

# **Marvell School District No. 22**

**Phillips County, Arkansas**

## **Regulatory Basis Financial Statements and Other Reports**

**June 30, 2017**



MARVELL SCHOOL DISTRICT NO. 22  
PHILLIPS COUNTY, ARKANSAS  
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# Arkansas

**Sen. Jimmy Hickey, Jr.**  
Senate Chair  
**Sen. Lance Eads**  
Senate Vice Chair



**Rep. Richard Womack**  
House Chair  
**Rep. Mary Bentley**  
House Vice Chair

**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, 2017, 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, 2017, or the changes in financial position for the year then ended.

**Opinion 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, 2017, 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 7, 2018 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 7, 2018  
EDSD29017

# Arkansas

Sen. Jimmy Hickey, Jr.  
Senate Chair  
Sen. Lance Eads  
Senate Vice Chair



Rep. Richard Womack  
House Chair  
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Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

### INDEPENDENT AUDITOR'S REPORT

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, 2017, 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 7, 2018. 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, 2017, 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 2017-001 and 2017-002, 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 a certain matter that we reported to management of the District in a separate letter dated March 7, 2018.

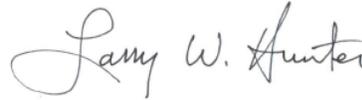
### **District's Response to Findings**

The District's response to the findings identified in our audit, excluding the management letter finding, 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 7, 2018

# Arkansas

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Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

### INDEPENDENT AUDITOR'S REPORT

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, 2017. 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.

#### ***Basis for Qualified Opinion on CFDA 84.010 Title I Grants to Local Educational Agencies***

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding CFDA 84.010 Title I Grants to Local Educational Agencies as described in finding number 2017-003 for Reporting. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

#### ***Qualified Opinion on 84.040 Title I Grants to Local Educational Agencies***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 CFDA 84.010 Title I Grants to Local Educational Agencies for the year ended June 30, 2017.

### **Other Matters**

The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-004. Our opinion on each major federal program is not modified with respect to this matter. The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

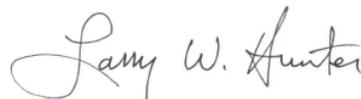
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2017-003 to be a material weakness.

*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 2017-004 to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of 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



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
March 7, 2018

# Arkansas

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Legislative Auditor

## 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 item that came to our attention during this audit. The purpose of such comment 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. This matter was discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

A nonprofit organization (nonprofit) operated as a regional Alternative Learning Environment (ALE) where school districts could send at-risk high school students to obtain credits toward graduation. The ALE services are provided in Marianna, in a building owned by the Lee County School District. The nonprofit billed participating districts for each child served; additionally, we noted that the Marvell School District (District) made an initial partnership payment of \$25,000. We also noted the following discrepancies during our audit engagement:

- Beginning January 1, 2017, the District entered into a contract to provide fiscal services for the nonprofit; in return, the nonprofit agreed to pay the District 4% of gross revenue up to \$250,000 and 3.5% of gross revenue thereafter. This arrangement appears to conflict with the "public purpose" doctrine discussed in Op. Att'y Gen. no. 2017-088.
- Employees and vendors of the nonprofit were improperly issued IRS W-2 and 1099 Forms using the District's name and federal employer identification number.
- The District improperly reported the nonprofit employees as District employees when reporting to the Arkansas Teacher Retirement System. Retirement matching funds were paid from the nonprofit account.

