

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

**REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2019

with

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

CONTENTS

	<u>PAGE</u>
Report of independent certified public accountants	1 - 3
Basic financial statements:	
Balance sheet - regulatory basis	4
Statement of revenues, expenditures and changes in fund balances - governmental funds - regulatory basis	5
Statement of revenues, expenditures and changes in fund balances - budget to actual - general and special revenue funds - regulatory basis	6
Notes to financial statements	7 - 14
Other reports and supplementary information:	
Schedule of capital assets	15
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	16 - 17
Independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance	18 - 20
Schedule of expenditures of federal awards	21 - 22
Schedule of state assistance	23
Schedule of findings and questioned costs	24 - 25
Independent auditor's report on compliance with Arkansas state requirements	26
Schedule of findings on compliance with statues required by Arkansas Department of Education	27
Schedule of statutes required by Arkansas Department of Education to be addressed in independent auditor's report on compliance	28 - 29
Supplemental data sheet as required by Arkansas Department of Human Services Audit Guidelines Section 1X-C	30



Hudson Cisne & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
KIPP Delta, Inc. d/b/a KIPP Delta Public Schools
Helena-West Helena, 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 KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic 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 financial reporting prescribed or permitted by the Arkansas Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is more fully described in Note 1. 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 *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.

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To the Board of Directors
Page Two

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 more fully in Note 1, the School has prepared the financial statements using financial reporting prescribed or permitted by the 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 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 in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the School as of June 30, 2019, and the respective changes in financial position for the year then ended. Further, the School has not presented a management’s discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph 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, 2019, and the respective regulatory changes in financial position and regulatory budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School’s regulatory basis financial statements. The schedule of capital assets, schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and schedule of state assistance and the supplemental data sheet as required by Arkansas Department of Human Services Audit Guidelines Section IX-C are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

To the Board of Directors
Page Three

The Schedule of Capital Assets, Schedule of Expenditures of Federal Awards, and Schedule of State Assistance are the responsibility of management and were derived from and relate 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, Schedule of Expenditures of Federal Awards, and Schedule of State Assistance are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole.

The supplemental data sheet as required by Arkansas Department of Human Services Audit Guidelines Section IX-C has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2020, on our consideration of the School's internal control over financial reporting and 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 the School's internal control over financial reporting and compliance.

Hudson Cisneros & Co. LLP

Little Rock, Arkansas
February 25, 2020

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

BALANCE SHEET - REGULATORY BASIS

JUNE 30, 2019

	General	Special Revenue	Capital Projects
ASSETS			
Cash and cash equivalents	\$ 2,896,042	\$ 4,359	\$ 300,194
Accounts receivable	2,769	514,175	44,136
Due from other funds	402,583	-	-
	<u>\$ 3,301,394</u>	<u>\$ 518,534</u>	<u>\$ 344,330</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 223,471	\$ 59,950	\$ 1,587
Accrued payroll liabilities	4,697	-	-
Due to other funds	-	402,583	-
	<u>228,168</u>	<u>462,533</u>	<u>1,587</u>
Fund Balances:			
Restricted:			
State programs	1,056,494	-	-
Federal programs	-	56,001	-
Capital projects	-	-	342,743
Other	630,978	-	-
Committed	18,152	-	-
Assigned	168,387	-	-
Unassigned	1,199,215	-	-
	<u>3,073,226</u>	<u>56,001</u>	<u>342,743</u>
Total fund balances	<u>\$ 3,301,394</u>	<u>\$ 518,534</u>	<u>\$ 344,330</u>

See accompanying notes.

