

DAWSON EDUCATIONAL COOPERATIVE

REGULATORY BASIS FINANCIAL STATEMENTS
AND OTHER REPORTS

JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Dawson Educational Cooperative

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund of the Dawson Educational Cooperative (the "Cooperative") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Cooperative's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Cooperative'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 Cooperative'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.³

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Cooperative as of June 30, 2020, or the changes in financial position for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the Cooperative as of June 30, 2020, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's regulatory basis financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the Schedule of Expenditures of State Awards, the Schedule of Capital Assets, and the Schedule of Units of Service are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

The Schedule of Expenditures of State Awards, the Schedule of Capital Assets, and the Schedule of Units of Service have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2020 on our consideration of the Cooperative'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 the Cooperative's internal control over financial reporting and compliance.

Craft, Veach & Company

Craft, Veach & Company, PLC
North Little Rock, Arkansas
November 12, 2020

	General Fund	Special Revenue Fund	Total Governmental Funds (Memorandum Only)
ASSETS			
Cash and Cash Equivalents	\$ 3,493,941	\$ 429,891	\$ 3,923,832
Investments	1,140,165	-	1,140,165
Accounts Receivable	60,052	200,259	260,311
Due From Other Funds	200,259	-	200,259
TOTAL ASSETS	4,894,417	630,150	5,524,567
LIABILITIES			
Accounts Payable	104,839	5,902	110,741
Due To Other Funds	-	200,259	200,259
TOTAL LIABILITIES	104,839	206,161	311,000
FUND BALANCES			
Restricted	-	423,989	423,989
Assigned	(471,918)	-	(471,918)
Unassigned	5,261,496	-	5,261,496
TOTAL FUND BALANCES	4,789,578	423,989	5,213,567
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,894,417	\$ 630,150	\$ 5,524,567

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds (Memorandum Only)</u>
REVENUES			
Local Revenues	\$ 2,277,228	\$ -	\$ 2,277,228
State Assistance	10,294,214	-	10,294,214
Investment Income	12,301	-	12,301
Restricted Federal Aid	-	2,411,279	2,411,279
Other Sources	571,695	-	571,695
TOTAL REVENUES	<u>13,155,438</u>	<u>2,411,279</u>	<u>15,566,717</u>
EXPENDITURES			
Regular Programs	3,530,598	-	3,530,598
Special Education	551,804	113,921	665,725
Support Services	7,068,855	1,904,734	8,973,589
Compensatory Education	262,272	-	262,272
Operations	604,752	28,615	633,367
Indirect Cost	453,999	100,833	554,832
Food Services Operations	132,938	38,073	171,011
Community Services Operations	384,173	-	384,173
TOTAL EXPENDITURES	<u>12,989,391</u>	<u>2,186,176</u>	<u>15,175,567</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>166,047</u>	<u>225,103</u>	<u>391,150</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>166,047</u>	<u>225,103</u>	<u>391,150</u>
FUND BALANCES, BEGINNING OF YEAR	<u>4,623,531</u>	<u>198,886</u>	<u>4,822,417</u>
FUND BALANCES, END OF YEAR	<u>\$ 4,789,578</u>	<u>\$ 423,989</u>	<u>\$ 5,213,567</u>

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Local Revenues	\$ 1,413,053	\$ 2,277,228	\$ 864,175
State Assistance	8,991,050	10,294,214	1,303,164
Investment Income	65,000	12,301	(52,699)
Restricted Federal Aid	-	-	-
Other Sources	-	571,695	571,695
TOTAL REVENUES	10,469,103	13,155,438	2,686,335
EXPENDITURES			
Regular Programs	3,673,910	3,530,598	143,312
Special Education	501,815	551,804	(49,989)
Support Services	9,324,630	7,068,855	2,255,775
Compensatory Education	272,634	262,272	10,362
Operations	518,104	604,752	(86,648)
Indirect Cost	537,127	453,999	83,128
Food Services Operations	50,000	132,938	(82,938)
Community Services Operations	-	384,173	(384,173)
TOTAL EXPENDITURES	14,878,220	12,989,391	1,888,829
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,409,117)	166,047	4,575,164
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	1,301,062	-	-
Operating Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,301,062	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,108,055)	166,047	4,575,164
FUND BALANCES, BEGINNING OF YEAR		4,623,531	
FUND BALANCES, END OF YEAR		\$ 4,789,578	