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

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

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
March 7, 2018

MARVELL SCHOOL DISTRICT NO. 22  
 PHILLIPS COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2017

Exhibit A

	Governmental Funds			
	Major			
	General	Special Revenue	Other Aggregate	Fiduciary Fund Types
<b>ASSETS</b>				
Cash	\$ 131,708	\$ 62,268	\$ 51,448	\$ 45,679
Investments	1,003,073			
Accounts receivable		41,446		4,836
Due from other funds				20,000
<b>TOTAL ASSETS</b>	<b>\$ 1,134,781</b>	<b>\$ 103,714</b>	<b>\$ 51,448</b>	<b>\$ 70,515</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 72,723	\$ 4,253		\$ 533
Due student groups				11,727
Deposits held in trust for other entity				57,505
Due to other funds		20,000		
<b>Total Liabilities</b>	<b>72,723</b>	<b>24,253</b>		<b>69,765</b>
<b>Fund Balances:</b>				
Restricted	116,109	79,461	\$ 3,374	750
Assigned	17,974		48,074	
Unassigned	927,975			
<b>Total Fund Balances</b>	<b>1,062,058</b>	<b>79,461</b>	<b>51,448</b>	<b>750</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,134,781</b>	<b>\$ 103,714</b>	<b>\$ 51,448</b>	<b>\$ 70,515</b>

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, 2017

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 1,981,237		
State assistance	1,737,680	\$ 1,818	
Federal assistance	3,379	1,521,429	
Activity revenues	43,332		
Meal sales		2,946	
Investment income	8,574		
Other revenues	105,382		
<b>TOTAL REVENUES</b>	<b>3,879,584</b>	<b>1,526,193</b>	
<b>EXPENDITURES</b>			
Regular programs	2,130,370	71,298	\$ 9,188
Special education	166,892	89,918	
Career education programs	183,619	20,000	
Compensatory education programs	147,424	473,642	
Other instructional programs	230,366		
Student support services	248,227	8,348	
Instructional staff support services	92,374	373,772	
General administration support services	186,953	45,259	
School administration support services	183,339		
Central services support services	152,111	23,596	
Operation and maintenance of plant services	615,307		173,907
Student transportation services	149,067	105,609	
Other support services	13,227		
Food services operations	6,508	328,566	
Community services operations		273	
Activity expenditures	47,715		
Debt Service:			
Principal retirement			205,000
Interest and fiscal charges			40,410
<b>TOTAL EXPENDITURES</b>	<b>4,553,499</b>	<b>1,540,281</b>	<b>428,505</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(673,915)</b>	<b>(14,088)</b>	<b>(428,505)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in		8,683	246,710
Transfers out	(255,393)		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(255,393)</b>	<b>8,683</b>	<b>246,710</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(929,308)</b>	<b>(5,405)</b>	<b>(181,795)</b>
<b>FUND BALANCES - JULY 1</b>	<b>1,991,366</b>	<b>84,866</b>	<b>233,243</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 1,062,058</b>	<b>\$ 79,461</b>	<b>\$ 51,448</b>

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, 2017

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 2,132,533	\$ 1,981,237	\$ (151,296)			
State assistance	1,641,055	1,737,680	96,625	\$ 2,000	\$ 1,818	\$ (182)
Federal assistance	72,300	3,379	(68,921)	1,641,670	1,521,429	(120,241)
Activity revenues		43,332	43,332			
Meal sales				5,150	2,946	(2,204)
Investment income	10,500	8,574	(1,926)			
Other revenues	296,035	105,382	(190,653)	500		(500)
<b>TOTAL REVENUES</b>	<b>4,152,423</b>	<b>3,879,584</b>	<b>(272,839)</b>	<b>1,649,320</b>	<b>1,526,193</b>	<b>(123,127)</b>
<b>EXPENDITURES</b>						
Regular programs	1,877,560	2,130,370	(252,810)	125,392	71,298	54,094
Special education	177,791	166,892	10,899	78,222	89,918	(11,696)
Career education programs	183,057	183,619	(562)		20,000	(20,000)
Compensatory education programs	146,137	147,424	(1,287)	620,679	473,642	147,037
Other instructional programs	150,814	230,366	(79,552)			
Student support services	164,899	248,227	(83,328)	10,300	8,348	1,952
Instructional staff support services	233,391	92,374	141,017	204,216	373,772	(169,556)
General administration support services	235,393	186,953	48,440	46,308	45,259	1,049
School administration support services	165,345	183,339	(17,994)			
Central services support services	137,594	152,111	(14,517)	114,796	23,596	91,200
Operation and maintenance of plant services	510,364	615,307	(104,943)			
Student transportation services	147,747	149,067	(1,320)	105,950	105,609	341
Other support services	13,000	13,227	(227)			
Food services operations		6,508	(6,508)	277,109	328,566	(51,457)
Community services operations				2,000	273	1,727
Non-programmed costs				19,885		19,885
Activity expenditures		47,715	(47,715)			
<b>TOTAL EXPENDITURES</b>	<b>4,143,092</b>	<b>4,553,499</b>	<b>(410,407)</b>	<b>1,604,857</b>	<b>1,540,281</b>	<b>64,576</b>