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - REGULATORY BASIS**

YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
REVENUES			
State assistance	\$ 10,655,249	\$ 6,885	\$ 574,371
Federal assistance	-	3,614,766	-
Contributions	2,289,897	-	-
Activity revenues	62,866	-	-
Tuition	4,250	-	-
Earnings on investments	8,071	-	-
Other revenues	<u>434,769</u>	<u>10,467</u>	<u>-</u>
	13,455,102	3,632,118	574,371
EXPENDITURES			
Current:			
Regular programs	4,132,135	358,231	-
Special education	363,486	255,533	-
Compensatory education	623,367	992,914	-
Student support services	1,297,436	44,507	-
Instructional staff support services	899,564	434,435	-
General administration support services	596,297	19,004	-
School administration support services	1,507,385	1,948	-
Business support services	598,241	1,695	-
Operation and maintenance of plant services	950,100	19,697	595,693
Student transportations services	946,390	-	-
Other support services	350,049	-	-
Food services operations	-	1,436,894	-
Community services operations	-	907	-
Other	-	100,810	-
Capital outlay	<u>401,504</u>	<u>17,252</u>	<u>179,540</u>
Debt service:			
Principal retirement of debt and capital leases	434,036	-	-
Interest and fiscal charges	530,849	-	-
	<u>13,630,839</u>	<u>3,683,827</u>	<u>775,233</u>
Deficiency of revenue over expenditures	(175,737)	(51,709)	(200,862)
OTHER FINANCING SOURCES			
Proceeds from issuance of debt	261,176	-	468,272
Transfers, net	304,592	-	(304,592)
Total other financing sources	<u>565,768</u>	<u>-</u>	<u>163,680</u>
Net change in fund balances	390,031	(51,709)	(37,182)
Fund balance - beginning	<u>2,683,195</u>	<u>107,710</u>	<u>379,925</u>
Fund balance - ending	<u>\$ 3,073,226</u>	<u>\$ 56,001</u>	<u>\$ 342,743</u>

See accompanying notes.

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET TO ACTUAL - GENERAL AND SPECIAL
REVENUE FUNDS - REGULATORY BASIS**

YEAR ENDED JUNE 30, 2019

	General		
	Budget	Actual	Variance
REVENUES			
State assistance	\$ 11,981,037	\$ 10,655,249	\$ (1,325,788)
Federal assistance	-	-	-
Contributions	2,176,129	2,289,897	113,768
Activity revenues	70,545	62,866	(7,679)
Tuition	12,380	4,250	(8,130)
Earnings on investments	7,900	8,071	171
Other revenues	1,223,126	434,769	(788,357)
	<u>15,471,117</u>	<u>13,455,102</u>	<u>(2,016,015)</u>
EXPENDITURES			
Current:			
Regular programs	4,539,265	4,132,135	407,130
Special education	432,307	363,486	68,821
Compensatory education	660,821	623,367	37,454
Other instructional services	3,920	-	3,920
Student support services	1,233,605	1,297,436	(63,831)
Instructional staff support services	1,174,174	899,564	274,610
General administration support services	773,580	596,297	177,283
School administration support services	1,701,496	1,507,385	194,111
Business support services	576,191	598,241	(22,050)
Operation and maintenance of plant services	1,194,132	950,100	244,032
Student transportations services	1,007,398	946,390	61,008
Other support services	424,349	350,049	74,300
Food services operations	-	-	-
Community services operations	-	-	-
Other	-	-	-
Capital outlay	-	401,504	(401,504)
Debt service:			
Principal retirement of debt and capital leases	317,191	434,036	(116,845)
Interest and fiscal charges	220,972	530,849	(309,877)
	<u>14,259,401</u>	<u>13,630,839</u>	<u>628,562</u>
Excess (deficiency) of revenues over expenditures	1,211,716	(175,737)	(1,387,453)
OTHER FINANCING SOURCES			
Proceeds from issuance of debt	-	261,176	261,176
Transfers, net	355,456	304,592	(50,864)
Total other financing sources	<u>355,456</u>	<u>565,768</u>	<u>210,312</u>
Net change in fund balances	<u>\$ 1,567,172</u>	<u>\$ 390,031</u>	<u>\$ (1,177,141)</u>

See accompanying notes.