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Restricted Federal Aid	\$ 2,375,775	\$ 2,411,279	\$ 35,504
TOTAL REVENUES	<u>2,375,775</u>	<u>2,411,279</u>	<u>35,504</u>
EXPENDITURES			
Special Education	156,296	113,921	42,375
Support Services	2,227,622	1,904,734	322,888
Operations	29,519	28,615	904
Indirect Cost	119,375	100,833	18,542
Food Services Operations	50,000	38,073	11,927
Community Services Operations	-	-	-
TOTAL EXPENDITURES	<u>2,582,812</u>	<u>2,186,176</u>	<u>396,636</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(207,037)</u>	<u>225,103</u>	<u>432,140</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(207,037)</u>	<u>225,103</u>	<u>432,140</u>
FUND BALANCES, BEGINNING OF YEAR		<u>198,886</u>	
FUND BALANCES, END OF YEAR		<u>\$ 423,989</u>	

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Reporting Entity***

The Cooperative was formed to assist member school districts, who are political subdivisions of the Arkansas Department of Education, in more effective and more equitable use of their shared resources by providing shared services designed to meet the needs of teachers and administrators so they may improve the quality of education for all youth. The Cooperative is governed by an appointed, twenty-two (22) member board representing each local public school located in its surrounding area. The financial statements reflect all funds and accounts directly under the control of the Cooperative. Using the criteria of financial accountability, there are no component units that are or should be included in the Cooperative's reporting entity.

Regulatory Basis of Accounting/Measurement Focus

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to 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 RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, inclusion of the net pension liability in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

Description of Funds

General Fund – The General Fund is the operating fund of the Cooperative 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 Cooperative for any purpose provided it is expended or transferred according to the general laws of Arkansas.

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. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 included with the Supplementary 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 acquisition value when received. The Cooperative maintains a threshold level of \$1,500 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	20
Buildings	50
Equipment	5-20

Fund Balance Classifications

Fund balances represent the difference between assets and liabilities and are categorized as follows:

Restricted fund balance – consists of amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Assigned fund balance – consists of amounts that are constrained by the Cooperative’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance – consists of amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Interfund Receivables and Payables

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

Budget and Budgetary Accounting

The Cooperative is required by Arkansas state law to prepare an annual budget approved by the Board of Directors and submitted to the Arkansas Department of Education by September 30th of the current fiscal year. The annual budget is prepared on the regulatory basis of accounting. The Cooperative does not prepare and submit amended budgets during the fiscal year to the Arkansas Department of Education.

Memorandum Only – Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Estimates***

The preparation of the financial statements in conformity with the regulatory basis of accounting 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.

Stabilization Arrangements

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

Minimum Fund Balance Policies

The Cooperative's Board of Directors has not formally adopted a minimum fund balance policy.

Fund Balance Classification Policies and Procedures

The Cooperative's highest level of decision-making authority is its Board of Directors. The establishment of amounts classified as committed fund balances and subsequent modifications to such balances are the result of formal action taken by the Cooperative's Board of Directors through a resolution or adoption of board policy.

The Director, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The Cooperative's Board of Directors has not adopted a formal policy addressing this authorization.

The Cooperative's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the Cooperative's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The Cooperative does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. Cooperative 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 Cooperative does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

Encumbrances

The Cooperative does not utilize encumbrance accounting.

NOTE 2: DEPOSITS AND INVESTMENTS***Deposits***

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 Cooperative's deposit policy for custodial credit risk requires compliance with the provisions of state laws.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bond or other obligations; 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 bond executed by a surety company authorized to do business in the State of Arkansas.

At June 30, 2020, none of the Cooperative's bank balances of \$5,435,617 were exposed to custodial credit risk.

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)***Summary of Carrying Values***

The carrying values, of the deposits noted above, are included in the fund financial statements at June 30, 2020, in the amount of \$5,063,997.

NOTE 3: RISK MANAGEMENT

The Cooperative is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters.

The Cooperative carries commercial insurance for board liability and volunteer accident and liability.

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

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

The Cooperative participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$300,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 4: NOTE PAYABLE

On June 28, 2018, the Cooperative entered into a construction loan agreement in an amount not to exceed \$728,873. Borrower will pay this loan in accordance with the following 36 monthly consecutive principal and interest payments in the initial amount of \$6,624.05 each, beginning August 1, 2019, with interest calculated on the unpaid principal balances using an interest rate of 4.900% per annum based on a year of 360 days; 83 consecutive monthly principal and interest payments in the initial amount of \$6,628.84 each, beginning August 1, 2022, with interest calculated on the unpaid principal balances using an interest rate based on the Prime as published in the Wall Street Journal, plus a margin of -.600 percentage points, resulting in an initial interest rate of 4.900% per annum based on a year of 360 days; and one principal and interest payment of \$6,628.99 on July 1, 2029, with interest calculated on unpaid principal percentage points, resulting in an initial interest rate of 4.900%. The unpaid principal balance as of June 30, 2020 was \$580,356.41.