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, 2017

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 9,331	\$ (673,915)	\$ (683,246)	\$ 44,463	\$ (14,088)	\$ (58,551)
OTHER FINANCING SOURCES (USES)						
Transfers in	5,506,563		(5,506,563)	11,000	8,683	(2,317)
Transfers out	(5,764,276)	(255,393)	5,508,883			
TOTAL OTHER FINANCING SOURCES (USES)	(257,713)	(255,393)	2,320	11,000	8,683	(2,317)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(248,382)	(929,308)	(680,926)	55,463	(5,405)	(60,868)
FUND BALANCES - JULY 1	2,232,065	1,991,366	(240,699)	77,656	84,866	7,210
FUND BALANCES - JUNE 30	<u>\$ 1,983,683</u>	<u>\$ 1,062,058</u>	<u>\$ (921,625)</u>	<u>\$ 133,119</u>	<u>\$ 79,461</u>	<u>\$ (53,658)</u>

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, 2017

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 No. 22 (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, 2017

**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.

MARVELL SCHOOL DISTRICT NO. 22  
PHILLIPS COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

F. Property Taxes (Continued)

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2016 calendar year taxes collected by June 30, 2017 and 16 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, 2017 equaled or exceeded the 16 percent calculation.

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

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

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, 2017

**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)	\$ 269,692	\$ 270,010
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	1,024,484	1,388,496
Total Deposits	\$ 1,294,176	\$ 1,658,506

The above total deposits include certificates of deposit of \$1,003,073 reported as investments and classified as nonparticipating contracts.

MARVELL SCHOOL DISTRICT NO. 22  
 PHILLIPS COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**3: ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2017 were comprised of the following:

Description	Governmental Fund Major Special Revenue	Fiduciary Fund Types
Federal assistance	\$ 41,446	
Other		\$ 4,836
Totals	\$ 41,446	\$ 4,836

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2017:

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, 2017: \$44,010
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2018	\$ 19,560
2019	19,560
2020	4,890
Total	\$ 44,010

Rental payments for the operating lease described above were approximately \$14,670 for the year ended June 30, 2017.

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, 2017	Maturities To June 30, 2017
5/1/10	2/1/22	1 - 3.375%	\$ 2,250,000	\$ 1,110,000	\$ 1,140,000

MARVELL SCHOOL DISTRICT NO. 22  
 PHILLIPS COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**4: COMMITMENTS (Continued)**

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

Changes in Long-term Debt

	Balance July 1, 2016	Issued	Retired	Balance June 30, 2017
Bonds payable	\$ 1,315,000	\$ 0	\$ 205,000	\$ 1,110,000

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2018	\$ 210,000	\$ 34,506	\$ 244,506
2019	215,000	28,731	243,731
2020	220,000	22,281	242,281
2021	230,000	15,406	245,406
2022	235,000	7,932	242,932
Totals	\$ 1,110,000	\$ 108,856	\$ 1,218,856

Security for Debt Payments

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

**5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2017 were comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types
	Major		
	General	Special Revenue	
Vendor payables	\$ 15,468	\$ 4,253	\$ 533
Due to grantors	57,255		
Totals	\$ 72,723	\$ 4,253	\$ 533

MARVELL SCHOOL DISTRICT NO. 22  
 PHILLIPS COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**6: INTERFUND TRANSFERS**

The District transferred \$246,710 from the general fund to the other aggregate funds for debt related payments of \$245,410 and debt refunding savings of \$1,300 required to be utilized for capital expenditures. The District also transferred \$8,683 from the general fund to the special revenue fund to supplement its food services operations.

