

Cutter-Morning Star School District No. 21

Garland County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2025



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GARLAND COUNTY, ARKANSAS
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Arkansas

Sen. Jim Petty
Senate Chair
Sen. Jim Dotson
Senate Vice Chair



Rep. Robin Lundstrum
House Chair
Rep. RJ Hawk
House Vice Chair

Kevin William White, CPA, JD
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 Audit of the Financial Statements

Opinions

We have audited 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, 2025, 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.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the accompanying 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, 2025, 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.

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 section of our report, the accompanying 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, 2025, or the changes in financial position for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 of the financial statements, 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, to meet the requirements of the State of Arkansas. 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 and pervasive.

Responsibilities of Management 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. 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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*, is presented for purposes of additional analysis and is not a required part of the regulatory basis financial statements. Such information 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. The 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 GAAS. 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.

Other Information

Management is responsible for the other information included in the report. The other information comprises the Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years – Regulatory Basis but does not include the regulatory basis financial statements, supplementary information, and our auditor's report thereon. Our opinions on the regulatory basis financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the regulatory basis financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the regulatory basis financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2026 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

A handwritten signature in dark ink, appearing to read "Kevin White", with a stylized flourish at the end.

Kevin William White, CPA, JD
Legislative Auditor

Little Rock, Arkansas
April 30, 2026
EDSD13325

Arkansas

Sen. Jim Petty
Senate Chair
Sen. Jim Dotson
Senate Vice Chair



Rep. Robin Lundstrum
House Chair
Rep. RJ Hawk
House Vice Chair

Kevin William White, CPA, JD
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 (*Government Auditing Standards*), 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, 2025, 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 April 30, 2026. 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 and pervasive. 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, 2025, 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.

Report on 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) as a basis for designing 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 were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2025-001, that we consider to be a material weakness.

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Matt Fink".

Matt Fink, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
April 30, 2026

Arkansas

Sen. Jim Petty
Senate Chair
Sen. Jim Dotson
Senate Vice Chair



Rep. Robin Lundstrum
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Rep. RJ Hawk
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Kevin William White, CPA, JD
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

Opinion on Each Major Federal Program

We have audited the Cutter-Morning Star School District No. 21's (the "District") compliance with the compliance requirements identified as subject to audit 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, 2025. 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.

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, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-001, to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Matt Fink, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
April 30, 2026

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2025

Exhibit A

	Governmental Funds		
	Major		Other
	General	Special Revenue	Aggregate
ASSETS			
Cash	\$ 1,682,059	\$ 316,200	\$ 7,950,007
Accounts receivable		12,854	
Deposit with paying agent			282,807
 TOTAL ASSETS	 \$ 1,682,059	 \$ 329,054	 \$ 8,232,814
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 398,661	\$ 2,039	\$ 444,196
Fund Balances:			
Nonspendable			91,035
Restricted	136,123	327,015	666,238
Assigned	666,399		7,031,345
Unassigned	480,876		
Total Fund Balances	1,283,398	327,015	7,788,618
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 1,682,059	 \$ 329,054	 \$ 8,232,814

