

Earle School District No. 1

Crittenden County, Arkansas

**Regulatory Basis Financial Statements
and Other Reports**

June 30, 2017



EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2017

Independent Auditor's Report
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance
Management Letter

REGULATORY BASIS FINANCIAL STATEMENTS

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

SCHEDULES

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

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

Earle School District No.1 and Arkansas Department of Education
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 Earle School District No. 1 (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 adverse, qualified, and unmodified 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.

Basis for Qualified Opinion on Regulatory Basis of Accounting

As described in item 2017-002 in the accompanying Schedule of Findings and Questioned Costs, management has not correctly reported certain payroll expenditures which is the result of misclassification errors between certain functions in the District's financial statements for the special revenue fund, which is a major governmental fund. The Arkansas Department of Education *Rules Governing the Regulatory Basis of Accounting* require that expenditures be reported by major function. Functional classification errors in the special revenue fund totaling \$64,964 were detected, which indicated likely misstatements (errors projected to the population) of \$838,600.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the misclassifications described in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" paragraph, the financial statements referred to above present fairly, in all material respects, the regulatory basis financial position of the special revenue fund 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 special revenue fund 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.

Unmodified 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 the general 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 fund 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 12, 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 12, 2018
EDSD09217

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

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

Earle School District No. 1 and Arkansas Department of Education
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 Earle School District No. 1 (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 12, 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. We issued a qualified opinion on the regulatory basis of accounting due to misclassification errors between certain functions in the District's financial statements for the special revenue fund. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of the general 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 fund 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 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 and 2017-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2017-003 to be a significant deficiency.

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 12, 2018.

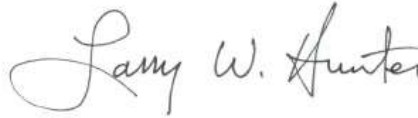
District’s Response to Findings

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 12, 2018

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

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

INDEPENDENT AUDITOR'S REPORT

Earle School District No. 1 and Arkansas Department of Education
Legislative Joint Auditing Committee

Report on Compliance for Each Major Federal Program

We have audited the Earle School District No. 1 (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 qualified and unmodified opinions on compliance for major federal programs. 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 2017-004 for Allowable Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 84.010 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.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-005, 2017-006, 2017-007, and 2017-008. Our opinion on each major federal program is not modified with respect to these matters.

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 a material weakness and significant deficiencies.

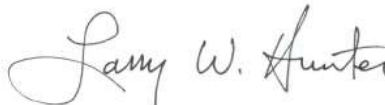
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 2017-004 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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2017-005, 2017-006, 2017-007, and 2017-008 to be significant deficiencies.

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 12, 2018

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

MANAGEMENT LETTER

Earle School District No. 1 and Arkansas Department of Education
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. The District purchased 29 gift cards valued at \$1,900 and incurred related fees of \$56 from the general fund. Additionally, the District used points accumulated on a District-owned credit card to purchase 12 gift cards valued at \$1,150. The District failed to maintain documentation related to recipients of the gift cards or the business purpose for which they were used.
2. Our examination of credit card transactions totaling \$63,243 indicated the following:
 - \$22,524 in purchases were not supported with documentation and/or approved for payment:
 - \$11,873 for hotels.
 - \$5,302 for educational and other supplies.
 - \$1,218 for food, drinks, and meals.
 - \$947 for a cell phone.
 - \$771 for a vacuum cleaner.
 - \$445 for a computer.
 - \$1,968 for other items.
 - \$31,724 in purchases did not have proper approval for payment.
 - \$1,576 was incurred for membership fees, late fees, and interest.

A similar finding was reported in the previous audit.

3. During our examination of payroll records, we noted the following internal control weaknesses:
 - The Superintendent was overpaid \$4,515, which consisted of a \$4,000 annuity overpayment and \$515 resulting from clerical errors.
 - The Superintendent did not provide documentation to the District for personal use of a school-owned vehicle to be reported on his IRS W-2 Form, in conflict with his contract terms.
 - The Business Manager and a licensed employee were overpaid \$3,835 and \$4,550, respectively, in unused leave payments, in noncompliance with District policy.
 - Five employees were paid stipends of \$5,558, \$3,000, \$2,500, \$900, and \$2,850; respectively, that were not listed on the District's approved salary schedule.
 - Employee contracts were not signed by the applicable Board members.
 - The District paid \$910,063 in salaries and benefits to 49 employees from national school lunch student categorical funds. The Arkansas Department of Education determined, and we confirmed, that \$766,585 of this amount was not eligible to be paid from this source of funds.

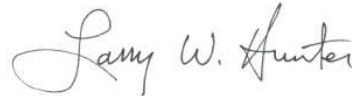
Payroll deficiencies were reported in the previous audit.