Special Revenue		
Budget	Actual	Variance
\$ -	\$ 6,885	\$ 6,885
4,471,966	3,614,766	(857,200)
-	-	-
-	-	-
-	-	-
-	-	-
13,995	10,467	(3,528)
<u>4,485,961</u>	<u>3,632,118</u>	<u>(853,843)</u>
430,905	358,231	72,674
307,477	255,533	51,944
1,257,072	992,914	264,158
-	-	-
89,152	44,507	44,645
619,162	434,435	184,727
6,120	19,004	(12,884)
8,243	1,948	6,295
1,500	1,695	(195)
3,642	19,697	(16,055)
-	-	-
-	-	-
1,420,878	1,436,894	(16,016)
1,979	907	1,072
124,311	100,810	23,501
37,438	17,252	20,186
-	-	-
-	-	-
<u>4,307,879</u>	<u>3,683,827</u>	<u>624,052</u>
178,082	(51,709)	(229,791)
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 178,082</u>	<u>\$ (51,709)</u>	<u>\$ (229,791)</u>

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1: Summary of significant accounting policies

Reporting entity

The Board of Directors is the level of government which has responsibilities over all activities of KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School"). The School's financial statements reflect all funds and accounts directly under the control of the School.

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 the general operating fund and is used to account for all financial resources, except those required to be 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 transfers from the general fund to supplement such programs.

Other governmental funds 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.

Measurement focus and basis of accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA), which is an Other Comprehensive Basis of Accounting (OCBOA). 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.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP requires that basic financial statements present government-wide financial statements. Additionally, GAAP requires 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, 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.

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1: Summary of significant accounting policies (continued)

Measurement focus and basis of accounting (continued)

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

Revenue recognition policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA.

Capital assets

Information on capital assets and related depreciation is reported on the schedule of capital assets in the supplemental information. 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 fair value when received. The School maintains a threshold level of \$1,000 and a useful life in excess of two years for capitalizing equipment.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	5-40
Buildings	40
Furniture and equipment	3-15

Interfund receivables and payables

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

Fund balance classifications

Under GASB 54, fund balance is reported under the following five classifications:

1. **Nonspendable Fund Balance** - includes amounts that are not in a spendable form or are required to be maintained intact. The School does not have any nonspendable fund balance at year end.
2. **Restricted Fund Balance** - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The fund balance that is restricted for state programs and federal programs reflect amounts restricted for specific state and federal programs as mandated by respective state and federal grant or funding agreements. The fund balance that is restricted for capital projects reflects amounts that are restricted for construction or other capital outlay projects. The fund balance that is restricted for other purposes includes donated funds in which the funds have been restricted by the donor for specific uses.

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1: Summary of significant accounting policies (continued)

Fund balance classifications (continued)

3. **Committed Fund Balance** - includes amounts that can be used only for the specific purposes determined by a formal action of the School's highest level of decision-making authority (the Board of Directors) and does not lapse at year end. Amounts committed for the School's college scholarship program make up the committed fund balance at year end.
4. **Assigned Fund Balance** - includes amounts intended for a specific purpose by the Board of Directors or by a School official that has been delegated authority to assign amounts. The assigned fund balance at year end represents funds that are intended for debt service payments.
5. **Unassigned Fund Balance** - includes any remaining fund balance that has not been reported in any other classification. 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.

The School does not have a policy addressing whether it considers restricted 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 balance when committed, assigned, or unassigned fund balances are available. For the purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

Budget and budgetary accounting

The School is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The School prepares and amends the budget throughout the fiscal year which is reviewed and approved by the Board. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the schools employ the cash basis method.

The School 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 to 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 School 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.

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1: Summary of significant accounting policies (continued)

Pledges receivable

An allowance for uncollectible pledges receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of fund-raising activity. Pledges not expected to be collected within one year are discounted. There were no pledges receivable, and thus no allowance for uncollectible pledges for the year ended June 30, 2019. Conditional promises to give are not included as support until the conditions are substantially met.

Income taxes

The School is exempt from income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and comparable provisions of state income tax laws. The previous three years of federal tax returns, along with the current year return, are subject to potential examination by taxing authorities.

Stabilization arrangements

The School's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

Minimum fund balance policies

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

Encumbrances

The District does not utilize encumbrance accounting.