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, 2025

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,831,865		
State assistance	4,999,234	\$ 5,974	\$ 614,552
Federal assistance	366,668	1,699,497	15,226
Activity revenues	283,228		
Meal sales		51,589	
Investment income	288,729		18,270
Other revenues	35,742	26,784	
TOTAL REVENUES	8,805,466	1,783,844	648,048
EXPENDITURES			
Regular programs	2,654,124	199,580	
Special education	258,909	177,233	
Career education programs	89,080		
Compensatory education programs	112	400,525	
Other instructional programs	337,498		
Student support services	236,445	212,300	
Instructional staff support services	324,197	27,996	
General administration support services	352,995	6,133	
School administration support services	299,420	10,425	
Central services support services	98,817	2,453	
Operation and maintenance of plant services	1,753,029	221,412	6,360
Student transportation services	248,600	4,906	
Other support services	47,722		
Food services operations	14,964	522,697	
Community services operations		31,185	
Facilities acquisition and construction services	124,559	34,583	1,260,026
Activity expenditures	230,858		
Debt Service:			
Principal retirement			525,000
Interest and fiscal charges			345,518
TOTAL EXPENDITURES	7,071,329	1,851,428	2,136,904
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,734,137	(67,584)	(1,488,856)
OTHER FINANCING SOURCES (USES)			
Transfers in			2,051,628
Transfers out	(2,051,628)		
TOTAL OTHER FINANCING SOURCES (USES)	(2,051,628)		2,051,628
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(317,491)	(67,584)	562,772
FUND BALANCES - JULY 1	1,600,889	394,599	7,225,846
FUND BALANCES - JUNE 30	\$ 1,283,398	\$ 327,015	\$ 7,788,618

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, 2025

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 2,845,600	\$ 2,831,865	\$ (13,735)			
State assistance	4,966,688	4,999,234	32,546	\$ 24,700	\$ 5,974	\$ (18,726)
Federal assistance		366,668	366,668	1,668,081	1,699,497	31,416
Activity revenues		283,228	283,228			
Meal sales				68,800	51,589	(17,211)
Investment income	247,600	288,729	41,129			
Other revenues	14,066	35,742	21,676		26,784	26,784
TOTAL REVENUES	8,073,954	8,805,466	731,512	1,761,581	1,783,844	22,263
EXPENDITURES						
Regular programs	2,808,498	2,654,124	154,374	224,567	199,580	24,987
Special education	258,814	258,909	(95)	191,194	177,233	13,961
Career education programs	90,320	89,080	1,240			
Compensatory education programs	3,246	112	3,134	390,958	400,525	(9,567)
Other instructional programs	374,672	337,498	37,174			
Student support services	250,056	236,445	13,611	440,666	212,300	228,366
Instructional staff support services	328,375	324,197	4,178	59,151	27,996	31,155
General administration support services	416,275	352,995	63,280	6,133	6,133	
School administration support services	305,515	299,420	6,095	10,425	10,425	
Central services support services	116,763	98,817	17,946	2,453	2,453	
Operation and maintenance of plant services	1,834,207	1,753,029	81,178	42,731	221,412	(178,681)
Student transportation services	230,682	248,600	(17,918)	4,906	4,906	
Other support services	60,759	47,722	13,037			
Food services operations	7,500	14,964	(7,464)	659,283	522,697	136,586
Community services operations				46,403	31,185	15,218
Facilities acquisition and construction services	23,231	124,559	(101,328)		34,583	(34,583)
Non-programmed costs				4,000		4,000
Activity expenditures		230,858	(230,858)			
TOTAL EXPENDITURES	7,108,913	7,071,329	37,584	2,082,870	1,851,428	231,442

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, 2025

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 965,041	\$ 1,734,137	\$ 769,096	\$ (321,289)	\$ (67,584)	\$ 253,705
OTHER FINANCING SOURCES (USES)						
Transfers in	8,585,376		(8,585,376)	22,107		(22,107)
Transfers out	(9,479,506)	(2,051,628)	7,427,878	(22,107)		22,107
TOTAL OTHER FINANCING SOURCES (USES)	(894,130)	(2,051,628)	(1,157,498)	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	70,911	(317,491)	(388,402)	(321,289)	(67,584)	253,705
FUND BALANCES - JULY 1	1,607,774	1,600,889	(6,885)	405,847	394,599	(11,248)
FUND BALANCES - JUNE 30	\$ 1,678,685	\$ 1,283,398	\$ (395,287)	\$ 84,558	\$ 327,015	\$ 242,457

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

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

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. 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.

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

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types and other requirements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets, leases, and debt in the financial statements, inclusion of compensated absences and 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.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Major governmental funds are defined as general and special revenue, and such funds are presented separately in the financial statements. All other governmental funds are presented in the aggregate. Fiduciary fund types are presented in a separate column in the Balance Sheet – Regulatory Basis. 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 financed purchases are reported as other financing sources. Changes in private-purpose 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.