4. The District purchased 103 athletic rings costing a total of \$36,157 of which \$10,810 was paid using athletic event gate receipts. As of report date, the remaining balance was still owed to the vendor. Of this amount, \$22,824 was for 64 student athletes, resulting in an average ring cost per student of \$357 in conflict with Ark. Code Ann. § 6-20-417, which prohibits a district from expending more than an average of \$100 per student per activity for such items. The remaining amount of \$13,333 was expended for 39 rings as follows:
 - \$4,356 for coaches (13 rings).
 - \$2,785 for the Superintendent and other administrators (8 rings).
 - \$2,437 for other individuals (7 rings).
 - \$2,099 for other employees (6 rings).
 - \$981 for spouses of the Superintendent and a coach (3 rings).
 - \$675 for Board members (2 rings).
5. Our examination of 21 travel reimbursements totaling \$14,036 (28 transactions) made to employees and two Board members revealed the following:
 - Three transactions totaling \$1,238 did not have proper approval for payment.
 - Two transactions totaling \$1,420 were not supported with documentation.
 - Thirteen transactions totaling \$7,901 were not supported with documentation or properly approved for payment. The following was also noted:
 1. The Superintendent was reimbursed \$628 for a trip to Denver, Colorado without supporting documentation or approval.
 2. One Board member was reimbursed \$300 for a trip to New Orleans, Louisiana without supporting documentation or approval.
 - One employee was paid a travel per diem of \$300 in conflict with the District's policy, which states that only Board members are eligible to receive a travel per diem.
6. During our examination of receipts, we noted the following internal control weaknesses:
 - Receipts did not always reflect the composition of funds received (i.e., cash or check).
 - The District did not always reconcile differences between receipts issued and funds deposited. Activity receipts totaling \$281 could not be traced to deposits, and activity deposits totaling \$45 could not be traced to receipts.
 - \$1,120 in cash was paid to officials from gate revenues. In addition, concession receipts or deposits could not be located for three athletic events.
 - No receipts or deposits were noted for the community pool managed by the District.
7. The District did not comply with Ark. Code Ann. § 6-13-701 and ADE Commissioner Memo COM-12-036 concerning Electronic Fund Transfers (EFT). For one month tested, we noted five EFTs totaling \$17,419 that were not authorized in writing by both the disbursing officer of the Board of Directors and the Superintendent. Although paid to routine vendors for postage and utilities, EFTs totaling \$16,456 from the aforementioned amount were not properly documented therefore; their legitimacy and business purpose could not be verified.
8. The District incurred bank fee charges totaling \$666 related to 18 instances of insufficient funds during September 2016.
9. The District had uninsured and uncollateralized deposits totaling \$42,674 and \$406,557 at June 30, 2017 and November 30, 2016, respectively. A similar finding was reported in the previous audit.
10. During our examination of accounts payable, we noted that checks totaling \$41,889 were issued for payment, but never mailed and remained outstanding on the District's bank reconciliation at June 30, 2017. Of this amount, checks totaling \$13,446 were manually voided. We were unable to trace these checks to reissue; therefore we could not determine whether the District was still indebted to the payees.
11. Salary increases of 5% or greater were not presented to the Board for approval in noncompliance with Ark. Code Ann. § 6-13-635 and Commissioner's Memo FIN-14-048.
12. The District did not maintain adequate supporting documentation to support sick leave balances. In addition, the District did not follow written policies and procedures regarding payments of leave balances.

13. Journal entries were not properly approved by management and supporting documentation was not maintained by the District.
14. The combined fund balances of the Teacher's Salary, Operating, and Debt Service Funds were a deficit at June 30, 2017, causing the District to exceed its legal revenues by \$153,465 in noncompliance with ACA § 6-20-402.

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



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 12, 2018

EARLE SCHOOL DISTRICT NO. 1
 CRITTENDEN COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2017

Exhibit A

	Governmental Funds			
	Major			
	General	Special Revenue	Other Aggregate	Fiduciary Fund Types
ASSETS				
Cash	\$ 40,618		\$ 25,282	\$ 3,369
Accounts receivable	701	\$ 118,733		
Due from other funds		21,342		5,441
TOTAL ASSETS	\$ 41,319	\$ 140,075	\$ 25,282	\$ 8,810
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 168,001	\$ 32,093		\$ 8,810
Due to other funds	26,783			
Total Liabilities	194,784	32,093		8,810
Fund Balances:				
Restricted	73,048	107,982	\$ 25,282	
Unassigned	(226,513)			
Total Fund Balances	(153,465)	107,982	25,282	
TOTAL LIABILITIES AND FUND BALANCES	\$ 41,319	\$ 140,075	\$ 25,282	\$ 8,810

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

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN 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	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,192,824		
State assistance	4,788,356	\$ 3,065	
Federal assistance		1,461,300	
Activity revenues	68,463		
Meal sales		20,128	
Investment income	262		
Other revenues	71,900		
TOTAL REVENUES	6,121,805	1,484,493	
EXPENDITURES			
Regular programs	2,415,265	81,230	
Special education	182,144	149,187	
Career education programs	249,170		
Compensatory education programs	1,074	267,188	
Other instructional programs	226,766		
Student support services	185,940	87,344	
Instructional staff support services	244,759	338,320	
General administration support services	353,565		
School administration support services	227,795		
Central services support services	107,168	29,181	
Operation and maintenance of plant services	981,653		
Student transportation services	294,692		
Other support services	9,534		
Food services operations	18,686	538,628	
Activity expenditures	209,715		
Debt Service:			
Principal retirement	191,659		\$ 270,000
Interest and fiscal charges	10,677		150,172
TOTAL EXPENDITURES	5,910,262	1,491,078	420,172
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	211,543	(6,585)	(420,172)
OTHER FINANCING SOURCES (USES)			
Transfers in			420,172
Transfers out	(420,172)		
TOTAL OTHER FINANCING SOURCES (USES)	(420,172)		420,172
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(208,629)	(6,585)	
FUND BALANCES - JULY 1 (RESTATED)	55,164	114,567	25,282
FUND BALANCES - JUNE 30	\$ (153,465)	\$ 107,982	\$ 25,282