NOTE 5: EMPLOYEE RETIREMENT SYSTEM AND PLAN

Plan Description

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

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries.

Under certain conditions, covered employees may contribute 6% of their salary to the plan. The authority to establish and amend contribution requirements of plan members and the Cooperative is set forth in state law and is vested in the System’s Board of Trustees.

The contributions for the current year ended June 30, 2020:

	2020
State of Arkansas - On Behalf	\$ 1,152,128
Federal Funding	119,849
	\$ 1,271,977

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 Cooperative’s proportionate share of the collective net pension liability. The Cooperative’s proportionate share of the collective net pension liability at June 30, 2019 (actuarial valuation date and measurement date) was \$11,096,436.

NOTE 6: 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 Cooperative’s employees, totaled \$19,263.74 for the year ended June 30, 2020.

NOTE 7: PENDING OR THREATENING LITIGATION

Brandi Collier and Molly Broyles v. Dawson Education Service Cooperative, Circuit Court of Garland County, Case No. 26CV-20-453-1: In December 2019, Plaintiffs were terminated and have appealed the decision by the School Board of Directors. While the District intends to contest this matter, an unfavorable outcome is possible. An estimate of the amount or range of potential loss cannot be made with specificity, but could include compensatory and punitive damages, attorney’s fees and costs.

NOTE 8: SUBSEQUENT EVENTS

As of the date on which the financial statements were available to be issued, the COVID-19 pandemic continues to actively spread. Although it has not presented any negative impact to the Cooperative, if an outbreak were to occur among the employees of the Cooperative, the disruption to activities could be significant.

NOTE 9: DATE OF MANAGEMENT'S REVIEW

Management of the Cooperative has evaluated subsequent events through November 12, 2020, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

	Balance June 30, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
NONDEPRECIABLE CAPITAL ASSETS				
Construction in Progress	\$ 677,198	\$ -	(677,198)	\$ -
Land	83,096	53,532	-	136,628
<i>Total Nondepreciable Capital Assets</i>	<u>760,294</u>	<u>53,532</u>	<u>(677,198)</u>	<u>136,628</u>
DEPRECIABLE CAPITAL ASSETS				
Buildings	1,901,618	698,399	(21,200)	2,578,817
Improvements/Infrastructure	369,520	-	-	369,520
Furniture, Fixtures, and Equipment	535,618	54,838	(92,368)	498,088
<i>Total Depreciable Capital Assets</i>	<u>2,806,756</u>	<u>753,237</u>	<u>(113,568)</u>	<u>3,446,425</u>
Less: Accumulated Depreciation	(954,581)	(119,681)	82,654	(991,608)
NET DEPRECIABLE CAPITAL ASSETS	<u>1,852,175</u>	<u>633,556</u>	<u>(30,914)</u>	<u>2,454,817</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 2,612,469</u>	<u>\$ 687,088</u>	<u>\$ (708,112)</u>	<u>\$ 2,591,445</u>

NOTES TO SCHEDULE OF CAPITAL ASSETS

Capital assets generally result from expenditures in the governmental funds. These assets are not reported on 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 to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during construction is not capitalized.

Capital assets not being depreciated include land and construction in progress. Improvements are depreciated over the remaining useful lives of the capital assets. Since surplus assets are sold for an immaterial amount when declared as no longer needed, 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 asset. The Cooperative has established capitalization thresholds of \$1,500 and estimated useful lives that range between 5 and 50 years.