Subsequent events

The District has evaluated all subsequent events for potential recognition and disclosure through February 25, 2020, the date these financial statements were available to be issued.

Note 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:

	<u>Carrying value</u>	<u>Bank balance</u>
Insured (FDIC)	\$ 271,604	\$ 271,604
Collateralized by letter of credit issued by the Federal Home Loan Bank	<u>2,928,991</u>	<u>3,458,221</u>
Total deposits	<u>\$ 3,200,595</u>	<u>\$ 3,729,825</u>

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 3: Accounts receivable

The accounts receivable balance of \$561,080 is comprised of the following at June 30, 2019:

	<u>General fund</u>	<u>Special revenue fund</u>	<u>Capital projects fund</u>	<u>Total</u>
Due from other governments	\$ -	\$ 514,175	\$ 44,136	\$ 558,311
Other	<u>2,769</u>	<u>-</u>	<u>-</u>	<u>2,769</u>
Total	<u>\$ 2,769</u>	<u>\$ 514,175</u>	<u>\$ 44,136</u>	<u>\$ 561,080</u>

Note 4: Pledges receivable

There are no pledges receivable at June 30, 2019.

As of June 30, 2019, the School had received conditional promises to give of \$1,075,690. These conditional promises to give will not be reflected as an asset or recognized as revenue until the conditions are substantially met.

Note 5: Accounts payable

The accounts payable balance of \$285,008 is comprised of vendor payables at June 30, 2019.

Note 6: Commitments

The School was contractually obligated for the following at June 30, 2019:

Notes payable and lines of credit issued and outstanding

Notes payable include a construction loan with Arvest Bank up to \$3,000,000 secured by certain real estate and guaranteed by USDA. The proceeds of the loan are to be used for the construction of facilities. The loan matures in December 2032 and has a fixed interest rate of 5.39%. The outstanding balance of this loan was \$2,366,244 at June 30, 2019.

Notes payable include a \$1,000,000 unsecured loan with the non-profit organization, Charter School Growth Fund. The loan matures in June 2023 and has a fixed interest rate of 1.00%. The proceeds of the loan are to be used for the general support of the organization. In July 2014, an agreement was reached to forgive \$250,000 of this loan effective June 1, 2014, and \$250,000 effective August 31, 2014. The outstanding balance of this loan was \$400,000 as of June 30, 2019.

Notes payable include a loan for a total of \$9,990,000, which is guaranteed by the USDA Rural Development. The loan was issued in March 2018 and is financed by USDA. As of June 30, 2019, only \$9,758,272 has been drawn down on the loan. This loan consists of refinanced loans for construction-related expenses. The loan matures March 2048 and has a fixed interest rate of 2.75%. The outstanding balance of this loan was \$9,700,417 as of June 30, 2019.

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 6: Commitments (continued)

Notes payable include a \$210,592 loan with Arvest Bank secured by certain equipment. The loan has a fixed interest rate of 5.05% and matures in September 2022. The outstanding balance of this loan was \$173,375 as of June 30, 2019.

The School has a non-revolving draw down line of credit with available borrowings of up to \$1,200,000 and an interest rate of 5.25% and is payable upon demand. The line of credit is secured by real estate and grants to the School with interest due and payable quarterly and the outstanding principal balance and unpaid interest due at the maturity date, February 2021. The line of credit has an outstanding balance of \$1,200,000 at June 30, 2019. Subsequent to yearend, on December 26, 2019, the School refinanced this line of credit with into a 84 month note payable with a fixed interest rate of 5.25%.