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

EARLE SCHOOL DISTRICT NO. 1
 CRITTENDEN 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)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,183,000	\$ 1,192,824	\$ 9,824			
State assistance	4,837,306	4,788,356	(48,950)	\$ 3,000	\$ 3,065	\$ 65
Federal assistance				1,479,339	1,461,300	(18,039)
Activity revenues		68,463	68,463			
Meal sales				35,000	20,128	(14,872)
Investment income		262	262			
Other revenues	45,200	71,900	26,700			
TOTAL REVENUES	6,065,506	6,121,805	56,299	1,517,339	1,484,493	(32,846)
EXPENDITURES						
Regular programs	2,375,034	2,415,265	(40,231)	75,825	81,230	(5,405)
Special education	163,363	182,144	(18,781)	156,572	149,187	7,385
Career education programs	280,539	249,170	31,369			
Compensatory education programs		1,074	(1,074)	264,937	267,188	(2,251)
Other instructional programs	238,976	226,766	12,210			
Student support services	127,343	185,940	(58,597)	42,704	87,344	(44,640)
Instructional staff support services	236,943	244,759	(7,816)	358,787	338,320	20,467
General administration support services	290,143	353,565	(63,422)			
School administration support services	229,028	227,795	1,233			
Central services support services	96,449	107,168	(10,719)	41,044	29,181	11,863
Operation and maintenance of plant services	762,851	981,653	(218,802)			
Student transportation services	229,844	294,692	(64,848)			
Other support services	6,200	9,534	(3,334)			
Food services operations		18,686	(18,686)	406,704	538,628	(131,924)
Activity expenditures		209,715	(209,715)			
Debt Service:						
Principal retirement	241,659	191,659	50,000			
Interest and fiscal charges	3,863	10,677	(6,814)			
TOTAL EXPENDITURES	5,282,235	5,910,262	(628,027)	1,346,573	1,491,078	(144,505)

EARLE SCHOOL DISTRICT NO. 1
 CRITTENDEN 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	\$ 783,271	\$ 211,543	\$ (571,728)	\$ 170,766	\$ (6,585)	\$ (177,351)
OTHER FINANCING SOURCES (USES)						
Transfers in	6,119,231		(6,119,231)			
Transfers out	(6,538,041)	(420,172)	6,117,869			
TOTAL OTHER FINANCING SOURCES (USES)	(418,810)	(420,172)	(1,362)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	364,461	(208,629)	(573,090)	170,766	(6,585)	(177,351)
FUND BALANCES - JULY 1	431,296	55,164	(376,132)	67,682	114,567	46,885
FUND BALANCES - JUNE 30	<u>\$ 795,757</u>	<u>\$ (153,465)</u>	<u>\$ (949,222)</u>	<u>\$ 238,448</u>	<u>\$ 107,982</u>	<u>\$ (130,466)</u>

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

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Earle School District (District), as of November 6, 2017, is under the control of the Arkansas Department of Education. The local school board, a five member group, was dissolved as of that date. See Note 15. There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund - The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

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

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

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

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

Fiduciary Fund types include the following:

Agency Funds – Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN 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	20-50
Buildings	20-50
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 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.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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. 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. 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.

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.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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)	\$ 69,269	\$ 250,000
Uninsured and uncollateralized		42,764
Total Deposits	\$ 69,269	\$ 292,764

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District has not established a deposit policy addressing custodial credit risk. At June 30, 2017, \$42,764 of the District's bank balance of \$292,764 was exposed to custodial risk as follows:

Uninsured and uncollateralized	<u>\$42,764</u>
--------------------------------	-----------------

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN 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 Funds	
	Major	
	General	Special Revenue
Federal assistance		\$ 118,733
Other	\$ 701	
Totals	\$ 701	\$ 118,733

4: COMMITMENTS

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

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
1/1/13	2/1/34	2 - 2.75%	\$ 1,460,000	\$ 1,460,000	
10/1/15	5/1/28	1 - 2.5%	3,150,000	2,800,000	\$ 350,000
10/1/15	5/1/34	1.3 - 3.15%	2,215,000	2,175,000	40,000
5/12/15	5/12/18	5.35%	150,000	50,000	100,000
Totals			\$ 6,975,000	\$ 6,485,000	\$ 490,000

Changes in Long-term Debt

	Balance July 1, 2016	Issued	Retired	Balance June 30, 2017
Bonds payable	\$ 6,705,000		\$ 270,000	\$ 6,435,000
Capital leases	91,659		91,659	
Installment contracts	150,000		100,000	50,000
Totals	\$ 6,946,659	\$ 0	\$ 461,659	\$ 6,485,000

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

4: COMMITMENTS (Continued)