**7: RETIREMENT PLANS**

Arkansas Teacher Retirement System

Plan Description

The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies, except certain non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201, by calling 1-800-666-2877, or by visiting the ATRS website at [www.artss.gov](http://www.artss.gov).

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries. The District's contributions to ATRS for the year ended June 30, 2017 were \$477,729, equal to the required contributions.

Net Pension Liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2016 (actuarial valuation date and measurement date) was \$4,880,497.

**8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS**

ADDITIONS	
Donations	\$ 500
DEDUCTIONS	
Scholarships	500
CHANGE IN FUND BALANCE	0
FUND BALANCE - JULY 1	750
FUND BALANCE - JUNE 30	\$ 750

MARVELL SCHOOL DISTRICT NO. 22  
PHILLIPS COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**9: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$2,250,000 issued on May 1, 2010. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$1,218,856, payable through February 1, 2022. Principal and interest paid for the current year and total property taxes pledged for debt service were \$244,888 and \$480,300, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 50.99 percent.

**10: 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/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.

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.

**11: 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 \$99,011 for the year ended June 30, 2017.

MARVELL SCHOOL DISTRICT NO. 22  
 PHILLIPS COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**12: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE**

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Restricted for:			
English-language learners	\$ 1,324		
Professional development	4,580		
Capital projects			\$ 3,374
Child nutrition programs		\$ 3,105	
Medical services		61,790	
Special education programs	4,760		
Other purposes	105,445	14,566	
Total Restricted	<u>116,109</u>	<u>79,461</u>	<u>3,374</u>
Assigned to:			
Capital projects			48,074
Student activities	17,974		
Total Assigned	<u>17,974</u>		<u>48,074</u>
Unassigned	<u>927,975</u>		
Totals	<u>\$1,062,058</u>	<u>\$ 79,461</u>	<u>\$ 51,448</u>

**13: SUBSEQUENT EVENT**

On November 16, 2017, the District issued refunding and construction bonds of \$4,255,000 to advance refund bonds dated May 1, 2010 and to finance various capital projects.

MARVELL SCHOOL DISTRICT NO. 22  
 PHILLIPS COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (Unaudited)

Schedule 1

	Balance June 30, 2017
<i>Nondepreciable capital assets:</i>	
Land	\$ 103,203
<i>Depreciable capital assets:</i>	
Buildings	7,725,525
Improvements/infrastructure	206,611
Equipment	1,668,664
Total depreciable capital assets	9,600,800
Less accumulated depreciation for:	
Buildings	3,834,766
Improvements/infrastructure	159,913
Equipment	1,224,495
Total accumulated depreciation	5,219,174
Total depreciable capital assets, net	4,381,626
Capital assets, net	\$ 4,484,829

MARVELL SCHOOL DISTRICT NO. 22  
 PHILLIPS COUNTY, ARKANSAS  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2017

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>				
<u>U. S. Department of Agriculture</u>				
Passed Through Arkansas Department of Education:				
School Breakfast Program	10.553	5404		\$ 93,593
National School Lunch Program	10.555	5404		194,114
Total Arkansas Department of Education				287,707
Passed Through Arkansas Department of Human Services:				
National School Lunch Program (Note 3)	10.555	5404000		19,902
TOTAL CHILD NUTRITION CLUSTER				307,609
<b>OTHER PROGRAMS</b>				
<u>U. S. Department of Agriculture</u>				
Passed Through Arkansas Department of Education:				
Fresh Fruit and Vegetable Program	10.582	5404		10,502
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Title I Grants to Local Educational Agencies	84.010	5404		886,627
Special Education - Grants to States	84.027	5404		168,970
Twenty-First Century Community Learning Centers	84.287	5404		117,921
Total U. S. Department of Education				1,173,518
<u>U. S. Department of Health and Human Services</u>				
Passed Through Arkansas Department of Education:				
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079	5404		6,809
Passed Through Arkansas Department of Career Education:				
Temporary Assistance for Needy Families	93.558	5404		20,000
Total U. S. Department of Health and Human Services				26,809
TOTAL OTHER PROGRAMS				1,210,829
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 0	\$ 1,518,438