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.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

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. 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.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Budget and Budgetary Accounting (Continued)

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

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.

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost. The District's cash deposits at June 30, 2025, were as follows:

	<u>Bank Balance</u>
Insured (FDIC)	\$ 250,000
Collateralized:	
Collateral held by the pledging financial institution's trust department or agent in the District's name	<u>10,160,930</u>
Total Deposits	<u><u>\$ 10,410,930</u></u>

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2025, were comprised of the following:

	<u>Governmental Fund</u>
	<u>Major</u>
<u>Description</u>	<u>Special Revenue</u>
State assistance	\$ 210
Federal assistance	<u>12,644</u>
Totals	<u><u>\$ 12,854</u></u>

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

4: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2025, were comprised of the following:

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Vendor payables	\$ 391,133	\$ 2,039	\$ 444,196
Payroll withholdings and matching	7,528		
Totals	<u>\$ 398,661</u>	<u>\$ 2,039</u>	<u>\$ 444,196</u>

5: COMMITMENTS

The District was contractually obligated for the following at June 30, 2025:

A. Construction Contracts

Project Name	Completion Date	Contract Balance
Bus Loop Paving	August 1, 2025	\$ 388,372
Sidewalks	August 1, 2025	83,797

B. Lease (lease of nonfinancial assets with initial noncancelable lease terms in excess of one year)

General description of lease and leasing arrangement: On June 5, 2023, the District executed a 60 month noncancellable lease agreement with Datamax for office equipment at various schools within the District. Monthly payments of \$1,238 began June 2023.

Future minimum lease payments for the succeeding years:

Year Ended June 30,	Amount
2026	\$ 14,858
2027	14,858
2028	<u>13,620</u>
Total	<u>\$ 43,336</u>

Lease payments were approximately \$14,858 for the year ended June 30, 2025.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

5: COMMITMENTS (Continued)

C. Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30,2025</u>	<u>Maturities To June 30, 2025</u>
<u>Bonds</u>					
5/12/11	5/1/26	4.90%	\$ 205,000	\$ 205,000	
5/1/12	6/1/35	2-3.5%	500,000	265,000	\$ 235,000
2/1/20	2/1/47	2-2.4%	5,135,000	5,135,000	
9/1/20	6/1/35	.5-1.4%	2,825,000	2,005,000	820,000
9/24/20	2/1/35	1-1.375%	1,700,000	1,215,000	485,000
2/1/21	2/1/35	.25-1.15%	1,520,000	1,145,000	375,000
9/1/21	2/1/41	2-2.75%	2,070,000	1,690,000	380,000
11/1/21	2/1/47	1-2.25%	5,705,000	5,705,000	
Total Long-Term Debt			<u>\$ 19,660,000</u>	<u>\$ 17,365,000</u>	<u>\$ 2,295,000</u>

Changes in Long-term Debt

	<u>Balance July 1, 2024</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2025</u>
Bonds payable	<u>\$ 17,890,000</u>	<u>\$ 0</u>	<u>\$ 525,000</u>	<u>\$ 17,365,000</u>

Future Principal and Interest Payments

<u>Year Ended June 30,</u>	<u>Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 740,000	\$ 336,279	\$ 1,076,279
2027	585,000	320,386	905,386
2028	645,000	313,729	958,729
2029	700,000	306,121	1,006,121
2030	725,000	296,801	1,021,801
2031-2035	3,780,000	1,323,371	5,103,371
2036-2040	4,220,000	961,475	5,181,475
2041-2045	4,205,000	485,851	4,690,851
2046-2047	1,765,000	61,060	1,826,060
Totals	<u>\$ 17,365,000</u>	<u>\$ 4,405,073</u>	<u>\$ 21,770,073</u>

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

5: COMMITMENTS (Continued)

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

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 Division of Elementary and Secondary Education (DESE). Depending on the date of the bond issue, DESE 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.

