

Marvell School District No. 22

Phillips County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2018



MARVELL SCHOOL DISTRICT NO. 22
PHILLIPS COUNTY, ARKANSAS
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Arkansas

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Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



Rep. Richard Womack
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Marvell School District No. 22 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 Marvell School District No. 22 (the "District"), as of and for the year ended June 30, 2018, 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, 2018, 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, 2018, 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 8, 2019 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 8, 2019
EDSD29018

Arkansas

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



Rep. Richard Womack
House Chair
Rep. DeAnn Vaught
House Vice Chair

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

Marvell School District No. 22 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 Marvell School District No. 22 (the "District"), as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated March 8, 2019. 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, 2018, 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 certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 and 2018-002, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free 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*.

We noted certain matters that we reported to management of the District in a separate letter dated March 8, 2019.

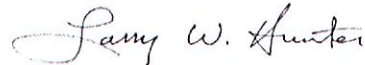
District's Response to Findings

The District's response to the findings identified in our audit, excluding the management letter findings, 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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 8, 2019

Arkansas



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

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

Marvell School District No. 22 and School Board Members
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Marvell School District No. 22 (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect of each of the District's major federal programs for the year ended June 30, 2018. 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, 2018.

Report on Internal Control Over Compliance

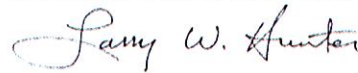
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the 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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 8, 2019

Arkansas

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LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

Marvell School District No. 22 and School Board Members
Legislative Joint Auditing Committee

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations, and to improve internal control. These matters were discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

1. An installment contract for the purchase of a modular building in the amount of \$201,300 was not registered with the Arkansas Department of Education, as required by Ark. Code Ann. § 6-20-402 (b)(1)(E).
2. The District failed to make timely federal tax deposits for the quarters ending September 30, 2017, December 31, 2017, and March 31, 2018, which resulted in total penalties of \$3,722 being assessed.

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

ARKANSAS LEGISLATIVE AUDIT

Handwritten signature of Larry W. Hunter in cursive.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 8, 2019

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2018

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 211,519		\$ 3,062,929	\$ 9,468
Investments	704,963			
Accounts receivable		\$ 92,478		
Due from other funds	39,633			
Deposit with paying agent	6,067			
TOTAL ASSETS	\$ 962,182	\$ 92,478	\$ 3,062,929	\$ 9,468
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 47,129	\$ 737		
Due student groups				\$ 7,718
Due to other funds		39,633		
Total Liabilities	47,129	40,370		7,718
Fund Balances:				
Nonspendable	6,067			
Restricted	196,759	52,108	\$ 3,011,481	1,750
Assigned	15,715		51,448	
Unassigned	696,512			
Total Fund Balances	915,053	52,108	3,062,929	1,750
TOTAL LIABILITIES AND FUND BALANCES	\$ 962,182	\$ 92,478	\$ 3,062,929	\$ 9,468

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

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2018

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 2,159,304		
State assistance	2,005,317	\$ 1,878	
Federal assistance	85,079	1,294,748	
Activity revenues	30,057		
Meal sales		12,019	
Investment income	12,242		
Other revenues	100,413		
TOTAL REVENUES	4,392,412	1,308,645	
EXPENDITURES			
Regular programs	1,712,917	181,995	
Special education	184,484	76,192	
Career education programs	124,137		
Compensatory education programs	88,571	420,241	
Other instructional programs	172,445		
Student support services	253,223	41,901	
Instructional staff support services	229,980	181,490	
General administration support services	206,760		
School administration support services	209,481		
Central services support services	137,842	24,041	
Operation and maintenance of plant services	691,228		\$ 14,673
Student transportation services	176,703	45,772	193,718
Other support services	11,686		
Food services operations	436	327,646	
Community services operations		113	
Facilities acquisition and construction services	201,360		27,193
Non-programmed costs		35,782	
Activity expenditures	32,316		
Debt Service:			
Principal retirement	8,892		
Interest and fiscal charges	3,243		17,453
Net debt issuance costs			120,276
TOTAL EXPENDITURES	4,445,704	1,335,173	373,313
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(53,292)	(26,528)	(373,313)
OTHER FINANCING SOURCES (USES)			
Transfers in			253,227
Transfers out	(253,227)		
Value of installment contract	201,300		
Refund to grantors	(41,786)	(825)	
Proceeds from refunding and construction bond issue			4,255,000
Payment to refunding bond escrow agent			(1,123,433)
TOTAL OTHER FINANCING SOURCES (USES)	(93,713)	(825)	3,384,794
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(147,005)	(27,353)	3,011,481
FUND BALANCES - JULY 1	1,062,058	79,461	51,448
FUND BALANCES - JUNE 30	\$ 915,053	\$ 52,108	\$ 3,062,929