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Marvell School District No. 22 (District) under programs of the federal government for the year ended June 30, 2017. 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, 2017

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?  yes  no  
 Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

FEDERAL AWARDS

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  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  no

MARVELL SCHOOL DISTRICT NO. 22  
PHILLIPS COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

MATERIAL WEAKNESSES

2017-001. Internal Control

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

Condition: 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.

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

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

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

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

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

MARVELL SCHOOL DISTRICT NO. 22  
PHILLIPS COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

MATERIAL WEAKNESSES (Continued)

2017-002. Misstatements not Detected by Internal Control System

Criteria or specific requirement: Financial accounting records should be accurate to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting.

Condition: The District's internal control system did not prevent or detect and correct material errors in the financial accounting records, 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 a \$64,650 overstatement of both other income and student transportation 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.

Context: Identification of misstatements not initially detected by the District's internal control.

Effect: Misstatements were not detected by the District's internal control system.

Cause: Financial records were not properly monitored.

Recommendation: In order to achieve reliable financial reporting, the District should implement controls to ensure all applicable general ledger accounts are properly stated.

Views of responsible officials and planned corrective actions: The District will implement controls to achieve reliable financial reporting and ensure that all applicable general ledger accounts are properly stated.

MARVELL SCHOOL DISTRICT NO. 22  
PHILLIPS COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 3

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

MATERIAL WEAKNESS

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION  
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010  
PASS THROUGH NUMBER 5404  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2017

2017-003. Reporting

Criteria or specific requirement: In accordance with 34 CFR § 76.702 of the State-Administered Programs, the District shall use fiscal control and fund accounting procedures that ensure proper disbursement of and accounting for federal funds. The Arkansas Department of Education has established a uniform chart of accounts and related codes known as the Arkansas Financial Accounting Handbook to be utilized in reporting revenues and expenditures. The District is required to submit an annual financial report to the Arkansas Department of Education at the end of the fiscal year which includes expenditures classified by function.

Condition: Errors in the classification of expenditures resulted in the annual 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).

Context: An examination of Title I expenditures to a vendor for professional development services.

Effect: Errors resulted in an inaccurate annual financial report.

Cause: Lack of internal controls and adequate management oversight.

Recommendation: The District should establish effective internal controls to ensure the proper classification of federal expenditures and preparation of annual financial report.

Views of responsible officials and planned corrective actions: The District will establish internal controls to ensure the proper classification of federal expenditures and preparation of the annual financial report.

MARVELL SCHOOL DISTRICT NO. 22  
PHILLIPS COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 3

SIGNIFICANT DEFICIENCY

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION  
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES - CFDA NUMBER 84.010  
PASS THROUGH NUMBER 5404  
AUDIT PERIOD - YEAR ENDED JUNE 30, 2017

2017-004. Allowable Costs/Cost Principles

Criteria or specific requirement: Office of Management and Budget (OMB) 2 CFR part 200, subpart E – Cost Principles, establish principles for determining the allowable costs from federal funds. Such costs are to be necessary and reasonable for the performance of the federal award. Program expenditures must be incurred in accordance with the District's Arkansas Comprehensive School Improvement Plan (ACSIP).

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

Questioned Costs: The amount of questioned costs was \$25,000.

Context: An examination of District expenditures to an entity for an alternative learning environment.

Effect: The District disbursed Title I funds to pay for expenditures not included in the District's ACSIP.

Cause: Lack of internal controls and management oversight over program expenditures.

Recommendation: The District should contact the Arkansas Department of Education for guidance regarding this matter and implement proper controls over program expenditures.