6: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$19,660,000 issued from May 12, 2011 through November 1, 2021. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$21,770,073, payable through February 1, 2047. Principal and interest paid for the current year and total property taxes pledged for debt service were \$866,629 and \$1,375,144, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 63.02 percent.

7: INTERFUND TRANSFERS

The District transferred \$2,051,628 from the general fund to the other aggregate funds for debt related payments of \$866,825 and future capital expenditures of \$1,184,803.

8: 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 501-682-1517, or by visiting the ATRS website at www.artrs.gov.

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 7% 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 15% of covered salaries. The District's contributions to ATRS for the year ended June 30, 2025, were \$577,566, equal to the required contributions.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

8: RETIREMENT PLAN (Continued)

Arkansas Teacher Retirement System (Continued)

Net Pension Liability

The Division of Elementary and Secondary 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, 2024, (actuarial valuation date and measurement date) was \$4,505,378.

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 accident.

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.

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 Division of Elementary and Secondary Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$140,231 for the year ended June 30, 2025.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

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			\$ 91,035
Restricted for:			
Alternative learning environment	\$ 39,029		
English-language learners	45,877		
Professional development	35,606		
Capital projects			474,466
Child nutrition programs		\$ 80,697	
Debt service			191,772
Medical services		212,060	
Other purposes	15,611	34,258	
Total Restricted	<u>136,123</u>	<u>327,015</u>	<u>666,238</u>
Assigned to:			
After school program	83,353		
Capital projects	100,517		7,031,345
Student activities	467,345		
Other purposes	15,184		
Total Assigned	<u>666,399</u>		<u>7,031,345</u>
Unassigned	<u>480,876</u>		
Totals	<u>\$ 1,283,398</u>	<u>\$ 327,015</u>	<u>\$ 7,788,618</u>

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2025
(Unaudited)

Schedule 1

	Balance June 30, 2025
Nondepreciable capital assets:	
Land	\$ 956,517
Construction in progress	62,020
Total nondepreciable capital assets	<u>1,018,537</u>
Depreciable capital assets:	
Buildings	24,975,847
Improvements/infrastructure	4,001,955
Equipment	3,834,696
Total depreciable capital assets	<u>32,812,498</u>
Less accumulated depreciation for:	
Buildings	5,839,344
Improvements/infrastructure	660,151
Equipment	2,486,608
Total accumulated depreciation	<u>8,986,103</u>
Total depreciable capital assets, net	<u>23,826,395</u>
Capital assets, net	<u><u>\$ 24,844,932</u></u>

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing 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		\$ 74,896
National School Lunch Program (Note 5)	10.555	Direct		6,997
Arkansas Department of Education - National School Lunch Program	10.555	2601		269,564
Arkansas Department of Education - National School Lunch Program (Note 6)	10.555	2601000		3,523
Total for National School Lunch Program				280,084
Arkansas Department of Education - Fresh Fruit and Vegetable Program	10.582	2601		21,765
Total U. S. Department of Agriculture				376,745
TOTAL CHILD NUTRITION CLUSTER				376,745
SPECIAL EDUCATION CLUSTER (IDEA)				
<u>U. S. Department of Education</u>				
Arkansas Department of Education - Special Education - Grants to States	84.027A	2601		190,758
Arkansas Department of Education - Special Education - Preschool Grants	84.173A	2601		6,526
Total U. S. Department of Education				197,284
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				197,284
OTHER PROGRAMS				
<u>U. S. Department of Justice</u>				
Public Safety Partnership and Community Policing Grants	16.710	Direct		201,674
Total U. S. Department of Justice				201,674
<u>U. S. Department of the Treasury</u>				
Garland County, Arkansas - COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	not available		366,668
Total U. S. Department of the Treasury				366,668
<u>U. S. Department of Education</u>				
Arkansas Department of Education - Title I Grants to Local Educational Agencies	84.010A	2601		340,239
Arkansas Department of Education - Education for Homeless Children and Youth	84.196A	2601		23,858
Arkansas Department of Education - Rural Education	84.358B	2601		65
Arkansas Department of Education - Supporting Effective Instruction State Grants	84.367A	2601		10,543
Arkansas Department of Education - Comprehensive Literacy Development	84.371C	2601		10,000
Arkansas Department of Education - Student Support and Academic Enrichment Program	84.424A	2601		22,107

