

**ARKANSAS CORRECTIONAL SCHOOL**  
**Pine Bluff, Arkansas**

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**REGULATORY BASIS FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2017**

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# COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

Anne Suskie Pinyan

## Independent Auditors' Report

The Board of Education  
Arkansas Correctional School  
Pine Bluff, Arkansas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of Arkansas Correctional School as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Arkansas Correctional School'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.

### ***Auditors' 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 Government 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

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

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

***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” paragraph, 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 Arkansas Correctional School, as of June 30, 2017, or changes in financial position, thereof for the year then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of Arkansas Correctional School as of June 30, 2017, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, in accordance with the financial reporting provisions of the State of Arkansas as described in Note 1.

***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Arkansas Correctional School’s regulatory basis financial statements. The schedules of capital assets, billable units, and governmental awards are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The schedule of capital assets 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 capital assets is fairly stated in all material respects in relation to the regulatory basis financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017, on our consideration of Arkansas Correctional School'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 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 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 Arkansas Correctional School's internal control over financial reporting and compliance.

*Cobb and Suskie, Ltd*

Certified Public Accountants  
November 28, 2017

ARKANSAS CORRECTIONAL SCHOOL  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2017

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash	\$ 2,744,250	\$ -	\$ 2,744,250
Investments	<u>3,139,500</u>	<u>-</u>	<u>3,139,500</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 5,883,750</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,883,750</u></u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
 <b>Fund Balances:</b>			
Unreserved	5,883,700	-	5,883,700
Reserved	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>5,883,700</u>	<u>-</u>	<u>5,883,700</u>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <u><u>\$ 5,883,700</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 5,883,700</u></u>

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

ARKANSAS CORRECTIONAL SCHOOL  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>REVENUES:</b>			
State Sources	\$ 6,454,524	\$ -	\$ 6,454,524
Federal Sources	-	384,558	384,558
Other Sources	1,496	-	1,496
Interest	26,940	-	26,940
Total Revenues	<u>6,482,960</u>	<u>384,558</u>	<u>6,867,518</u>
<b>EXPENDITURES:</b>			
<u>Instruction</u>			
Regular Instruction	3,801,707	-	3,801,707
Special Instruction	92,035	36,624	128,659
Adult Ed Instruction	-	204,485	204,485
Compensatory Instruction	-	143,449	143,449
Total Instruction	<u>3,893,742</u>	<u>384,558</u>	<u>4,278,300</u>
<u>Support Services</u>			
Student Support Services	235,171	-	235,171
Instructional Support Services	296,899	-	296,899
General Administration Services	519,394	-	519,394
School Administration Services	1,082,799	-	1,082,799
Business Administration Services	337,770	-	337,770
Operatios and Maintenance	14,897	-	14,897
Total Support Services	<u>2,486,930</u>	<u>-</u>	<u>2,486,930</u>
Total Expenditures	<u>6,380,672</u>	<u>384,558</u>	<u>6,765,230</u>
Excess of Revenues Over (Under) Expenditures	102,288	-	102,288
Fund Balances, Beginning of Year	<u>5,781,412</u>	<u>-</u>	<u>5,781,412</u>
Fund Balances, End of Year	<u>\$ 5,883,700</u>	<u>\$ -</u>	<u>\$ 5,883,700</u>

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

ARKANSAS CORRECTIONAL SCHOOL  
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

	GENERAL FUND		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Federal Sources	\$ -	\$ -	\$ -
State Sources	6,454,524	6,454,524	-
Other Sources	-	1,496	1,496
Interest	-	26,940	26,940
Total Revenues	<u>6,454,524</u>	<u>6,482,960</u>	<u>28,436</u>
Expenditures:			
Instruction:			
Regular Instruction	3,963,843	3,801,707	162,136
Special Instruction	109,715	92,035	17,680
Adult Ed Instruction	-	-	-
Compensatory Instruction	-	-	-
Total Instruction	<u>4,073,558</u>	<u>3,893,742</u>	<u>179,816</u>
Support Services:			
Student Support Services	241,200	235,171	6,029
Instructional Staff Services	546,100	296,899	249,201
General Administration Services	532,836	519,394	13,442
School Administration Services	1,094,309	1,082,799	11,510
Business Administration Services	379,521	337,770	41,751
Operations and Maintenance	37,000	14,897	22,103
Total Support Services	<u>2,830,966</u>	<u>2,486,930</u>	<u>344,036</u>
Total Expenditures	<u>6,904,524</u>	<u>6,380,672</u>	<u>523,852</u>
Excess of Revenues Over (Under) Expenditures	<u>(450,000)</u>	<u>102,288</u>	<u>552,288</u>
Fund Balance - Beginning of Year	<u>5,801,489</u>	<u>5,781,412</u>	<u>(20,077)</u>
Fund Balance - End of Year	<u>\$ 5,351,489</u>	<u>\$ 5,883,700</u>	<u>\$ 532,211</u>