Future Principal and Interest Payments

Year Ended June 30,	Principal	Interest	Total
2018	\$ 320,000	\$ 146,212	\$ 466,212
2019	285,000	143,185	428,185
2020	330,000	139,498	469,498
2021	340,000	134,557	474,557
2022	345,000	128,838	473,838
2023-2027	1,850,000	541,335	2,391,335
2028-2032	2,100,000	314,365	2,414,365
2033-2034	915,000	41,130	956,130
Totals	<u>\$ 6,485,000</u>	<u>\$ 1,589,120</u>	<u>\$ 8,074,120</u>

Security for Debt Payments

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

5: ACCOUNTS PAYABLE

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

Description	Governmental Funds		Fiduciary Fund Types
	General	Special Revenue	
Vendor payables	<u>\$ 168,001</u>	<u>\$ 32,093</u>	<u>\$ 8,810</u>

6: INTERFUND TRANSFERS

The District transferred \$420,172 from the general fund to the other aggregate funds for debt related payments.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

7: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description

The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies, except certain non-teaching school employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201, by calling 1-800-666-2877, or by visiting the ATRS website at www.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, 2017 were \$563,891, 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 \$6,155,209.

8: PRIOR YEAR RESTATEMENT

The beginning fund balance of the general fund was increased by a net amount of \$31,128, which included an increase of \$35,778 for amounts that were due general fund from special revenue fund for supplementing costs in federal funds in prior years and a decrease of \$4,650 due to reclassification of agency fund activity accounts previously reported as general fund activity accounts. The beginning fund balance of the special revenue fund was decreased by \$35,778 for the amount due general fund discussed previously.

9: DEFICIT FUND BALANCE

The unassigned fund balance in general fund at June 30, 2017 was in the deficit amount of \$226,513 as a result of the lack of proper budget monitoring and implementation of effective cost reduction procedures.

10: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$6,825,000 issued from January 1, 2013 to October 1, 2015. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$8,024,018, payable through May 1, 2034. Principal and interest paid for the current year and total property taxes pledged for debt service were \$418,810 and \$527,186, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 79.44 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 and student accident coverage.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

11: RISK MANAGEMENT (Continued)

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

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$300,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

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

Settled claims have not exceeded coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

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 \$103,756 for the year ended June 30, 2017.

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

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 1,538		
Professional development	228		
Capital projects			\$ 25,282
Child nutrition programs		\$ 107,982	
Special education programs	50,002		
Other purposes	21,280		
Total Restricted	<u>73,048</u>	<u>107,982</u>	<u>25,282</u>
Unassigned	<u>(226,513)</u>		
Totals	<u>\$ (153,465)</u>	<u>\$ 107,982</u>	<u>\$ 25,282</u>

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

14: SUBSEQUENT EVENTS

- A. On December 28, 2017, the District issued refunding and construction bonds of \$10,295,000.
- B. On October 12, 2017, the State Board of Education classified the District in fiscal distress. On November 6, 2017, the Arkansas Department of Education (ADE) assumed control of the District and the superintendent resigned. Under the authority of Ark. Code Ann. § 6-20-1909, ADE dissolved the local school board and appointed a superintendent to direct the District's operations in coordination with ADE.
- C. On March 9, 2018, the Arkansas Department of Education (ADE) notified Arkansas Legislative Audit that ADE would require the District to refund the identified questioned costs in the Title I program of \$300,300 and \$303,437 for fiscal years 2016 and 2017, respectively. ADE indicated a Memorandum of Understanding would be executed at a later date with the District to repay these funds.

15. CONSTRUCTION IN PROGRESS

The balance of the construction in progress account at June 30, 2017 at Schedule 1 represents preliminary costs associated with the construction of a new elementary school building. There were no significant commitments at June 30, 2017.

EARLE SCHOOL DISTRICT NO. 1
 CRITTENDEN 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	\$ 355,291
Construction in progress	6,518
Total nondepreciable capital assets	361,809
 <i>Depreciable capital assets:</i>	
Buildings	8,757,292
Improvements/infrastructure	1,637,601
Equipment	3,268,347
Total depreciable capital assets	13,663,240
 Less accumulated depreciation for:	
Buildings	3,544,533
Improvements/infrastructure	399,332
Equipment	2,148,822
Total accumulated depreciation	6,092,687
Total depreciable capital assets, net	7,570,553
Capital assets, net	\$ 7,932,362

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN 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
CHILD NUTRITION CLUSTER				
Passed Through Arkansas Department of Education:				
School Breakfast Program	10.553	1802		\$ 168,558
National School Lunch Program	10.555	1802		<u>313,582</u>
Total Arkansas Department of Education				<u>482,140</u>
Passed Through Arkansas Department of Human Services:				
National School Lunch Program (Note 3)	10.555	1802000		<u>29,005</u>
TOTAL CHILD NUTRITION CLUSTER				<u>511,145</u>
<u>U. S. Department of Education</u>				
Passed Through Arkansas Department of Education:				
Title I Grants to Local Educational Agencies	84.010	1802		701,873
Special Education - Grants to States	84.027	1802		149,604
Supporting Effective Instruction State Grant	84.367	1802		<u>75,825</u>
Total U. S. Department of Education				<u>927,302</u>
TOTAL OTHER PROGRAMS				<u>927,302</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 0</u>	<u>\$ 1,438,447</u>

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Earle School District No. 1 (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.