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
<u>U. S. Department of Education</u> (Continued)				
Arkansas Department of Education - COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Fund	84.425U	2601		\$ 263,522
Arkansas State University - COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Fund	84.425U	not available		54,837
Total Education Stabilization Fund				<u>318,359</u>
Total U. S. Department of Education				<u>725,171</u>
 TOTAL OTHER PROGRAMS				 <u>1,293,513</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u>\$ 0</u>	 <u>\$ 1,867,542</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (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, 2025. 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: The District has elected not to use the 10% or 15% de minimis indirect cost rates allowed under the Uniform Guidance.
- Note 4: During the year ended June 30, 2025, the District received Medicaid funding of \$170,692 from the Arkansas Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above Schedule.
- Note 5: 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 6: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Education.

CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025

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:

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

Noncompliance material to financial statements noted?

	yes	x	no
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FEDERAL AWARDS

Internal control over major federal programs:

☒ Material weakness(es) identified?	x	yes		no
☒ Significant deficiency(ies) identified?		yes	x	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)?

x	yes		no
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Identification of major federal programs:

AL Number(s)	Name of Federal Program or Cluster
10.553, 10.555, 10.582	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

x	yes		no
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CUTTER-MORNING STAR SCHOOL DISTRICT NO. 21
GARLAND COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDING

MATERIAL WEAKNESS

2025-001. 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 ensure the achievement of the entity's objectives. The control environment sets the tone of an organization, which influences control consciousness of its employees, and is the foundation for all other components of internal control, providing discipline and structure.

Condition: In a prior audit report for the fiscal year ended June 30, 2023, an audit finding was issued which stated: "The Division of Elementary and Secondary Education (DESE) Office of Public School Accountability conducted a monitoring visit in April 2023. This review noted that the District enrolled students from All Children's Academy as full time Cutter Morning Star (CMS) students and did not provide educational services to those students. Additionally, CMS was not submitting accurate attendance data in cycle submissions and reported inaccurate enrollment data. As a result of these findings, the District's state aid funding was reduced by a total of \$55,339, and the District reimbursed DESE an additional \$45,649. The District was also placed on Accredited-Probation status for the 2022-2023 school year."

Subsequent to the review performed by DESE Office of Public School Accountability, the Arkansas State Board of Education (Board) met on April 10, 2025, to review findings of the Professional Licensure Standards Board Ethics Hearing Subcommittee and consider disciplinary action against the teaching license of the District's Superintendent. The District's Superintendent was found by the Board to have exhibited inappropriate disposition inclusive of professional and ethical behavior which included: violation of district, state or federal policies or law; failure to honestly report enrollment; misuse of public funds; and misuse of school property. The Board issued sanctions including a 30 day suspension of license, a two year probation of license, and completion of required coursework and readings. Additionally, at a special School Board meeting held on February 2, 2026 the Superintendent was placed on paid administrative leave through June 30, 2026.

Cause: District management did not adhere to standards established by the Code of Ethics for Arkansas Educators.

Effect or potential effect: Failure of leadership to model ethical behavior can impair the effectiveness of internal controls and increase the risk of noncompliance with laws and regulations.

Recommendation: The Board should reinforce expectations regarding professional and ethical conduct for District leadership and ensure appropriate oversight mechanisms are in place to promote a strong ethical culture and accountability within the District's administrative structure.