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

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS 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, 2018

	General			Special Revenue			Variance Favorable (Unfavorable)
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	
REVENUES							
Property taxes (including property tax relief trust distribution)	\$ 2,021,740	\$ 2,159,304	\$ 137,564	\$ 1,800	\$ 1,878	\$ 78	
State assistance	1,931,623	2,005,317	73,694	1,561,906	1,294,748	(267,158)	
Federal assistance	47,526	85,079	37,553				
Activity revenues		30,057	30,057	6,500	12,019	5,519	
Meal sales							
Investment income	7,500	12,242	4,742				
Other revenues	304,850	100,413	(204,437)				
TOTAL REVENUES	4,313,239	4,392,412	79,173	1,570,206	1,308,645	(261,561)	
EXPENDITURES							
Regular programs	1,843,489	1,712,917	130,572	219,459	181,995	37,464	
Special education	144,735	184,484	(39,749)	88,108	76,192	11,916	
Career education programs	109,383	124,137	(14,754)				
Compensatory education programs	93,995	88,571	5,424	423,617	420,241	3,376	
Other instructional programs	205,395	172,445	32,950				
Student support services	161,557	253,223	(91,666)	16,009	41,901	(25,892)	
Instructional staff support services	268,756	229,980	38,776	245,342	181,490	63,852	
General administration support services	166,488	206,760	(40,272)				
School administration support services	244,254	209,481	34,773	147,436	24,041	123,395	
Central services support services	132,405	137,842	(5,437)				
Operation and maintenance of plant services	575,135	691,228	(116,093)	43,906	45,772	(1,866)	
Student transportation services	113,944	176,703	(62,759)				
Other support services	13,005	11,686	1,319	276,543	327,646	(51,103)	
Food services operations		436	(436)	5,000	113	4,887	
Community services operations							
Facilities acquisition and construction services		201,360	(201,360)	36,923	35,782	1,141	
Non-programmed costs		32,316	(32,316)				
Activity expenditures							
Debt Service:							
Principal retirement		8,892	(8,892)				
Interest and fiscal charges		3,243	(3,243)				
TOTAL EXPENDITURES	4,072,541	4,445,704	(373,163)	1,502,343	1,335,173	167,170	

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS 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, 2018

	General		Variance Favorable (Unfavorable)	Special Revenue		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 240,698	\$ (53,292)	\$ (293,990)	\$ 67,863	\$ (26,528)	\$ (94,391)
OTHER FINANCING SOURCES (USES)						
Transfers in	5,766,926		(5,766,926)			
Transfers out	(5,971,335)	(253,227)	5,718,108	11,615	(11,615)	
Value of installment contract		201,300	201,300			
Refund to grantors		(41,786)	(41,786)		(825)	(825)
TOTAL OTHER FINANCING SOURCES (USES)	(204,409)	(93,713)	110,696	0	(825)	(825)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	36,289	(147,005)	(183,294)	67,863	(27,353)	(95,216)
FUND BALANCES - JULY 1	1,319,683	1,062,058	(257,625)	65,912	79,461	13,549
FUND BALANCES - JUNE 30	\$ 1,355,972	\$ 915,053	\$ (440,919)	\$ 133,775	\$ 52,108	\$ (81,667)

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

MARVELL SCHOOL DISTRICT NO. 22
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Education, a seven 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 Marvell 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).

Private-purpose Trust Funds - Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

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.

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

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:

Asset Class	Estimated Useful Life in Years
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.

