prepared by the same employee responsible for preparing contracts, adding new employees, and processing payroll, without compensating controls. Non-payroll checks are prepared by the same employee responsible for adding new vendors and processing invoices, without compensating controls. Revenues were receipted by the same employee responsible for preparing deposits and posting revenues into the general ledger.

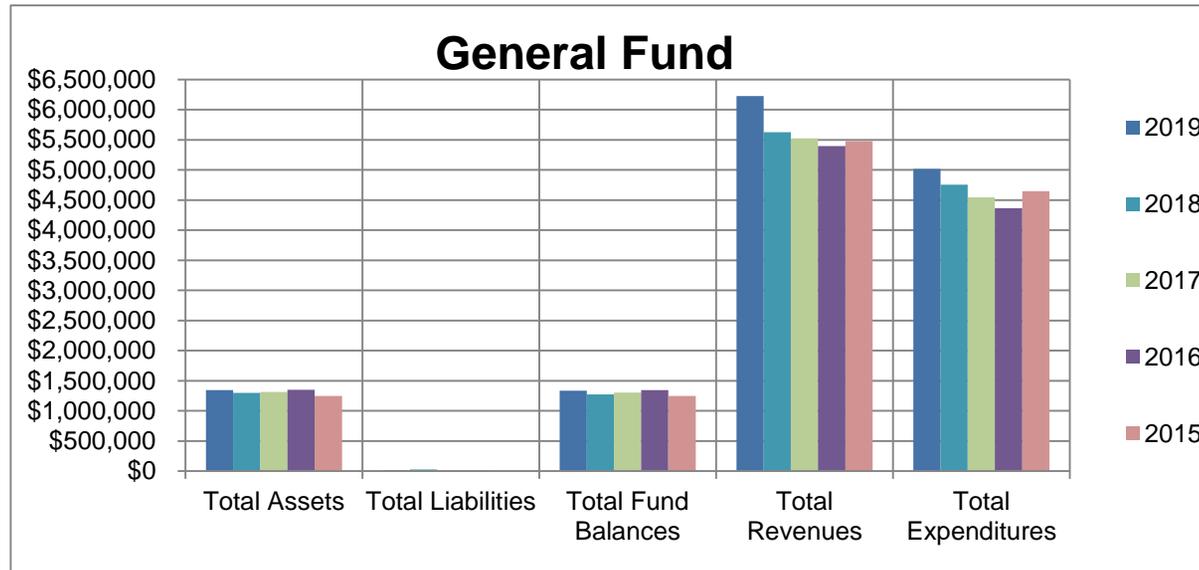
Current Status: Areas involving lack of segregation of financial accounting duties has not been corrected by the District. See finding 2019-001 at Schedule 3.

Federal Award Findings and Questioned Costs

There were no findings in the prior audit.

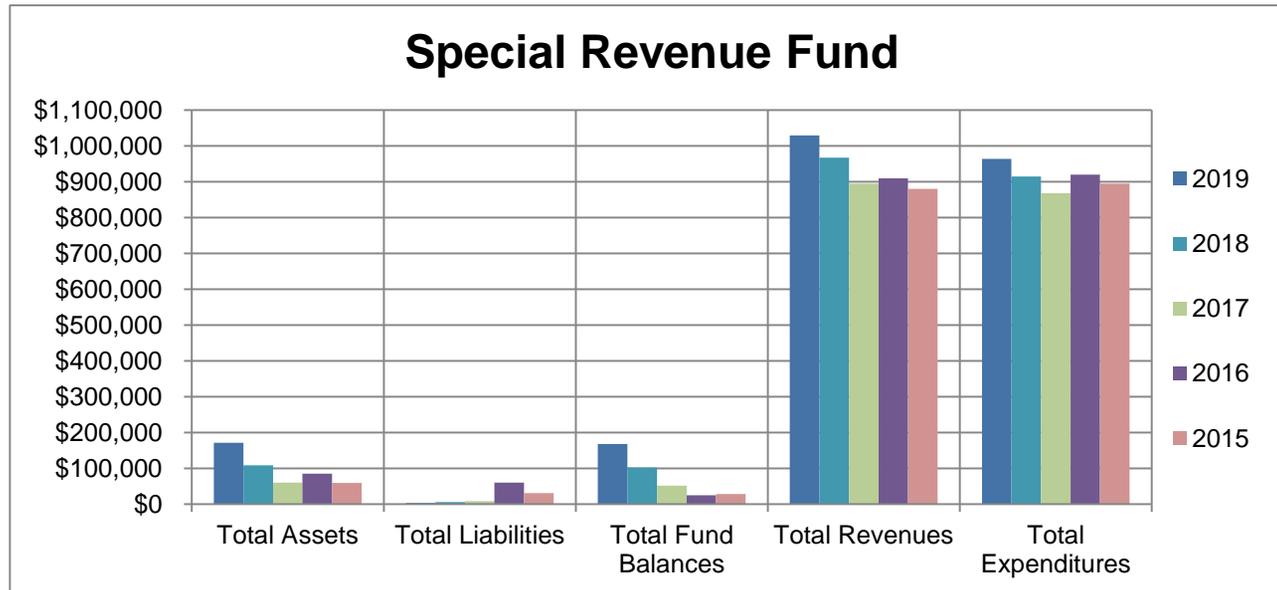
CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
 GARLAND COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2019
 (Unaudited)

<u>General Fund</u>	Year Ended June 30,				
	2019	2018	2017	2016	2015
Total Assets	\$ 1,343,492	\$ 1,300,129	\$ 1,313,825	\$ 1,347,057	\$ 1,247,990
Total Liabilities	11,424	26,568	11,789	966	
Total Fund Balances	1,332,068	1,273,561	1,302,036	1,346,091	1,247,990
Total Revenues	6,226,211	5,627,666	5,522,405	5,396,920	5,478,226
Total Expenditures	5,015,586	4,756,607	4,542,642	4,362,897	4,648,680
Total Other Financing Sources (Uses)	(1,152,118)	(899,535)	(1,023,818)	(935,922)	(946,377)



CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
 GARLAND COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2019
 (Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2019	2018	2017	2016	2015
Total Assets	\$ 171,099	\$ 108,325	\$ 59,791	\$ 85,065	\$ 59,097
Total Liabilities	3,239	6,038	8,195	60,083	31,062
Total Fund Balances	167,860	102,287	51,596	24,982	28,035
Total Revenues	1,029,129	967,051	895,042	909,523	879,941
Total Expenditures	963,556	914,638	868,428	920,153	895,091
Total Other Financing Sources (Uses)		(1,722)		7,577	



CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
 GARLAND COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2019
 (Unaudited)

Schedule 5

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2019	2018	2017	2016	2015
Total Assets	\$ 12,151,480	\$ 13,370,071	\$ 3,485,115	\$ 3,500,598	\$ 1,717,014
Total Liabilities	814,056	36,677	4,437	404,209	
Total Fund Balances	11,338,424	13,333,394	3,480,678	3,096,389	1,717,014
Total Revenues	978,972	471,077	1,120,956	358,732	10,143
Total Expenditures	4,126,060	1,772,896	1,824,135	1,903,431	330,247
Total Other Financing Sources (Uses)	1,152,118	11,154,535	1,087,468	2,924,074	946,377