Views of responsible officials: The Cutter Morning Star is deeply disappointed by the findings identified through the audit and review involving the former superintendent. The State Board determined that violations occurred involving district, state, and/or federal policies and laws, including failure to honestly report enrollment, misuse of public funds, and misuse of school property.

These actions do not reflect the values, expectations, or standards of the district. The findings exposed the district to unnecessary risk and damaged the trust that the community places in its school leadership.

The district remains committed to operating with integrity, transparency, accountability, and full compliance with all applicable laws and policies moving forward.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESS

U.S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER - AL NUMBERS 10.553, 10.555 and 10.582
PASS-THROUGH NUMBER 2601
AUDIT PERIOD - YEAR ENDED JUNE 30, 2025

2025-001. Internal control

The internal control deficiencies identified in Finding 2025-001 noted in Section II above also apply to this major federal program.



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, 2025

Financial Statement Findings

There were no findings in the prior audit.

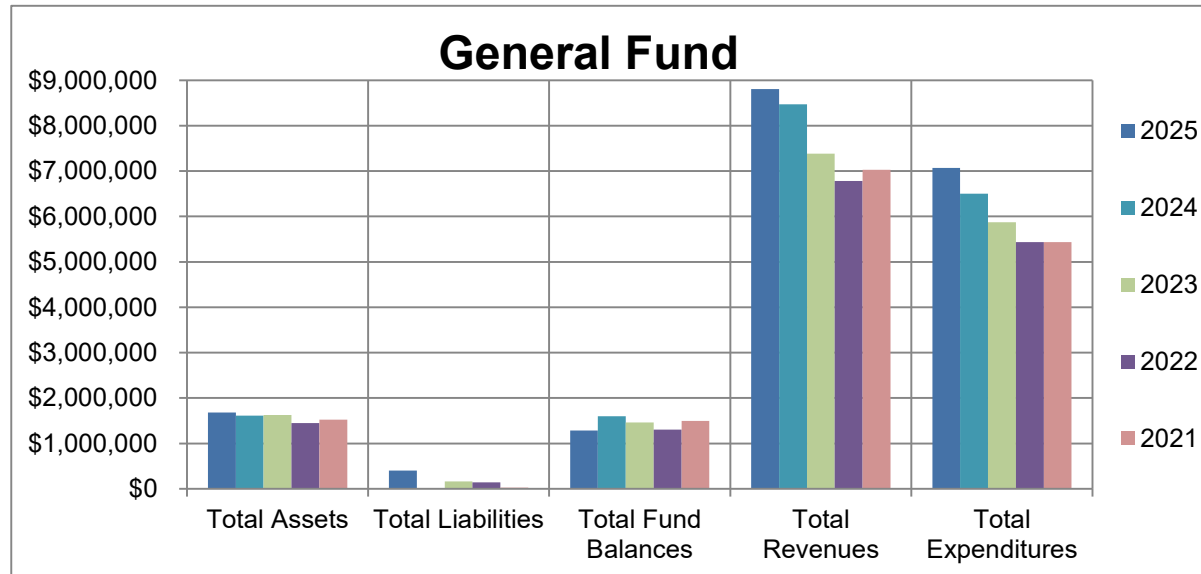
Federal Award Findings and Questioned Cost

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, 2025
(Unaudited)