Views of responsible officials and planned corrective actions: The District management will implement procedures to ensure the costs that are incurred are allowable. The District will also contact the Arkansas Department of Education for further guidance regarding this matter.

# MARVELL - ELAINE SCHOOL DISTRICT

P O BOX 1870  
MARVELL, AR 72366  
870-829-2101

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Schedule 4

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

### FINANCIAL STATEMENT FINDINGS

#### 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 2017-001 at Schedule 3.

#### 2015 - Finding 2015-001: 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 2017-001 at Schedule 3.

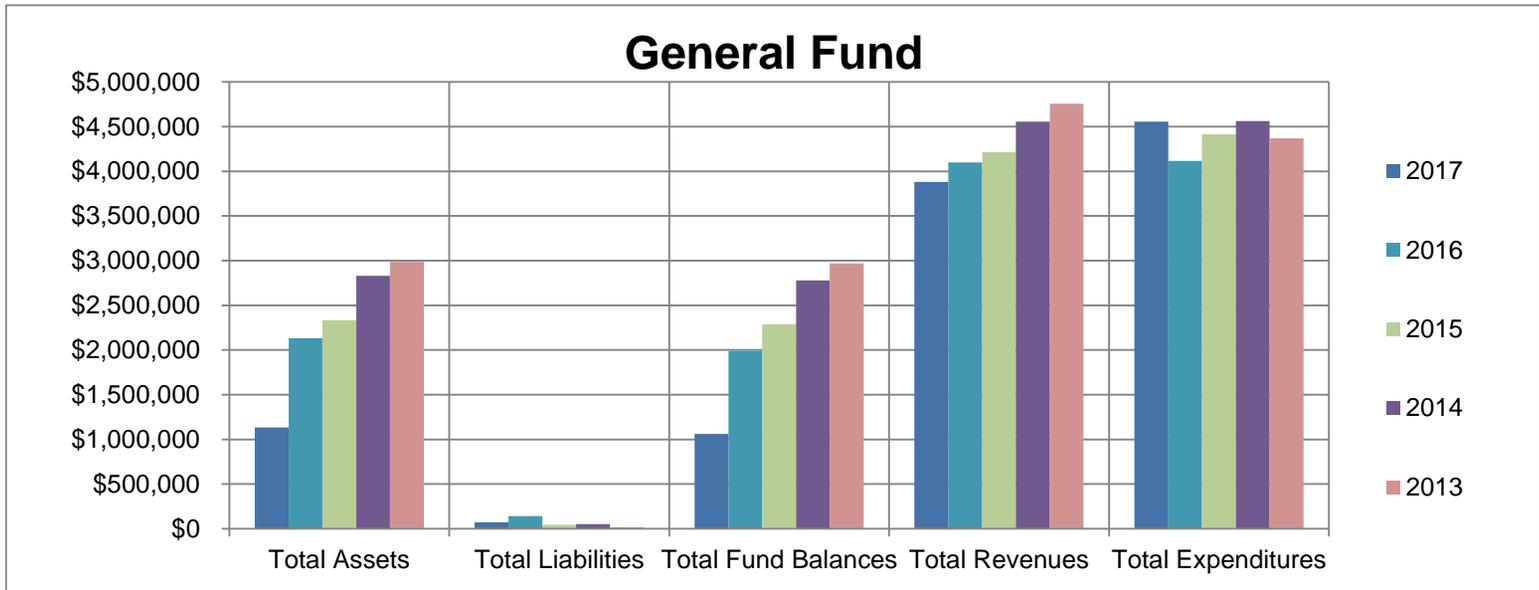
### FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the prior audit.