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2017 calendar year taxes collected by June 30, 2018 and 12 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, 2018 equaled or exceeded the 12 percent calculation.

MARVELL SCHOOL DISTRICT NO. 22
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

F. Property Taxes (Continued)

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

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. 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.

I. 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.

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

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

J. 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.

K. Minimum Fund Balance Policies

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

L. 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.

M. 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)	\$ 265,197	\$ 265,217
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	3,682,629	4,015,212
Total Deposits	\$ 3,947,826	\$ 4,280,429

The above total deposits do not include cash of \$41,053 which was held in the Phillips, Monroe, and Desha County Treasuries. The above total deposits include certificates of deposit of \$704,963 reported as investments and classified as nonparticipating contracts.

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

3: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 were comprised of the following:

	Governmental Fund
Description	Major Special Revenue
Federal assistance	\$ 92,478

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2018:

A. Operating Lease (noncapital lease with initial noncancellable lease terms in excess of one year)

General description of lease and leasing arrangements:

On September 28, 2016, the District executed a lease for copiers. The agreement stipulated 36 monthly payments of \$1,630.

1. Future minimum rental payments (aggregate) at June 30, 2018: \$24,449
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2019	\$ 19,559
2020	4,890
Total	\$ 24,449

Rental payments for the operating lease described above were approximately \$19,559 for the year ended June 30, 2018.

B. Long-term Debt Issued and Outstanding

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

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2018	Maturities To June 30, 2018
11/16/17	2/1/48	1.5 - 3.5%	\$ 4,255,000	\$ 4,255,000	
2/3/18	4/3/21	4.84%	201,300	192,408	\$ 8,892
Totals			\$ 4,456,300	\$ 4,447,408	\$ 8,892

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

4: **COMMITMENTS (Continued)**

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

Changes in Long-term Debt

	Balance July 1, 2017	Issued	Retired	Balance June 30, 2018
Bonds payable	\$ 1,110,000	\$ 4,255,000	\$ 1,110,000	\$ 4,255,000
Installment contracts		201,300	8,892	192,408
Totals	\$ 1,110,000	\$ 4,456,300	\$ 1,118,892 *	\$ 4,447,408

* Includes \$1,110,000 early retirement of debt – See Note 6.

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2019	\$ 64,923	\$ 158,081	\$ 223,004
2020	168,136	128,972	297,108
2021	164,349	124,125	288,474
2022	105,000	121,225	226,225
2023	105,000	119,388	224,388
2024-2028	570,000	564,587	1,134,587
2029-2033	645,000	484,375	1,129,375
2034-2038	750,000	381,625	1,131,625
2039-2043	865,000	258,931	1,123,931
2044-2048	1,010,000	106,850	1,116,850
Totals	\$ 4,447,408	\$ 2,448,159	\$ 6,895,567

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.

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2018 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
Vendor payables	\$ 46,175	\$ 737
Due to grantors	954	
Totals	\$ 47,129	\$ 737

6: DEBT REFUNDING

On November 16, 2017, the District issued \$4,255,000 in refunding and construction bonds with interest rates of 1.5 to 3.5 percent to advance refund \$1,110,000 of outstanding bonds dated May 1, 2010, with interest rates of 1 to 3.375 percent. Bond proceeds of \$1,123,433 were deposited with an escrow agent to pay all future debt requirements pertaining to the 2010 bonds, which were called for redemption on December 18, 2017. An additional \$3,011,291 (after payment of net bond issuance costs of \$120,276) will be utilized for erecting and equipping new school facilities, making additions and improvements to existing facilities, and purchasing school buses. The bond issue restructured and extended the debt obligations of the District from fiscal year 2022 to fiscal year 2048.

7: INTERFUND TRANSFERS

The District transferred \$253,227 from the general fund to the other aggregate funds for debt related payments of \$17,453 and excess net legal balance funds of \$235,774, required to be utilized for designated capital projects.

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 1-800-666-2877, 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 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, 2018 were \$474,405, equal to the required contributions.

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

8: RETIREMENT PLAN (Continued)

Arkansas Teacher Retirement System (Continued)

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, 2017 (actuarial valuation date and measurement date) was \$4,842,085.