Schedule 5

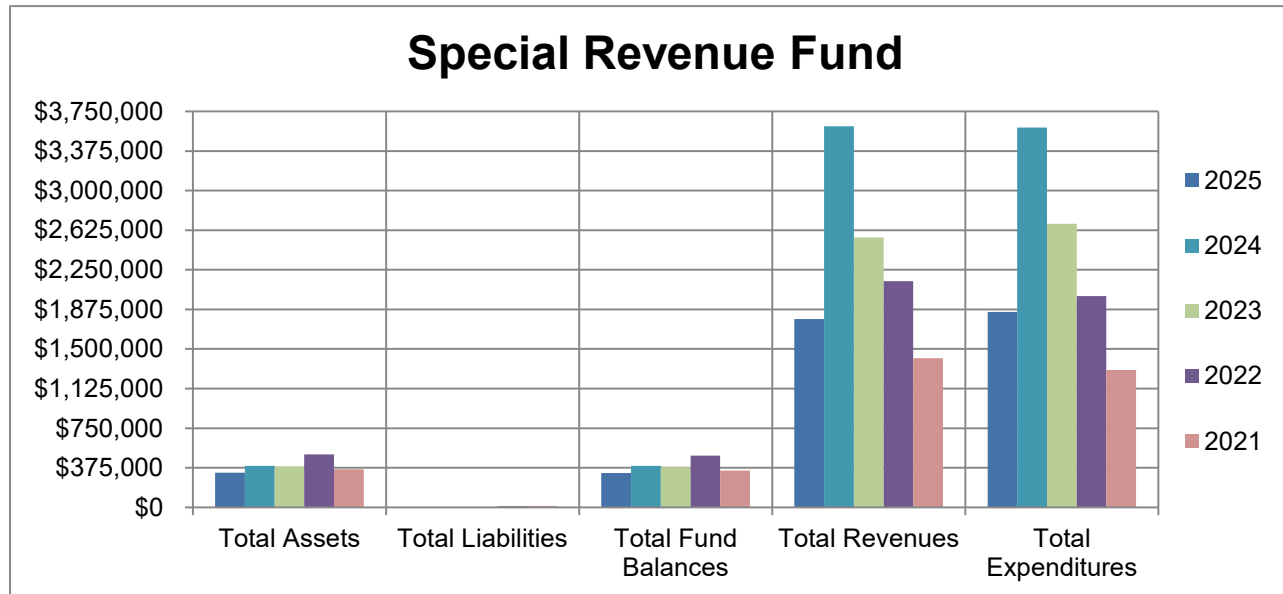
<u>General Fund</u>	Year Ended June 30,				
	2025	2024	2023	2022	2021
Total Assets	\$ 1,682,059	\$ 1,609,935	\$ 1,626,993	\$ 1,449,029	\$ 1,524,121
Total Liabilities	398,661	9,046	162,586	142,812	25,371
Total Fund Balances	1,283,398	1,600,889	1,464,407	1,306,217	1,498,750
Total Revenues	8,805,466	8,470,708	7,387,458	6,782,140	7,028,217
Total Expenditures	7,071,329	6,503,036	5,875,503	5,436,989	5,436,272
Total Other Financing Sources (Uses)	(2,051,628)	(1,831,190)	(1,353,765)	(1,537,684)	(1,553,848)



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, 2025
(Unaudited)

Schedule 5

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2025	2024	2023	2022	2021
Total Assets	\$ 329,054	\$ 394,604	\$ 386,177	\$ 502,043	\$ 362,271
Total Liabilities	2,039	5	3,221	10,961	13,548
Total Fund Balances	327,015	394,599	382,956	491,082	348,723
Total Revenues	1,783,844	3,607,875	2,555,469	2,142,616	1,412,798
Total Expenditures	1,851,428	3,596,232	2,685,296	2,000,257	1,301,391
Total Other Financing Sources (Uses)			21,701		



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, 2025
(Unaudited)

Schedule 5

Other Aggregate Funds	Year Ended June 30,				
	2025	2024	2023	2022	2021
Total Assets	\$ 8,232,814	\$ 7,225,846	\$ 6,477,457	\$ 6,685,774	\$ 5,257,335
Total Liabilities	444,196		745		
Total Fund Balances	7,788,618	7,225,846	6,476,712	6,685,774	5,257,335
Total Revenues	648,048	26,484	233,739	69,533	1,046,045
Total Expenditures	2,136,904	1,108,540	1,865,955	2,405,552	1,929,405
Total Other Financing Sources (Uses)	2,051,628	1,831,190	1,423,154	3,764,458	1,723,761