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, 2017  
 (Unaudited)

<b>General Fund</b>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 1,134,781	\$ 2,131,831	\$ 2,331,957	\$ 2,829,630	\$ 2,985,427
Total Liabilities	72,723	140,465	45,503	52,133	16,187
Total Fund Balances	1,062,058	1,991,366	2,286,454	2,777,497	2,969,240
Total Revenues	3,879,584	4,098,863	4,212,210	4,556,034	4,755,987
Total Expenditures	4,553,499	4,114,807	4,414,664	4,561,763	4,368,926
Total Other Financing Sources (Uses)	(255,393)	(279,144)	(288,589)	(186,014)	(83,069)



MARVELL SCHOOL DISTRICT NO. 22

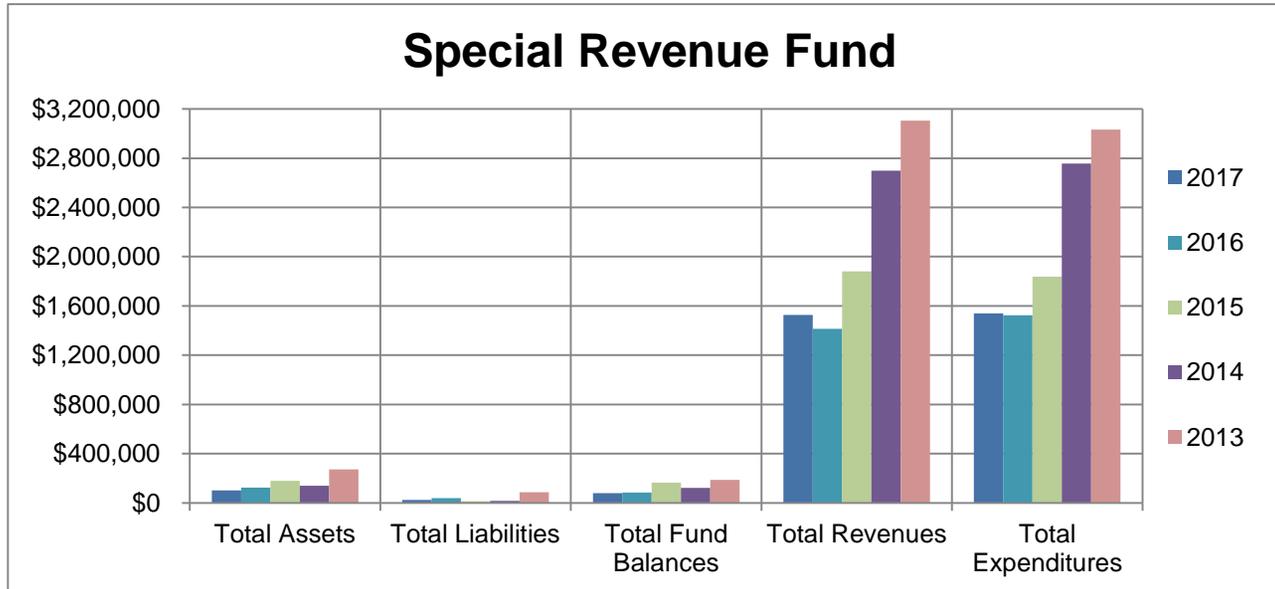
PHILLIPS COUNTY, ARKANSAS

SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS

FOR THE YEAR ENDED JUNE 30, 2017

(Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 103,714	\$ 125,127	\$ 180,806	\$ 139,713	\$ 273,761
Total Liabilities	24,253	40,261	14,911	16,227	86,491
Total Fund Balances	79,461	84,866	165,895	123,486	187,270
Total Revenues	1,526,193	1,413,581	1,881,492	2,699,256	3,104,178
Total Expenditures	1,540,281	1,524,135	1,839,188	2,756,153	3,031,760
Total Other Financing Sources (Uses)	8,683	29,525	105	(6,887)	(5,808)



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, 2017  
 (Unaudited)

<b><u>Other Aggregate Funds</u></b>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 51,448	\$ 245,576	\$ 272,604	\$ 267,691	\$ 263,354
Total Liabilities		12,333			
Total Fund Balances	51,448	233,243	272,604	267,691	263,354
Total Revenues					
Total Expenditures	428,505	284,781	238,701	242,027	255,382
Total Other Financing Sources (Uses)	246,710	245,420	243,614	246,364	83,069