Changes in notes payable and line of credit:

<u>Description</u>	<u>Balance at July 1, 2018</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2019</u>
Arvest Bank	\$ 2,478,961	\$ -	\$ 112,717	\$ 2,366,244
Charter School Growth Fund	500,000	-	100,000	400,000
USDA loan	9,290,000	468,272	57,855	9,700,417
Arvest Bank	-	210,592	37,217	173,375
Non-revolving line of credit	1,200,000	-	-	1,200,000
	<u>\$ 13,468,961</u>	<u>\$ 678,864</u>	<u>\$ 307,789</u>	<u>\$ 13,840,036</u>

Total long-term debt and interest payments are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 509,638	\$ 395,153	\$ 904,791
2021	1,725,588	379,203	2,104,791
2022	542,229	362,562	904,791
2023	514,066	425,198	939,264
2024	415,741	330,795	746,536
2025-2029	2,328,202	1,404,480	3,732,682
2030-2034	2,449,419	917,645	3,367,064
2035-2039	1,894,362	611,178	2,505,540
2040-2044	2,173,252	332,288	2,505,540
2045-2049	1,287,539	48,749	1,336,288
Total	<u>\$ 13,840,036</u>	<u>\$ 5,207,251</u>	<u>\$ 19,047,287</u>

Note 7: Capital leases

The School has two capital leases for copiers. One copier lease was entered into during the current year for \$50,584. One of the copier leases will expire in June 2022, with a monthly payment of \$2,259 and has an imputed interest rate of 4.00%. The other lease will expire July 2022, with a monthly payment of \$1,116 and has imputed interest rate of 4.00%.

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 7: Capital leases (continued)

The School had 3 other capital leases for school buses and modular buildings. These capital leases expired in fiscal year ended June 30, 2019 and had annual principal payments ranging from \$34,000 - \$64,600, with imputed interest rate ranging from 3.76% - 4.23%.

The property, net of accumulated depreciation, held under the capital leases was \$145,008 for equipment as of June 30, 2019.

Minimum future lease payments under the capital leases at June 30, 2019 are as follows:

2020	\$ 40,500
2021	40,500
2022	40,500
2023	<u>1,363</u>
Total minimum lease payments	122,863
Interest	<u>(7,344)</u>
	<u>\$ 115,519</u>

Note 8: Operating leases

The School leases office facilities and equipment under various operating leases. Rent expense for these leases totaled \$35,911 for 2019. Future minimum lease payments at June 30, 2019 are as follows:

2020	\$ 17,130
2021	17,130
2022	17,130
2023	<u>1,428</u>
Total	<u>\$ 52,818</u>

Note 9: Retirement plans

Arkansas Teacher Retirement System

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 for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877, or by visiting the ATRS website at www.atrs.gov.

Funding policy: ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%. The School's contributions to ATRS for the years ended June 30, 2019, 2018, and 2017 were \$1,244,357, \$1,281,930 and \$1,319,819, respectively, equal to the required contributions each year.

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 9: Retirement plans (continued)

Net pension liability

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement No. 68 would be limited to disclosure of the School's proportionate share of the collective net pension liability. The School's proportionate share of the collective net pension liability at June 30, 2018 (actuarial valuation date and measurement date) was \$11,093,154.

Note 10: Fund-raising expenses

The School uses fund-raising to encourage donations within the community. The costs of fund-raising activities are expensed as incurred. During 2019, fund-raising costs totaled \$138,778.

Note 11: Interfund transfers

The following details the transfers between governmental funds for operating purposes:

	<u>General fund</u>	<u>Special revenue fund</u>	<u>Capital projects fund</u>	<u>Total</u>
Transfers in	\$ (12,405,355)	\$ 117,184	\$ (358,650)	\$ (12,881,189)
Transfers out	<u>12,709,947</u>	<u>(117,184)</u>	<u>54,058</u>	<u>12,881,189</u>
	<u>\$ 304,592</u>	<u>\$ -</u>	<u>\$ (304,592)</u>	<u>\$ -</u>

Note 12: Significant concentration

The School is economically dependent on funding received through state awards, federal awards, and private donations. Approximately 64%, 20%, and 13% of total revenues were from state sources, federal sources and private donations, respectively, during the year ended June 30, 2019.

Note 13: Contingencies

The School participates in federally assisted grant programs. The School is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of non-compliance which would result in the disallowance of program expenditures.

The School participates in the Arkansas Fidelity Bond Trust Fund administered by the Arkansas 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.