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ <u>1,000</u>
 CHANGE IN FUND BALANCE	 1,000
 FUND BALANCE - JULY 1	 <u>750</u>
 FUND BALANCE - JUNE 30	 <u><u>\$ 1,750</u></u>

10: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$4,255,000 issued on November 16, 2017. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$6,689,277, payable through February 1, 2048. Principal and interest paid for the current year and total property taxes pledged for debt service were \$17,253 and \$523,468, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 3.3 percent.

11: 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 Districts carries commercial insurance for board liability/employment practices liability and student accident coverage.

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

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

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

11: 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.

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.

12: 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 \$88,241 for the year ended June 30, 2018.

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Nonspendable:			
Deposit with paying agent	\$ 6,067		
Restricted for:			
Alternative learning environment	19,665		
Educational programs - national school lunch state categorical funding	55,326		
Professional development	568		
Capital projects			\$3,011,481
Child nutrition programs		\$ 8,971	
Medical services		42,958	
Special education programs	6,275		
Student-based health center	53,811		
Other purposes	61,114	179	
Total Restricted	<u>196,759</u>	<u>52,108</u>	<u>3,011,481</u>
Assigned to:			
Capital projects			51,448
Student activities	15,715		
Total Assigned	<u>15,715</u>		<u>51,448</u>
Unassigned	<u>696,512</u>		
Totals	<u>\$ 915,053</u>	<u>\$ 52,108</u>	<u>\$3,062,929</u>

MARVELL SCHOOL DISTRICT NO. 22
PHILLIPS COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

14: CONSTRUCTION IN PROGRESS

At June 30, 2018, the District had a construction in progress balance of \$27,193 as reflected at Schedule 1. The balance was comprised of costs for the Marvell High School Renovation and Track project. There were no construction commitments for this project at June 30, 2018.

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Unaudited)

Schedule 1

	Balance June 30, 2018
<i>Nondepreciable capital assets:</i>	
Land	\$ 103,203
Construction in progress	27,193
Total nondepreciable capital assets	<u>130,396</u>
<i>Depreciable capital assets:</i>	
Buildings	7,725,525
Improvements/infrastructure	206,611
Equipment	1,485,838
Total depreciable capital assets	<u>9,417,974</u>
Less accumulated depreciation for:	
Buildings	3,942,863
Improvements/infrastructure	165,017
Equipment	927,524
Total accumulated depreciation	<u>5,035,404</u>
Total depreciable capital assets, net	<u>4,382,570</u>
Capital assets, net	<u>\$ 4,512,966</u>

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2018

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	5404		\$ 92,771
Arkansas Department of Education - National School Lunch Program	10.555	5404		196,267
Arkansas Department of Human Services - National School Lunch Program (Note 3)	10.555	5404000		19,779
Total for National School Lunch Program				<u>216,046</u>
Total U. S. Department of Agriculture				<u>308,817</u>
TOTAL CHILD NUTRITION CLUSTER				<u>308,817</u>
SPECIAL EDUCATION CLUSTER (IDEA)				
<u>U. S. Department of Education</u>				
Arkansas Department of Education - Special Education - Grants to States	84.027	5404		133,861
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)				<u>133,861</u>
OTHER PROGRAMS				
<u>U. S. Department of Agriculture</u>				
Arkansas Department of Education - Fresh Fruit and Vegetable Program	10.582	5404		9,087
Total U. S. Department of Agriculture				<u>9,087</u>
<u>U. S. Department of Education</u>				
Arkansas Department of Education - Title I Grants to Local Educational Agencies	84.010	5404		580,925
Arkansas Department of Education - Twenty-First Century Community Learning Centers	84.287	5404		112,130
Arkansas Department of Education - Supporting Effective Instruction State Grants	84.367	5404		124,117
Arkansas Department of Education - Student Support and Academic Enrichment Program	84.424	5404		11,709
Total U. S. Department of Education				<u>828,881</u>
<u>U. S. Department of Health and Human Services</u>				
Arkansas Department of Education - Cooperative Agreements to Promote Adolescent Health Through School-Based HIV/STD Prevention and School-Based Surveillance	93.079	5404		15,509
Total U. S. Department of Health and Human Services				<u>15,509</u>
TOTAL OTHER PROGRAMS				<u>853,477</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 0	<u>\$ 1,296,155</u>

The accompanying notes are an integral part of this schedule.