EARLE SCHOOL DISTRICT NO. 1
 CRITTENDEN 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 for all opinion units except for the special revenue fund opinion unit, which was qualified.

Internal control over financial reporting:

<input checked="" type="radio"/> Material weakness(es) identified?	<input type="text" value="X"/>	yes	<input type="text"/>	no
<input checked="" type="radio"/> Significant deficiency(ies) identified?	<input type="text" value="X"/>	yes	<input type="text"/>	none reported
Noncompliance material to financial statements noted?	<input type="text"/>	yes	<input type="text" value="X"/>	no

FEDERAL AWARDS

Internal control over major federal programs:

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

Type of auditor's report issued on compliance for major federal programs: unmodified for all major programs except for the Title I Grants to Local Educational Agencies program, which was 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
10.553 and 10.555 84.010	Child Nutrition Cluster 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

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN 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 internal 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 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 records were not adequately segregated among employees. Specifically, certain key weaknesses included the following: receipting, depositing, posting, and reconciling procedures were performed by the same employee, without compensating controls. Additionally, significant journal entries were prepared by the same employee without independent approval and payroll and non-payroll checks were prepared by the same employee responsible for changes in payroll amounts and preparation of checks, without compensating controls.

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

Effect: The District's ability to initiate, authorize, record, process and report transactions consistent with management's 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: The 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 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.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN 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 material errors in the financial accounting records, which are utilized in the preparation of the District's financial statements. Significant errors included:

- Overstatement of cash in the amount of \$364,715 in the general fund and understatement of cash in the amounts of \$21,384 and \$25,282 in the special revenue fund and other aggregate funds, respectively.
- Overstatement of accounts receivable in the amounts of \$115,000 and \$20,360 in the fiduciary fund types and special revenue fund, respectively.
- Unrecorded accounts payable and other liabilities in the amounts of \$168,001, \$32,093, and \$8,810 in the general fund, special revenue fund, and fiduciary fund types, respectively. Vendor payables totaling \$61,168, which were included in the general fund accounts payable, remained unpaid prior to ADE assuming control of the District in November 2017.
- Federal revenue was understated \$29,005 in the special revenue fund because the District failed to record the value of commodities received. In addition, other revenue in the general fund was understated by \$13,503 as a result of a payment in lieu of taxes being recorded as property taxes.
- Uncorrected payroll errors of \$37,098 and \$64,964 were noted in the general fund and special revenue fund, respectively.

The financial statements were corrected during the audit fieldwork for the above errors except for the uncorrected payroll errors described in the last bullet.

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

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

Cause: Financial records had not been properly monitored.

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

Views of responsible officials and planned corrective actions: The District and Arkansas Department of Education (ADE) agree with the finding. On November 6, 2017 ADE placed the District in state control. The superintendent and business manager have since resigned, the state has appointed Dr. Richard Wilde as superintendent and Cynthia Smith, Fiscal Services and Support (FSS) Coordinator has moved the financial responsibilities to her unit. FSS will work to correct all findings and will assist in hiring and train new business office personnel to ensure that proper internal control procedures, laws and best practices will be followed and that general ledger accounts are properly stated. FSS will continue to provide training and monitor the district and finance office personnel as long as deemed necessary by ADE.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

SIGNIFICANT DEFICIENCY

2017-003. Non-Payroll Expenditures Internal Control

Criteria or specific requirement: Internal control is a process consisting of five internal 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 non-payroll transactions consistent with management's assertions embodied in the financial statements.

Condition: During our examination of non-payroll disbursements, we noted the following deficiencies that resulted from internal control weaknesses:

- Fourteen disbursements (35%) were not properly authorized or approved.
- Four disbursements were not clerically accurate, eight disbursements were not properly documented, and seven disbursements were not properly classified.

A similar finding was noted in the previous audit.

Context: An examination of non-payroll expenditures for 40 disbursements (\$187,773) from a population of 1,543 checks (\$2,582,693). Our sample was a statistically valid sample.

Effect: The District's ability to initiate, authorize, record, process and report non-payroll transactions consistent with management's assertions embodied in the financial statements was adversely affected by the lack of internal controls and management oversight.

Cause: Lack of internal controls and adequate management oversight.

Recommendation: Establish controls over non-payroll expenditures including management review of non-payroll transactions to determine proper payments to all vendors.

Views of responsible officials and planned corrective actions: The District and ADE agree with the finding. FSS is working to correct errors and to put in place proper procedures and to train new finance office personnel to ensure that all disbursements are properly authorized or approved, that all disbursements are accurate, and that all disbursements have all required documentation and are coded and classified correctly.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN 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 1802
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 incurred by the District under Federal awards. Such costs are to be necessary and reasonable for the performance of the Federal Award and be adequately documented.

Condition: In our tests of payroll and non-payroll expenditures, we identified unallowable costs totaling \$161,846 were paid from the Title I program. These costs were comprised of salaries and benefits totaling \$142,098, including an overpayment to one employee in the amount of \$3,041, that should have been paid from the District's general fund, and undocumented non-payroll expenditures totaling \$19,748. The Arkansas Department of Education identified additional unallowable payroll expenditures totaling \$161,339. This resulted in total unallowable cost of \$323,185.

Questioned Costs: The amount of the questioned costs was \$323,185.