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



SPECIAL REVENUE FUND

<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
\$ 393,270	\$ 384,558	\$ (8,712)
-	-	-
-	-	-
-	-	-
<u>393,270</u>	<u>384,558</u>	<u>(8,712)</u>
-	-	-
37,746	36,624	1,122
204,485	204,485	-
<u>151,137</u>	<u>143,449</u>	<u>7,688</u>
<u>393,368</u>	<u>384,558</u>	<u>8,810</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>393,368</u>	<u>384,558</u>	<u>8,810</u>
<u>(98)</u>	<u>-</u>	<u>98</u>
-	-	-
-	-	-
<u>\$ 98</u>	<u>\$ -</u>	<u>\$ 98</u>

ARKANSAS CORRECTIONAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a group of seven (7) permanent members, is the level of government which has governing responsibilities over all activities related to public school education within the jurisdiction of the Arkansas Correctional School (the School).

Only the accounts of the Arkansas Correctional School are included in these statements, and there are no component units that are or should be included in the School's reporting entity.

B. Basis of Presentation

(1) Regulatory Basis of Presentation

The financial statements are prepared in accordance with a regulatory basis of accounting. This basis of accounting is prescribed by Arkansas Code Annotated 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, at 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 the financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The regulatory basis of accounting differs from the accounting principles generally accepted in the United States of America (GAAP). GAAP requires that basic financial statements, in addition to presenting entity-wide financial statements, incorporate the following: Management's Discussion and Analysis, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, capital assets, other non-financial assets and long-term liabilities, specific procedures for the identification of major governmental funds and applicable note disclosures. The prescribed regulatory basis does not require these statements and concepts, nor does it generally adhere to or address pronouncements of the Governmental Accounting Standards Board (GASB).

ARKANSAS CORRECTIONAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

(1) Regulatory Basis of Presentation (Continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. 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 financial sources and uses.

C. Fund Accounting

Fund accounting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they are to be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School's major governmental funds as prescribed under the regulatory basis:

(1) General Fund

The General Fund is the operating fund of the School and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School for any purpose provided it is expended or transferred according to the general laws of Arkansas.

(2) Special Revenue Fund

The Special Revenue Fund is used to account for specific revenue sources which are designated by law or contractual agreement for specified functions or activities and are legally required to be accounted for in separate funds.

ARKANSAS CORRECTIONAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Regulatory Basis of Accounting / Measurement Focus

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. The regulatory basis financial statements are prepared using a current financial resources measurement focus and the modified accrual basis of accounting, with some exception. With the exception of property taxes, revenues are recognized when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities.

The School considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. State and federal grants and interest associated with the current fiscal period are all considered to be susceptible to accrual.

(1) Revenue-Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

ARKANSAS CORRECTIONAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Regulatory Basis of Accounting / Measurement Focus (Continued)

(1) Revenue-Exchange and Non-exchange Transactions (Continued)

On a modified accrual basis, revenue from the non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, grants, and student fees.

(2) Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, there is no deferred revenue.

(3) Expenses/Expenditures

Expenditures are recorded when the liability is incurred, except for claims, compensated absences, and interest on long-term debt, which are not recorded until paid. Proceeds from issuance of long-term debt are recognized when received and payment of long-term debt principal is reported as an expenditure when paid.

E. Investments

The School's investments consist solely of certificates of deposit reported at historical cost, which approximates fair value.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Capital Assets

Capital asset purchases are recorded as expenditures at the time of purchase and depreciation is not recognized. Information on capital assets and related depreciation is reported in the schedule of capital assets. For this schedule, capital assets are capitalized at historical cost or estimated historical cost.