<u>Federal Grantor/</u> CLUSTER NAME/ Program Name/ Pass-through Entity	Federal CFDA Number	Grant Name	Expenditures Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Agriculture:</u>				
Child and Adult Care Food Program Pass-through from Arkansas Department of Human Services	10.558	Snack Reimbursement	\$ -	\$ 38,073
Total U.S. Department of Agriculture			<u>-</u>	<u>38,073</u>
<u>U.S. Department of Education:</u>				
SPECIAL EDUCATION CLUSTER (IDEA)				
Special Education Grants to States				
Pass-through from Arkansas Department of Education	84.027	Title VI-B ESVI	-	812,316
Pass-through from Arkansas Department of Education	84.027		-	107,057
Pass-through from Arkansas Department of Education	84.027		-	113,939
Total Special Education Grants to States			<u>-</u>	<u>1,033,312</u>
Special Education Preschool Grants				
Pass-through from Arkansas Department of Education	84.173	Early Childhood Section 619	-	213,710
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>-</u>	<u>1,247,022</u>
Career and Technical Education - Basic Grants to States				
Pass-through from Arkansas Department of Career Education	84.048	Workforce Education/CTE MOU	-	452,558
Comprehensive Literacy Development				
Pass-through from Arkansas Department of Education	84.371	Comprehensive Literacy Development	-	77,112
Total U.S. Department of Education			<u>-</u>	<u>1,776,692</u>
<u>U.S. Department of Health & Human Services</u>				
CHILD CARE AND DEVELOPMENT FUND CLUSTER				
Child Care and Development Block Grant				
Pass-through from Arkansas Department of Human Services	93.575	ABC QA Better Beginning	-	118,751
TOTAL CHILD CARE AND DEVELOPMENT FUND CLUSTER			<u>-</u>	<u>118,751</u>
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems				
Pass-through from Arkansas Department of Human Services	93.938	Coordinated School Health	-	3,558
Substance abuse and mental health services projects of regional and national				
Pass-through from Arkansas Department of Health	93.243	AR AWARE	-	149,028
Total U.S. Department of Health & Human Services			<u>-</u>	<u>271,337</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 2,086,102</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation - The above Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Dawson Educational Cooperative (the Cooperative) under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position or changes in financial position of the Cooperative.

Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Cooperative has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

During the year ended June 30, 2020, the Cooperative received Medicaid funding of \$162,424 from the Arkansas Department of Human Services. Such payments are not considered Federal Awards expended and therefore, are not included in the above schedule.

State Grantor/ Program Name/ Pass-Through Entity	State Expenditures
Arkansas Department of Education:	
Arkansas Better Chance	\$ 3,199,579
Total Arkansas Department of Education	<u>3,199,579</u>
Total Expenditures of State Awards	<u>\$ 3,199,579</u>

Child and Adult Care Food Program

<u>Month</u>	<u>Snacks (Supplements)</u>
July	-
August	-
September	10,827
October	12,408
November	8,801
December	7,876
January	10,369
February	10,104
March	5,156
April	-
May	-
June	-
Total Units	<u><u>65,541</u></u>



**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 of
Dawson Educational Cooperative

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 of the Dawson Educational Cooperative as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the Cooperative's regulatory basis financial statements, and have issued our report thereon dated November 12, 2020. We issued an adverse opinion because the Cooperative prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund of the Cooperative as of June 30, 2020, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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 Cooperative'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 those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

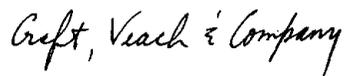
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws, 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 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 result of that testing, and not to provide an opinion on the effectiveness of the Cooperative'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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Craft, Veach & Company, PLC
North Little Rock, Arkansas
November 12, 2020



**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 of
Dawson Educational Cooperative

Report on Compliance for Each Major Federal Program

We have audited the Dawson Educational Cooperative's compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2020. The Cooperative'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 the requirements of 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 Cooperative'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 Cooperative's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Cooperative's compliance.

Opinion on Each Major Federal Program

In our opinion, the Cooperative 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, 2020.

Report on Internal Control Over Compliance

Management of the Cooperative 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 Cooperative'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 the internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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, detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or 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 charges with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Craft, Veach & Company

Craft, Veach & Company, PLC
North Little Rock, Arkansas
November 12, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS

To the Board of Directors of
Dawson Educational Cooperative

We have examined management's assertions that Dawson Educational Cooperative substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and applicable laws and regulations designated by the Arkansas Department of Education for the year ended June 30, 2020.