Context: An examination of Title I payroll expenditures for 5 employees (\$259,407) from a population of 14 employees (\$611,764) and non-payroll expenditures of 4 checks (\$22,099) tested from a population of 16 checks (\$84,085). Our sample was a statistically valid sample. In addition, correspondence with the Arkansas Department of Education was examined.

Effect: Unallowable costs of \$323,185 for the year ended June 30, 2017 occurred.

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

Identification as a repeat finding: Undocumented non-payroll expenditures indicated in the Condition above is a repeat of Finding 2016-006.

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 and ADE agree with the finding. FSS is processing payroll and working with Title I director Jayne Green to ensure any salaries paid from Title I and any expenditures are in the federal budget and are allowable expenditures by rule and law. FSS will train a new payroll clerk and oversee the payroll process and will continue to provide support as long as deemed necessary by ADE. FSS is putting together best practices and examples for the new payroll clerk to follow.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN 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 (Continued)

SIGNIFICANT DEFICIENCIES

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 1802
AUDIT PERIOD - YEAR ENDED JUNE 30, 2017

2017-005. Allowable Costs/Cost Principles

Criteria or specific requirement: Title 2 U.S. *Code of Federal Regulations* (CFR) 200.430 (i)(1)(vii) requires that the distribution of an employee's salary or wages be supported when the employee works on more than one Federal award or a Federal award and a non-federal activity.

Condition: Although standard payroll documentation supporting the employee's work in the Title I program was available for audit inspection, monthly personnel activity reports were not prepared for two Title I employees who also worked other activities.

Context: Examination of documentation substantiating time worked by applicable employees in the Title I payroll test of 3 employees from a total population of 14 employees.

Effect: The District was unable to provide required documentation substantiating the time charged to the Title I programs.

Cause: Lack of internal controls and management oversight.

Identification as a repeat finding: This was a repeat of Finding 2016-007.

Recommendation: The District should prepare monthly personnel activity reports or equivalent documentation for all applicable employees.

Views of responsible officials and planned corrective actions: The District and ADE agree with the finding. The federal programs coordinator will be trained in what is required to meet Title I rules and laws. The District and FSS will work to ensure that all employees paid by Title I prepare required time certifications and activity reports.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN 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

2017-006. Reporting

Criteria or specific requirement: The District is required to budget program expenditures. Expenditures may not exceed budgeted amounts for specific categories by more than 10 percent of the total budget without prior approval from the Arkansas Department of Education (ADE) and the submission of budget amendments or adjustments. An annual financial report is compiled at the end of the fiscal year.

Condition: Title I program expenditures for function code 2294 (Instructional Facilitator, Math) exceeded the budget threshold by \$28,095 more than the 10 percent variance allowed. Title I School Improvement expenditures for function code 2210 (Improvement of Instructional Services) exceeded the budget threshold by \$40,501 more than the 10 percent variance allowed. The Title I program expenditures did not exceed the total overall budget; however, the Title I School Improvement program expenditures exceeded total budgeted expenditures by \$11,068.

Questioned Costs: The amount of questioned costs was \$11,068.

Context: Comparison of budgeted expenditures to actual expenditures as reported on the annual financial report.

Effect: The District did not expend Title I funds within the approved budget categories and did not expend Title I School Improvement funds with the total overall budget.

Cause: The District failed to properly monitor expenditures against the approved budget.

Recommendation: The District should implement procedures to ensure costs are incurred within the applicable budget categories

Views of responsible officials and planned corrective actions: The District and ADE agree with the finding. The District will ensure that expenditures in the Title I budget are within the applicable budgeted categories and do not exceed the variance allowed. The District and ADE will ensure that all staff have necessary training and understand all rules and laws for Title I.

2017-007. Special Tests and Provisions

Criteria or specific requirement: The District must provide all eligible private school children and their teachers or other educational personnel the opportunity to participate in the program by engaging in a timely and meaningful consultation with private school officials.

Condition: The District did not contact applicable private school officials in the area of the District for possible participation in the Title I program in a timely manner. Additionally, the District did not submit the Affirmation of Consultation forms to the Arkansas Department of Education in a timely manner.

Context: Inquiry of District personnel about procedures and documentation used to notify applicable private schools for possible

Effect: The District did not contact private schools for possible participation in the Title I program or submit the Affirmation of Consultation forms in a timely manner.

Cause: Lack of internal controls and management oversight resulted in the District not properly complying with requirements of contacting private schools for possible participation in the Title I program.

Recommendation: The District should implement procedures to ensure that all private schools that could be eligible to participate in the program are properly notified in a timely manner.

Views of responsible officials and planned corrective actions: The District and ADE agree with the finding. The District will ensure that all private schools are contacted and all required documents are submitted in a timely manner. The District and ADE will ensure that all personnel will be trained and understand all rules and laws that apply.

EARLE SCHOOL DISTRICT NO. 1
CRITTENDEN 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

U. S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION
CHILD NUTRITION CLUSTER - CFDA NUMBERS 10.553 AND 10.555
PASS-THROUGH NUMBER 1802
AUDIT PERIOD - YEAR ENDED JUNE 30, 2017

2017-008. 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 incurred by the District under Federal awards. Such costs are to be necessary and reasonable for the performance of the Federal Award and be adequately documented.