Note 14: On-behalf payments

During the year ended June 30, 2019, health insurance premiums of \$233,337 were paid by the Arkansas Department of Education to the Arkansas Employee Benefits Division on behalf of School employees.

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

SCHEDULE OF CAPITAL ASSETS

YEAR ENDED JUNE 30, 2019

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>
Depreciable capital assets:				
Building and improvements	\$ 22,543,133	\$ 150,218	\$ -	\$ 22,693,351
Furniture and equipment	<u>3,709,397</u>	<u>446,882</u>	<u>-</u>	<u>4,156,279</u>
Total depreciable capital assets	26,252,530	597,100	-	26,849,630
Nondepreciable capital assets:				
Land	<u>945,105</u>	<u>-</u>	<u>-</u>	<u>945,105</u>
Total nondepreciable capital assets	<u>945,105</u>	<u>-</u>	<u>-</u>	<u>945,105</u>
Total capital assets	27,197,635	597,100	-	27,794,735
Less accumulated depreciation for:				
Building and improvements	3,992,849	764,306	-	4,757,155
Furniture and equipment	<u>3,025,716</u>	<u>228,400</u>	<u>-</u>	<u>3,254,116</u>
Total accumulated depreciation	<u>7,018,565</u>	<u>992,706</u>	<u>-</u>	<u>8,011,271</u>
Capital assets, net	<u>\$ 20,179,070</u>	<u>\$ (395,606)</u>	<u>\$ -</u>	<u>\$ 19,783,464</u>



Hudson Cisne & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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*

To the Board of Directors
KIPP Delta, Inc. d/b/a KIPP Delta Public Schools
Helena-West Helena, Arkansas

We have audited, 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, the financial statements of each major governmental fund and the aggregate remaining fund information of KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's regulatory basis financial statements, and have issued our report thereon dated February 25, 2020.

We issued an adverse opinion because the District prepared the financial statements in conformity with accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2019, and the respective changes in financial position thereof, and the budgetary results 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 the 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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.

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To the Board of Directors
Page Two

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. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as items 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

KIPP Delta, Inc. d/b/a KIPP Delta Public School's Response to Finding

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hudson Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
February 25, 2020



Hudson Cisne & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
KIPP Delta, Inc. d/b/a KIPP Delta Public Schools
Helena-West Helena, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2019. The School'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 School'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 School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, material weaknesses may exist that have not been identified.

Opinion on Each Major Federal Program

In our opinion, KIPP Delta, Inc. d/b/a KIPP Delta Public Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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To the Board of Directors
Page Two

Other Matters

The results of our auditing procedures disclosed 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 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

The School's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School'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 School 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 School'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 School's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-002 that we consider to be significant deficiencies.

The School'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.

To the Board of Directors
Page Three

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.

Hudson Cisne & Co. LLP

Hudson, Cisne & Co. LLP
Little Rock, Arkansas
February 25, 2020

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

<u>Federal grant/pass-through grantor/program title</u>	<u>Pass through entity identifying number</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
CHILD NUTRITION CLUSTER			
<u>U.S. Department of Agriculture</u>			
Passed through Arkansas Department of Education:			
School Breakfast Program - Cash Assistance	54407	10.553	\$ 435,689
National School Lunch Program - Cash Assistance	54407	10.555	<u>716,695</u>
Total Arkansas Department of Education			<u>1,152,384</u>
Passed through Arkansas Department of Human Services:			
National School Lunch Program - Non-Cash Assistance	54407	10.555	<u>78,221</u>
Total Child Nutrition Cluster			<u>1,230,605</u>
OTHER PROGRAMS:			
<u>U.S. Department of Education</u>			
Passed through Arkansas Department of Education:			
Title I, Part A - Grants to Local Education Agencies	54407	84.010	1,528,090
Title II, Part A - Improving Teacher Quality State Grants	54407	84.367	173,894
Title VI, Part B - Special Education Grants to States	54407	84.027	278,962
Title VI, Part B - Rural and Low Income School Program	54407	84.358B	21,269
IDEA Early Childhood	54407	84.173	8,590
Passed through Arkansas Department of Human Services:			
Preschool Development Grants- High Quality Preschool Programs	54407	84.419	<u>147,630</u>
Total U.S. Department of Education (other programs)			<u>2,158,435</u>
<u>U.S. Department of Agriculture</u>			
Passed through Arkansas Department of Education:			
Child and Adult Care Food Program	54407	10.558	191,608
Fresh Fruit and Vegetable Program	54407	10.582	<u>45,727</u>
Total U.S. Department of Agriculture (other programs)			<u>237,335</u>
Total Other Programs			<u>2,395,770</u>
Total Expenditures of Federal Awards			<u>\$ 3,626,375</u>