MARVELL SCHOOL DISTRICT NO. 22
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

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 Marvell School District No. 22 (District) under programs of the federal government for the year ended June 30, 2018. 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 Arkansas Department of Human Services.
- Note 4: The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2018

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major federal programs:

Material weakness(es) identified? yes X 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)? yes X no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies

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

\$ 750,000

Auditee qualified as low-risk auditee? yes X no

MARVELL SCHOOL DISTRICT NO. 22
PHILLIPS COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2018-001. 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

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, the same employee was responsible for receiving and depositing monies collected, maintenance of accounting records, preparation and posting of journal entries, and preparation of bank reconciliations, without compensating controls. Payroll checks were processed and prepared by the same employee responsible for adding new employees, making changes to the payroll amounts, reconciling to reports, and maintenance of accounting records, without compensating controls, and such employee had unrestricted access to the District's signature stamp. Non-payroll checks were processed and prepared by the same employee responsible for adding new vendors, receiving, and maintenance of accounting records, without compensating controls and such employee had unrestricted access to the District's signature stamp. Additionally, employee is authorized to post journal entries to the general ledger without independent review.

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

2018-002. Unauthorized Disbursements

Criteria: The District should establish internal control and management oversight to prevent dishonest, illegal, or unethical acts.

Condition: Our comparison of bank statements obtained from the financial institution used by the District to bank statements on file at the District revealed the Bookkeeper/Audit Compliance Officer issued 90 unauthorized checks to herself totaling \$471,666 for the period July 1, 2014 through December 31, 2018. This individual, whose employment was terminated on January 17, 2019, recorded the unauthorized disbursements as payments to a utility vendor in the accounting system, changed the payee on the checks from the name of the utility vendor to her name, endorsed these checks, and provided altered bank statement copies to us for audit purposes.

Cause: Lack of adequate segregation of duties and internal controls to prevent and detect fraud.

Effect or potential effect: Unauthorized transactions occurred in the amount of \$471,666.

Recommendation: The District should establish and maintain internal controls to prevent or detect errors and/or irregularities.

Views of responsible officials: The District will immediately ensure proper internal controls are implemented to prevent fraud.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

MARVELL – ELAINE SCHOOL DISTRICT
Office of the Superintendent
P. O. Box 1870
MARVELL, ARKANSAS 72366
870-829-2101
Fax: 870-829-2044

J. Cottoms, Superintendent

Clyde Williams, Board President

Schedule 4

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT FINDINGS

2017 - Finding 2017-001: 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 adequately segregated among employees. Specifically, the same employee was responsible for receiving and depositing monies collected, maintenance of accounting records, preparation and posting of journal entries, and preparation of bank reconciliations, without compensating controls. Payroll checks were processed prepared by the same employee responsible for adding new employees, making changes to the payroll amounts, reconciling to reports, and maintenance of accounting records, without compensating controls, and such employee had unrestricted access to the District's signature stamp. Non-payroll checks were processed and prepared by the same employee responsible for adding new vendors, receiving, and maintenance of accounting records, without compensating controls and such employee had unrestricted access to the District's signature stamp. Additionally, employee is authorized to post journal entries to the general ledger without independent review.

Current Status: Due to cost/benefit implications, the District was unable to adequately address the lack of segregation of financial accounting duties. See Finding 2018-001 at Schedule 3.

2017 – Finding 2017-002: Misstatements not Detected by Internal Control System

Condition: The District's internal control system did not prevent or detect and correct material errors in the financial accounting, which are utilized in the preparation of the District's financial statements. Significant errors included the following: In the general fund a \$100,000 overstatement of cash and understatement of investments, a \$57,255 understatement of both accounts receivables and accounts payable, a \$102,836 overstatement of property tax receivable, and \$64,650 overstatement of both other income and student expenditures. In the special revenue fund, \$94,871 in misclassification of expenditures and a \$20,000 understatement of accounts receivable. In the other funds in the aggregate, a \$173,207 misclassification of expenditures. The financial statements were subsequently corrected by adjusting entries during audit fieldwork.