- (a) Bidding & Purchasing Commodities (Arkansas Statutes 6-21-301 – 6-21-305)
- (b) Ethical Guidelines and Prohibitions (Arkansas Statutes 6-13-628; 6-24-01 et seq.);
- (c) Collateralization & Investments of Funds (Arkansas Statutes 6-20-222; 19-1-504);
- (d) Deposit of Funds (Arkansas Statutes 19-8-104; 19-8-106)
- (e) District Finances (Arkansas Statute 6-20-402);
 - Bonded & Non-bonded Debt, School Bonds (Arkansas Statutes 6-20-1201 - 6-20-1208; 6-20-1210)
 - Petty Cash (Arkansas Statute 6-20-409);
 - Changes in Pullback (no deferrals - declining accrual percentages) (Arkansas Statute 6-20-401)
 - Investment of Funds (Arkansas Statute 19-1-504)
- (f) Management of Schools
 - Board of Directors (Arkansas Statutes 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 (Arkansas Statute 6-13-701);
 - Warrants/Checks (Arkansas Statutes 6-17-918; 6-17-919; 6-20-403);
- (g) Management Letter for Audit (Arkansas Statutes 14-75-101—14-75-104);
- (h) Nonrecurring Salary Payments (Arkansas Statute 6-20-412);
- (i) Revolving Loan Fund (Arkansas Statutes 6-19-114; 6-20-801 et seq.);
- (j) Salary Laws Classified (Arkansas Statutes 6-17-2201 et seq.; 6-17-2301 et seq.);
- (k) Salary increases 5% or more (Certified & Classified) (Arkansas Statutes 6-13-635);
- (l) School Elections (Arkansas Statutes 6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118);
- (m) Teachers and Employees
 - Personnel Policies (Arkansas Statutes 6-17-201 et seq., 6-17-2301);
 - Employment and Assignment (Arkansas Statutes 6-17-301 et seq.);
 - Teacher's License Requirement (Arkansas Statutes 6-17-401 et seq.);
 - Contracts (Arkansas Statutes 6-17-801 et seq.);
 - Certification Requirements (Arkansas Statutes 6-17-309; 6-17-401);
 - Fair Dismissal Act (Arkansas Statutes 6-17-1501 et seq.; 6-17-1701 et seq.);
 - Sick Leave Policies (Arkansas Statutes 6-17-1201 et seq.; 6-17-1301 et seq.);
 - Minimum Wage Act (Arkansas Statutes 11-4-213; 11-4-218; 11-4-403; 11-4-405)
- (n) Teacher Salaries and Foundation Funding Aid (Arkansas Statutes 6-17-803; 6-17-907; 6-17-908; 6-17-911 - 6-17-913; 6-17-918; 6-17-919);
- (o) Trust Funds (Education Excellence) (Arkansas Statutes 6-5-307);
- (p) Use of Contractors, Improvement Contracts (Arkansas Statutes 22-9-201—22-9-205);
- (q) Use of DM&O Millage (Arkansas Statutes 26-80-110); and
- (r) 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.

- (s) Regulatory Basis of Accounting (Arkansas Statute 10-4-413-c);
- (t) Real Estate and Personal Property Tax Appeals (Arkansas Statute 26-35-802); and
- (u) Arkansas Procurement Law (Arkansas Statutes 19-11-201, et seq.)
- (v) Fiscal Accountability (Arkansas Statutes 6-20-1901, et seq.)
- (w) Enhanced Student Achievement Funding ESA (Arkansas Statute 6-20-2305(B)(4)(F)(I))
- (x) Limitation on Fund Balances (Arkansas Statute 6-20-2210) (Waived for 2019-2020 only)
- (y) CARES Act (COVID-19) Education Funding (Commissioner's Memo LS-20-089)

Management is responsible for the Cooperative's compliance with those requirements. Our responsibility is to express an opinion on the Cooperative'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 Cooperative'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 Cooperative's compliance with specified requirements.

In our opinion, Dawson Educational Cooperative complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2020.

This report is intended solely for the information and use of the governing body, 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.



Craft, Veach & Company, PLC
North Little Rock, Arkansas
November 12, 2020

SUMMARY OF AUDITOR'S RESULTS:

FINANCIAL STATEMENTS

The opinion expressed in the independent auditor's report for GAAP basis of reporting was:

Adverse

The opinion expressed in the independent auditor's report for Regulatory basis opinion units was:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X No

Noncompliance material to the financial statements noted?

_____ Yes X No

FEDERAL AWARDS

Internal control over major federal programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X No

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of major programs:

Name of Federal Program

CFDA Number

Special Education Cluster (IDEA):

- Special Education - Grants to States (IDEA, Part B) 84.027
- Special Education - Preschool Grants (IDEA Preschool) 84.173

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

Unmodified

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

\$750,000

Organization qualified as a low-risk auditee?

_____ Yes X No

Financial Statement Findings:

**Reference
Number**

Finding

No matters are reportable.

Federal Award Findings and Questioned Costs:

**Reference
Number**

Finding

No matters are reportable.

Financial Statement Findings:

**Reference
Number**

Finding

No matters are reportable.

Federal Award Findings and Questioned Costs:

**Reference
Number**

Finding

No matters are reportable.

Name and address: Dawson Educational Cooperative
711 Clinton St
Arkadelphia, AR 71923

Employer Identification Number: 71-0597153

Telephone Number: (870) 246-3077

Director: Mr. Darin Beckwith

Contact Person: Ms. Veronica Nelson