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2019

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. This schedule includes the federal awards activity of the School and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The School did not elect to use the 10% de minimis indirect cost rate but instead used an indirect cost rate approved by the Arkansas Department of Education.
2. Medicaid reimbursements are defined as contracts for services and not federal awards; therefore, such reimbursements totaling \$24,555 are not covered by the reporting requirements of the Uniform Guidance.
3. Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.

KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS
SCHEDULE OF STATE ASSISTANCE
YEAR ENDED JUNE 30, 2019

Arkansas Department of Education

Charter School Funding	\$ 8,224,336
Charter School Facilities Funding	574,371
Declining Enrollment Funding	261,577
GT Advanced Placement	750
Early Childhood Special Education	4,747
Children with Disabilities - Special Education Supervisor	5,378
Professional Development Funding	37,976
National School Lunch Student Funding	1,738,910
National School Lunch Matching Grant Program	138,833
English Language Learners (ELL)	2,366
Arkansas Better Chance Program	<u>237,882</u>
	11,227,126

Arkansas Department of Career Education

Secondary Workforce Centers	7,042
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Arkansas Game and Fish Commission

Field Lesson Funding	<u>2,337</u>
Total State Assistance	<u>\$ 11,236,505</u>

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

A. SUMMARY OF AUDITOR’S RESULTS

1. Our report expresses an adverse opinion based on generally accepted accounting principles and an unmodified opinion based on regulatory basis of accounting on the basic financial statements of KIPP Delta, Inc. d/b/a KIPP Delta Public Schools.

2. The independent auditor’s report on internal control over financial reporting described:

Significant deficiency(ies) identified? Yes No

Material weakness(es) identified? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent auditor’s report on internal control over compliance with requirements applicable to major federal awards programs described:

Significant deficiency(ies) identified? Yes No

Material weakness(es) identified? Yes No

5. The opinion expressed in the independent auditor’s report on compliance with requirements applicable to major federal awards was:

Unmodified Modified Adverse Disclaimed

6. The audit disclosed findings required to be reported by the Uniform Guidance? Yes No

7. The Auditee’s major programs were:

Cluster/Program	CFDA Number
• Title I, Part A – Grants to Local Education Agencies	84.010

8. The threshold used to distinguish between Type A & Type B programs as those terms are defined in the Uniform Guidance was \$750,000.

9. The Auditee qualified as a low-risk auditee as that term is defined in the Uniform Guidance? Yes No

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2019-001 Indirect Costs

SIGNIFICANT DEFICIENCY

Statement of Condition: The School submitted indirect cost calculations based on budgeted expenditures instead of actual expenditures.

Criteria: Indirect federal funding should be calculated based on actual expenditures.

Cause of condition: Indirect federal funding was calculated based on budgeted expenditures rather than actual expenditures.

Effect of condition: The School was overpaid \$23,501 in Federal monies.

Context: The School is not in compliance with indirect cost standards as they were overpaid funds due to actual expenditures not being used to calculate the indirect payment.

Recommendation: The School submit indirect funding calculations based on actual expenditures.

Views of responsible officials and planned corrective actions: The School is in agreement with the finding and will follow the recommendation of indirect costs being recorded based on actual expenditures. The actual expenditures as of year end will be pulled from the expenditure ledger indirect costs are recorded.

C. FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS AUDIT

**2019-002 Title I, Part A - CFDA No. 84.010; Grant No. S010A17000; Grant period
- Year Ended June 30, 2019**

As discussed in Findings 2019-001, reimbursement for indirect cost was calculated based off of budget amounts rather than actual amounts. Because of this the School was overpaid \$23,501. The School should submit indirect funding calculations based on actual expenditures.

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None noted



**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS**

To the Board of Education
KIPP Delta, Inc. d/b/a KIPP Delta Public Schools
Helena-West Helena, Arkansas

We have examined management's assertions that KIPP Delta, Inc. d/b/a KIPP Delta Public Schools (the "School") substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and the 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, 2019. Management is responsible for the School's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, KIPP Delta, Inc. d/b/a KIPP Delta Public Schools complied with the aforementioned requirements for the year ended June 30, 2019, except for statute 6-2-2210 described in the accompanying schedule.

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

Hudson Cisne & Co. LLP

Hudson Cisne & Co. LLP
Little Rock, Arkansas
February 25, 2020

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**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

**SCHEDULE OF FINDINGS ON COMPLIANCE WITH STATUTES REQUIRED BY
ARKANSAS DEPARTMENT OF EDUCATION**

YEAR ENDED JUNE 30, 2019

FINDINGS – STATE COMPLIANCE

Ark-2019-01. Statute 6-20-2210 Limitation on Fund Balances

Criteria: The School's year end legal balance cannot exceed 20% of the current year legal balance revenues.

Condition: At June 30, 2019, the School's legal balance was 22% of the current year legal balance of revenues resulting in an overage of \$291,319.

Context: The School's legal balance was not in compliance with State Statute 6-20-2210.

Effect: If the School fails to reduce every year within the five-year period its net legal balance by 20% of the total required reduction the department shall withhold subsequent state funding from the School in an amount equal to the amount the School failed to reduce its net legal balance for the year.

Cause: The School did not adequately monitor the legal balance in relation to legal balance revenue at June 30, 2019.

Recommendations: The School should reduce the legal balance to less than 20% of the legal balance of revenues before June 30, 2020. If the School is unable to fully reduce the legal balance, there must be at least a 20% reduction in the overage.

Views of responsible officials and planned corrective actions: The School is in agreement with the finding and will follow the recommendation. The School will monitor the net legal balance quarterly to ensure the percentage is decreasing.

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

**SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
TO BE ADDRESSED IN INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**

YEAR ENDED JUNE 30, 2019

<u>DESCRIPTION</u>	<u>STATUTES</u>
Bidding & 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 Fund	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
Teachers 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.
• Minimum Wage Act	11-4-213; 11-4-218; 11-4-403; 11-4-405
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

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

**SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION
TO BE ADDRESSED IN INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
(CONTINUED)**

YEAR ENDED JUNE 30, 2019

<u>DESCRIPTION</u>	<u>STATUTES</u>
On Behalf Payments	The amount of funds paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of District's employees 10-4-413(c) (Act 867 of 2019)
Regulatory Basis of Accounting	26-35-802 (Act 657 of 2019)
Real Estate and Personal Property Tax Appeals	19-11-201 et seq.
Arkansas Procurement Law	6-20-1901 et seq. (Act 929 of 2019)
Fiscal Accountability	6-20-2210
Limitation on Fund Balances	

**KIPP DELTA, INC. d/b/a
KIPP DELTA PUBLIC SCHOOLS**

SUPPLEMENTAL DATA SHEET

YEAR ENDED JUNE 30, 2019

The following information is being provided to satisfy the requirements of Arkansas Department of Human Services Audit Guidelines, Section IX. C - Special Requirements:

1. Entity's Full Name: KIPP Delta, Inc. d/b/a KIPP Delta Public Schools
2. Entity's Address: 514 Missouri Street
Helena-West Helena, AR 72342
3. Entity's FEIN: 31-1807400
4. Entity's Telephone Number: 870-753-9035
5. Name of Director: Carissa Godwin, Executive Director
6. Name of Contact Person: Raven Adams, Finance Director