Current Status: Corrective action was taken by the District.

MARVELL – ELAINE SCHOOL DISTRICT

Office of the Superintendent

P. O. Box 1870

MARVELL, ARKANSAS 72366

870-829-2101

Fax: 870-829-2044

J. Cottoms, Superintendent

Clyde Williams, Board President

Schedule 4

2016 - Finding 2016-001: 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 adequately segregated among employees. Specifically, the same employee was responsible for receiving and depositing monies collected, maintenance of accounting records, preparation and posting of journal entries, and preparation of bank reconciliations, without compensating controls. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts and maintenance of accounting records, without compensating controls. Non-payroll checks were processed and prepared by the same employee responsible for adding new vendors, receiving and verifying purchases, and maintenance of accounting records, without compensating controls.

Current Status: Due to cost/benefit implications, the District was unable to adequately address the lack of segregation of financial accounting duties. See Finding 2018-001 at Schedule 3.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

2017 – Finding 2017-003: Title I Grants to Local Educational Agencies – CFDA Number 84.010

Condition: Errors in the classification of expenditures resulted in the financial report to be misstated with respect to certain expenditure functions. Professional development/staff training expenditures in the amount of \$90,000 were classified as function 1511 (Before and After School Programs) rather than function 2210 (Improvement of Instructional Services).

Current Status: Corrective action was taken by the District.

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010

2017 – Finding 2017-004: Title I Grants to Local Educational Agencies – CFDA Number 84.010

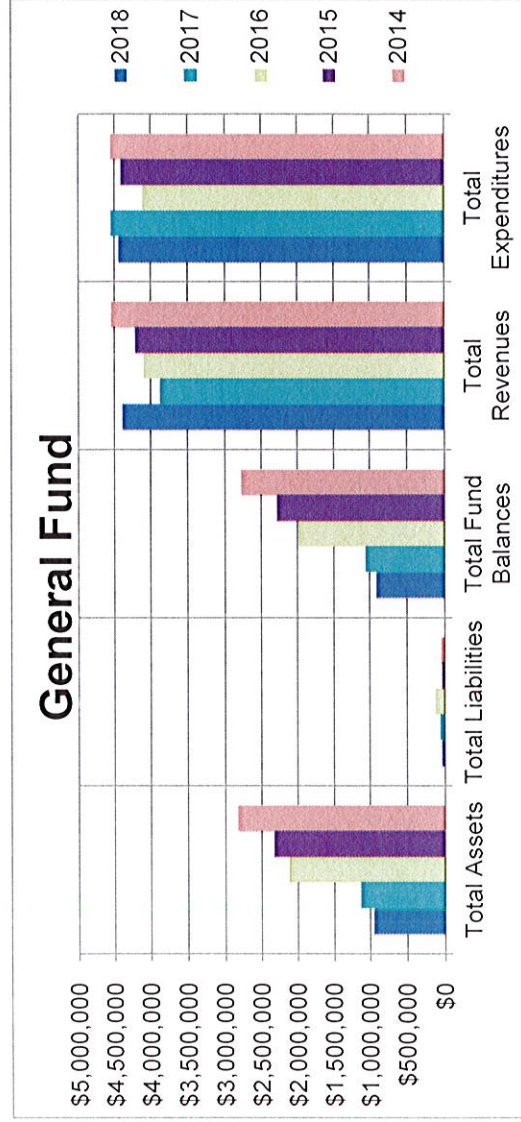
Condition: The District paid expenditures of \$25,000 from Title I funds that were not approved in the ACSIP.

Current Status: Corrective action was taken by the District.

MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS

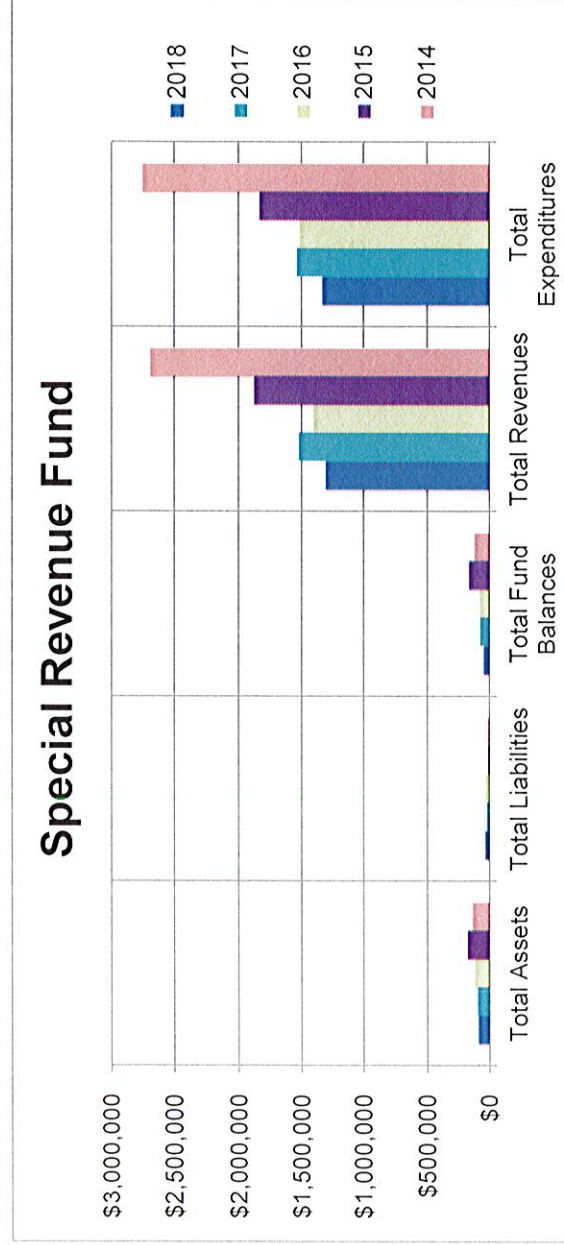
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Unaudited)

	Year Ended June 30,				
	2018	2017	2016	2015	2014
General Fund					
Total Assets	\$ 962,182	\$ 1,134,781	\$ 2,131,831	\$ 2,331,957	\$ 2,829,630
Total Liabilities	47,129	72,723	140,465	45,503	52,133
Total Fund Balances	915,053	1,062,058	1,991,366	2,286,454	2,777,497
Total Revenues	4,392,412	3,879,584	4,098,863	4,212,210	4,556,034
Total Expenditures	4,445,704	4,553,499	4,114,807	4,414,664	4,561,763
Total Other Financing Sources (Uses)	(93,713)	(255,393)	(279,144)	(288,589)	(186,014)



MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Unaudited)

	Year Ended June 30,				
	2018	2017	2016	2015	2014
Special Revenue Fund					
Total Assets	\$ 92,478	\$ 103,714	\$ 125,127	\$ 180,806	\$ 139,713
Total Liabilities	40,370	24,253	40,261	14,911	16,227
Total Fund Balances	52,108	79,461	84,866	165,895	123,486
Total Revenues	1,308,645	1,526,193	1,413,581	1,881,492	2,699,256
Total Expenditures	1,335,173	1,540,281	1,524,135	1,839,188	2,756,153
Total Other Financing Sources (Uses)	(825)	8,683	29,525	105	(6,887)



MARVELL SCHOOL DISTRICT NO. 22
 PHILLIPS COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Unaudited)

	Year Ended June 30,				
	2018	2017	2016	2015	2014
Other Aggregate Funds					
Total Assets	\$ 3,062,929	\$ 51,448	\$ 245,576	\$ 272,604	\$ 267,691
Total Liabilities			12,333		
Total Fund Balances	3,062,929	51,448	233,243	272,604	267,691
Total Revenues					
Total Expenditures	373,313	428,505	284,781	238,701	242,027
Total Other Financing Sources (Uses)	3,384,794	246,710	245,420	243,614	246,364