Condition: Unallowable costs totaling \$2,083 were paid from the Child Nutrition program as a result of an overpayment to one employee.

Questioned Costs: The amount of the questioned costs was \$2,083.

Context: An examination of payroll expenditures for 4 employees (\$96,072) from a population of 16 employees (\$241,587). Our sample was a statistically valid sample.

Effect: Unallowable costs of \$2,083 for the year ended June 30, 2017 occurred.

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

Recommendation: The District should contact the Arkansas Department of Education, Child Nutrition Unit, for guidance regarding

Views of responsible officials and planned corrective actions: The District and ADE agree with the finding. The District will ensure that all expenditures from the Child Nutrition program are allowable and that all payments to employees are actual Child Nutrition related. The District will train all employees that handle Child Nutrition funds and ensure they understand all rules and laws that apply.

Earle School District
1401 Third Street
Earle, Arkansas 7233

Superintendent
Dr. Richard Wilde

Phone: 870-792-846

Schedule 4

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

FINANCIAL STATEMENT FINDINGS

2016 – Finding 2016-001: Maintaining Supporting Documentation

Condition: Lack of Adequate Supporting Documentation

Current Status: The District did not maintain adequate supporting documentation for all transactions. The District has since been taken over by the Arkansas Department of Education (ADE) and this issue is being resolved. See Finding 2017-003 at Schedule 3.

2016 – Finding 2016-002: Segregation of Duties

Condition: Lack of segregation of duties.

Current Status: The District is in the process of trying to implement compensating controls where duties cannot be adequately segregated. See Finding 2017-001 at Schedule 3.

2016 – Finding 2016-003: Payroll

Condition: Discrepancies between salary per contract and what is actually paid

Current Status: The District still had payroll discrepancies during the 2017 fiscal year. ADE is working to ensure eFinance is used correctly and any payments made over contract limits are properly documented. See Management Letter Finding Number 3.

2016 – Finding 2016-004: Credit Cards

Statement of Condition: Lack of controls over credit card use

Current Status: The District continued to lack proper controls over credit card use in the 2017 fiscal year. Currently, ADE has cancelled all old credit cards and reissued two district cards, one for the superintendent and one for the business manager that will be kept in a secure location and only used after requisition and purchase order approval. See Management Letter Finding Number 2.

Earle School District
1401 Third Street
Earle, Arkansas 7233

Superintendent
Dr. Richard Wilde

Phone: 870-792-846

Schedule 4

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF AGRICULTURE
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION AND
ARKANSAS DEPARTMENT OF HUMAN SERVICES
CHILD NUTRITION CLUSTER – CFDA NUMBERS 10.553 AND 10.555

2016 – Finding 2016-005: Maintaining Supporting Documentation

Condition: Lack of adequate supporting documentation

Current Status: Corrective action was taken.

US DEPARTMENT OF EDUCATION
PASSED THROUGH ARKANSAS DEPARTMENT OF EDUCATION
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA NUMBER 84.010

2016 – Finding 2016-006: Maintaining Supporting Documentation

Condition: Lack of adequate supporting documentation

Current Status: The District did not maintain adequate supporting documentation for all transactions. The District has since been taken over by the Arkansas Department of Education (ADE) and this issue is being resolved. See Finding 2017-004 at Schedule 3.

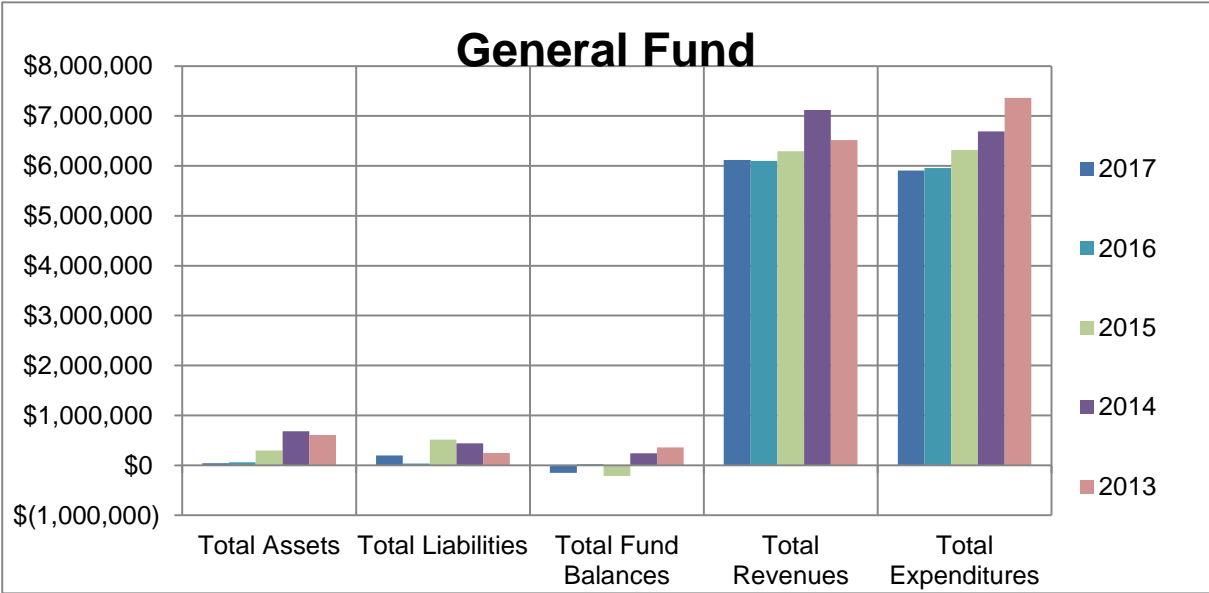
2016 – Finding 2106-007: Allowable Cost/Cost Principles