ARKANSAS CORRECTIONAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- H. Accrued Liabilities and Long-term Obligations  
In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds. However, compensated absences, interest, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.
- I. Fund Balance Reserves  
The School reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Reserved fund balances represent that portion of the fund balance which is not appropriable for expenditure, or is legally segregated for a specific future use.
- J. Fund Designations  
Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the School's intentions and is subject to change. Designations are reported as part of unreserved fund balance. Designations represent amounts set-aside for budget stabilization which exceeds the statutory required amount.
- K. Interfund Activity  
Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.
- L. Estimates  
The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

ARKANSAS CORRECTIONAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Budget and Budgetary Accounting

The School is required by Arkansas State Law to prepare an annual budget approved by the School Board and submitted to the Arkansas Department of Education by September 15 of the current fiscal year. The annual budget is prepared on the regulatory basis of accounting. The School does not prepare and submit amended budgets during the fiscal year to the Department of Education.

NOTE 2: CASH AND INVESTMENTS

Arkansas statutes allow each local School the right to determine the depositories in which to deposit school funds and the amounts and type of investments in which to invest School's funds, provided however, that investments are limited specifically to bonds or notes of the United States of America, general obligation bonds of the State of Arkansas or bank certificates of deposit. At June 30, 2017, the School's cash consisted of demand deposits and certificates of deposit at two local depository banks. The School's investments consisted solely of certificates of deposit.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The School's deposit policy for custodial credit risk requires compliance with the provisions of state law. Arkansas law requires collateralization of all deposits with federal depository insurance (FDIC); a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bonds or other obligations; the bonds of the State of Arkansas, or by bonds of a political subdivision thereof which has never defaulted on any of its obligations, in an amount at least equal to the amount of such deposit or by a bond executed by a surety company authorized to do business in the State of Arkansas.

The carrying amount of total deposits, amount of the total bank balances and the custodial credit risk at June 30, 2017, are summarized as follows:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured (FDIC) and Collateralized	\$ 5,883,700	\$ 5,961,740
Uninsured, Uncollateralized	-	-
TOTAL	<u>\$ 5,883,700</u>	<u>\$ 5,961,740</u>

ARKANSAS CORRECTIONAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 3: RETIREMENT PLANS

Arkansas Teacher Retirement System

(1) Plan Description

The School contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989.

ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution 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. The report can be obtained by writing to ATRS, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

(2) Funding Policy

ATRS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salaries. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14% of covered salaries. The employer contribution was paid by the Arkansas Department of Education from the public school fund, except for those employees paid from federal funding. Employer contributions for those employees were paid by the School. Beginning July 1, 1993, the employer contribution for nonfederally funded members became the lesser of the result of multiplying the applicable percent of active member payroll for the fiscal year by the total covered reported salaries of the previous fiscal year, including any prior year reported salaries, or the amount appropriated by the Arkansas General Assembly. The amount appropriated is limited to the amount funded. The Department of Education determines the amount funded.

The School's contribution to ATRS during the year ended June 30, 2017 was approximately \$253,706, equal to 14% of the established rate. Contributions made during the years ended June 30, 2016 and 2015 were approximately \$723,652 and \$681,401 respectively.



ARKANSAS CORRECTIONAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 3: RETIREMENT PLANS (CONTINUED)

Arkansas Teacher Retirement System (Continued)

(3) Net Pension Liability

The Arkansas Department of Education has stipulated that under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board (GASB) Statement No. 68 are limited to disclosure of the School's proportionate share of the collective net pension liability. The School's proportionate share of the collective net pension liability at June 30, 2016 (actuarial valuation date and measurement date) was \$7,782,776.

NOTE 4: RISK MANAGEMENT

The School is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The School has joined with other school districts to form the Arkansas School Board Association Self-Insurance Program, a public entity risk pool currently operating as a common risk management and insurance program for its members. The School pays an annual premium to the Pool for its liability coverage and property insurance. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.

NOTE 5: 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 School's employees, totaled \$154,891 for the year ended June 30, 2017.

NOTE 6: SUBSEQUENT EVENTS

Arkansas Correctional School did not have any recognized or nonrecognized subsequent events occur after June 30, 2017, the date of the balance sheet. Subsequent events have been evaluated through November 28, 2017, the date the financial statements were available to be issued.

ARKANSAS CORRECTIONAL SCHOOL  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2017

	Balance <u>June 30, 2017</u>
Depreciable Capital Assets:	
Buildings	\$ 1,477,165
Equipment	<u>943,864</u>
Total Depreciable Capital Assets	<u>2,421,029</u>
 Less Accumulated Depreciation	 <u>951,724</u>
 Total Depreciable Capital Assets, Net	 <u>1,469,305</u>
 Capital Assets, Net	 <u><u>\$ 1,469,305</u></u>

See independent auditors' report on supplementary schedules.

ARKANSAS CORRECTIONAL SCHOOL  
 NOTES TO SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1: CAPITAL ASSETS

Capital assets generally result from expenditures in the governmental funds. These assets are not reported in the fund financial statement balance sheet – regulatory basis.

Capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the assets or materially extend an asset’s life are not capitalized. Interest incurred during construction is not capitalized.

The School does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Capital assets not being depreciated include land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Since surplus assets are sold for immaterial amounts when declared as no longer needed for public school purposes, no salvage value is taken into consideration for depreciation purposes. Depreciation is computed using the straight-line method over the estimated useful life of the assets. The School has established capitalization thresholds and estimated useful lives as follows:

<u>Description</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Lives in Years</u>
Land	All	-
Construction in Progress	All	-
Buildings	All	50
Vehicles	\$1,000	8
Equipment	\$1,000	5-25

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Michael L. Cobb

Anne Suskie Pinyan

## Independent Auditors' 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*

The Board of Education  
Arkansas Correctional School  
Pine Bluff, Arkansas

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 Arkansas Correctional School, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Arkansas Correctional School's regulatory basis financial statements, and have issued our report thereon dated November 28, 2017. We issued an adverse opinion because the School prepared the financial statements on the basis of the financial reporting provisions of Arkansas 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 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the School as of June 30, 2017 and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Arkansas Correctional School'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 Arkansas Correctional School's internal control. Accordingly, we do not express an opinion on the effectiveness of Arkansas Correctional School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Arkansas Correctional School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, 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*.

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

*Cable and Sullivan, Ltd*

Certified Public Accountants  
November 28, 2017

# COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report on Compliance With Arkansas State Requirements

The Board of Education  
Arkansas Correctional School  
Pine Bluff, Arkansas

We have examined management's assertions that Arkansas Correctional School substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2017. Management is responsible for the School's compliance with those requirements. Our responsibility is to express an opinion on the School's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the School's compliance with specified requirements.

In our opinion, Arkansas Correctional School complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2017.

This report is intended solely for the information and use of the School Board, and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants  
November 28, 2017

**ARKANSAS CORRECTIONAL SCHOOL  
 SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION  
 TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
 FOR THE YEAR ENDED JUNE 30, 2017**

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding and Purchasing Commodities	6-21-301 – 6-21-305
Ethical Guidelines and Prohibitions	6-13-628, 6-24-101 et seq.
Collateralization & Investment of Funds	6-20-222; 19-1-504
Deposit of Funds	19-8-104; 19-8-106
District Finances	6-20-402
• Bonded & Non-bonded Debt, District School Bonds	6-20-1201 – 6-20-1208, 6-20-1210
• Petty Cash	6-20-409
• Changes in Pullback (no deferrals – declining accrual percentages)	6-20-401
• Investment of Funds	19-1-504
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-617 – 6-13-620; 6-24-101 et seq.
• District Treasurer	6-13-701
○ Warrants/checks	6-17-918; 6-17-919; 6-20-403
Management Letter for Audit	14-75-101 - 14-75-104
Nonrecurring Salary Payments	6-20-412
Revolving Loan Fund	6-19-114; 6-20-801 et seq.
Salary Laws – Classified	6-17-2201 et seq.; 6-17-2301 et seq.
Salary Increases 5% or more (Certified & Classified)	6-13-635
School Elections	6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118
Teacher and Employees	
• Personnel Policies	6-17-201 et seq.; 6-17-2301
• Employment and Assignment	6-17-301 et seq.
• Teacher's License Requirement	6-17-401 et seq.
• Contracts	6-17-801 et seq.
• Certification Requirements	6-17-309; 6-17-401
• Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
• Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
Teacher Salaries and Foundation Funding Aid	6-17-803; 6-17-907; 6-17-908; 6-17-911 – 6-17-913; 6-17-918; 6-17-919
Trust Funds (Education Excellence)	6-5-307
Use of Contractors, Improvement Contracts	22-9-201 – 22-9-205
Use of DM&O Millage	26-80-110
On Behalf Payments	The amount of funds paid by the Arkansas Department of Education to the Employee Benefits Division, on behalf of the District's employees.