Condition: No Time Certifications Prepared

Current Status: The District did not maintain time certifications during the 2017 fiscal year. ADE is currently working to ensure time certifications are being prepared for all necessary employees. See Finding 2017-005 at Schedule 3.

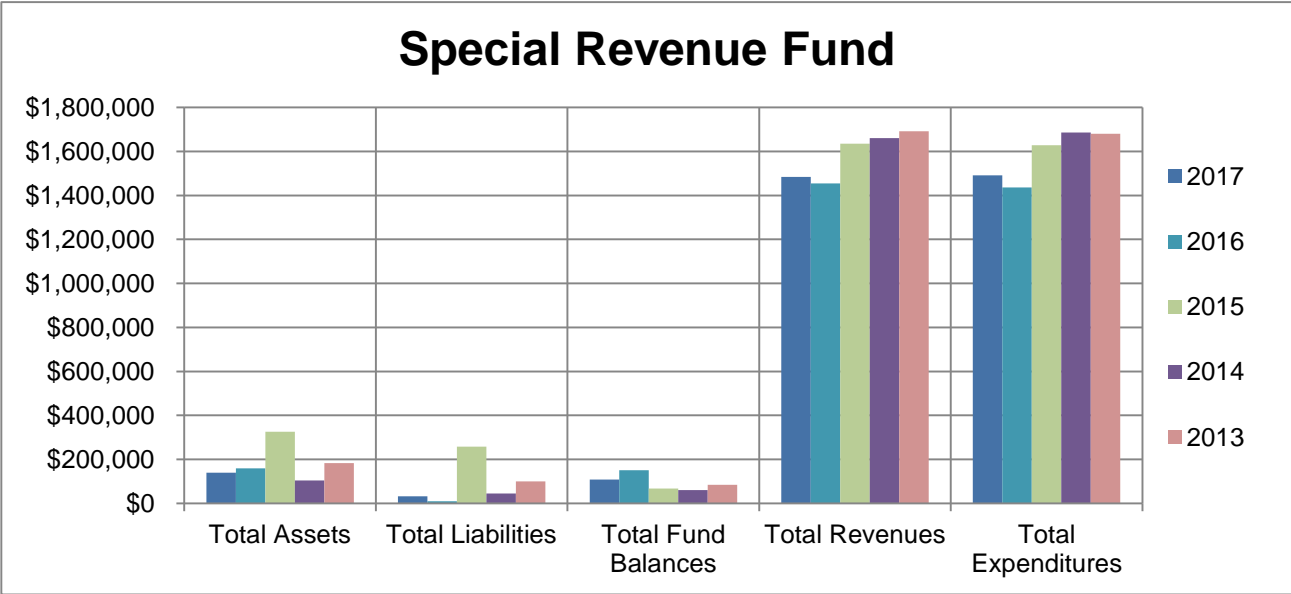
EARLE SCHOOL DISTRICT NO. 1
 CRITTENDEN COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2017
 (Unaudited)

<u>General Fund</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 41,319	\$ 61,937	\$ 299,833	\$ 682,877	\$ 606,552
Total Liabilities	194,784	37,901	514,182	439,043	244,607
Total Fund Balances	(153,465)	24,036	(214,349)	243,834	361,945
Total Revenues	6,121,805	6,098,138	6,290,878	7,123,683	6,517,797
Total Expenditures	5,910,262	5,959,111	6,319,572	6,692,448	7,365,655
Total Other Financing Sources (Uses)	(420,172)	99,358	(429,489)	(549,346)	(380,927)



EARLE SCHOOL DISTRICT NO. 1
 CRITTENDEN 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	\$ 140,075	\$ 159,620	\$ 325,367	\$ 104,626	\$ 183,842
Total Liabilities	32,093	9,275	258,085	44,551	99,375
Total Fund Balances	107,982	150,345	67,282	60,075	84,467
Total Revenues	1,484,493	1,454,902	1,634,800	1,661,120	1,691,388
Total Expenditures	1,491,078	1,436,059	1,627,593	1,685,512	1,680,111
Total Other Financing Sources (Uses)		64,220			



EARLE SCHOOL DISTRICT NO. 1
 CRITTENDEN COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2017
 (Unaudited)

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2017	2016	2015	2014	2013
Total Assets	\$ 25,282	\$ 25,282	\$ 25,282	\$ 1,980	\$ 1,980
Total Liabilities					
Total Fund Balances	25,282	25,282	25,282	1,980	1,980
Total Revenues			38,819		9,874
Total Expenditures	420,172	5,476,576	445,006	549,346	1,873,683
Total Other Financing Sources (Uses)	420,172	5,476,576	429,489	549,346	1,840,927

