

# **Valley Springs School District No. 2**

**Boone County, Arkansas**

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

**June 30, 2020**



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BOONE COUNTY, ARKANSAS  
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# Arkansas

**Sen. Ronald Caldwell**  
Senate Chair  
**Sen. Gary Stubblefield**  
Senate Vice Chair



**Rep. Richard Womack**  
House Chair  
**Rep. Nelda Speaks**  
House Vice Chair

**Roger A. Norman, JD, CPA, CFE, CFF**  
Legislative Auditor

## **LEGISLATIVE JOINT AUDITING COMMITTEE** **ARKANSAS LEGISLATIVE AUDIT**

### INDEPENDENT AUDITOR'S REPORT

Valley Springs School District No. 2 and School Board Members  
Legislative Joint Auditing Committee

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

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Valley Springs School District No. 2 (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the requirements of the State of Arkansas. 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

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

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

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

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

**Unmodified Opinions on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 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**

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years – Regulatory Basis are presented for the purpose of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years – Regulatory Basis have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe that scope or our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF  
Legislative Auditor

Little Rock, Arkansas  
April 23, 2021  
EDSD03020

# Arkansas

**Sen. Ronald Caldwell**  
Senate Chair  
**Sen. Gary Stubblefield**  
Senate Vice Chair



**Rep. Richard Womack**  
House Chair  
**Rep. Nelda Speaks**  
House Vice Chair

**Roger A. Norman, JD, CPA, CFE, CFF**  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

### INDEPENDENT AUDITOR'S REPORT

Valley Springs School District No. 2 and School Board Members  
Legislative Joint Auditing Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund and the aggregate remaining fund information of the Valley Springs School District No. 2 (the "District"), as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated April 23, 2021. We have issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 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 consider the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF  
Legislative Auditor

Little Rock, Arkansas  
April 23, 2021

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
 BOONE COUNTY, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 JUNE 30, 2020

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 1,339,753		\$ 3,110,615	\$ 95,187
Investments			11,619	8,491
Accounts receivable	1,007	\$ 59,439		
Due from other funds	4,446			
Deposit with paying agent			28,228	
<b>TOTAL ASSETS</b>	<b>\$ 1,345,206</b>	<b>\$ 59,439</b>	<b>\$ 3,150,462</b>	<b>\$ 103,678</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 11,170	\$ 1	\$ 544,570	
Due student groups				\$ 92,205
Due to other funds		4,446		
<b>Total Liabilities</b>	<b>11,170</b>	<b>4,447</b>	<b>544,570</b>	<b>92,205</b>
<b>Fund Balances:</b>				
Nonspendable			28,228	
Restricted	42,588	54,992	2,066,855	11,473
Assigned	113,917		510,809	
Unassigned	1,177,531			
<b>Total Fund Balances</b>	<b>1,334,036</b>	<b>54,992</b>	<b>2,605,892</b>	<b>11,473</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,345,206</b>	<b>\$ 59,439</b>	<b>\$ 3,150,462</b>	<b>\$ 103,678</b>

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

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
 BOONE COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2020

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 2,173,807		
State assistance	4,896,793	\$ 2,155	\$ 894,993
Federal assistance		740,700	
Activity revenues	149,410		
Meal sales		74,483	
Investment income	34,940		52,758
Other revenues	73,548	1,140	
<b>TOTAL REVENUES</b>	<b>7,328,498</b>	<b>818,478</b>	<b>947,751</b>
<b>EXPENDITURES</b>			
Regular programs	3,012,673	43,587	
Special education	215,128	226,690	
Career education programs	274,465		
Compensatory education programs	69,771	167,374	
Other instructional programs	19,531		
Student support services	496,170	3,314	
Instructional staff support services	440,288	36,825	
General administration support services	240,103	7,806	
School administration support services	392,153		
Central services support services	196,036		
Operation and maintenance of plant services	978,052		
Student transportation services	353,751		
Other support services	24,503	89	
Food services operations		340,785	
Community services operations	8,655		
Facilities acquisition and construction services			5,978,531
Activity expenditures	142,229		
Debt Service:			
Principal retirement	21,908		110,000
Interest and fiscal charges	1,854		413,081
Net debt issuance costs			114,001
<b>TOTAL EXPENDITURES</b>	<b>6,887,270</b>	<b>826,470</b>	<b>6,615,613</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>441,228</b>	<b>(7,992)</b>	<b>(5,667,862)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			549,274
Transfers out	(549,274)		
Proceeds from refunding bond issue			7,145,000
Payment to refunding bond escrow agent			(7,027,824)
Unrealized loss on investments			(208)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(549,274)</b>		<b>666,242</b>



VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
 BOONE COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2020

Exhibit B

	Major		
	General	Special Revenue	Other Aggregate
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (108,046)	\$ (7,992)	\$ (5,001,620)
FUND BALANCES - JULY 1	1,442,082	62,984	7,607,512
FUND BALANCES - JUNE 30	\$ 1,334,036	\$ 54,992	\$ 2,605,892

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

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 2,197,664	\$ 2,173,807	\$ (23,857)			
State assistance	6,440,036	4,896,793	(1,543,243)	\$ 2,300	\$ 2,155	\$ (145)
Federal assistance				756,711	740,700	(16,011)
Activity revenues		149,410	149,410			
Meal sales				92,500	74,483	(18,017)
Investment income	40,000	34,940	(5,060)			
Other revenues	38,000	73,548	35,548	2,500	1,140	(1,360)
<b>TOTAL REVENUES</b>	<b>8,715,700</b>	<b>7,328,498</b>	<b>(1,387,202)</b>	<b>854,011</b>	<b>818,478</b>	<b>(35,533)</b>
<b>EXPENDITURES</b>						
Regular programs	2,892,081	3,012,673	(120,592)	30,182	43,587	(13,405)
Special education	263,469	215,128	48,341	279,970	226,690	53,280
Career education programs	284,377	274,465	9,912			
Compensatory education programs	66,983	69,771	(2,788)	170,678	167,374	3,304
Other instructional programs	20,742	19,531	1,211			
Student support services	449,638	496,170	(46,532)	7,000	3,314	3,686
Instructional staff support services	459,799	440,288	19,511	53,107	36,825	16,282
General administration support services	209,777	240,103	(30,326)	7,673	7,806	(133)
School administration support services	391,435	392,153	(718)			
Central services support services	190,418	196,036	(5,618)			
Operation and maintenance of plant services	810,136	978,052	(167,916)			
Student transportation services	465,410	353,751	111,659			
Other support services	12,000	24,503	(12,503)		89	(89)
Food services operations				302,639	340,785	(38,146)
Community services operations	7,500	8,655	(1,155)	250		250
Activity expenditures		142,229	(142,229)			
Debt Service:						
Principal retirement	42,000	21,908	20,092			
Interest and fiscal charges	6,000	1,854	4,146			
<b>TOTAL EXPENDITURES</b>	<b>6,571,765</b>	<b>6,887,270</b>	<b>(315,505)</b>	<b>851,499</b>	<b>826,470</b>	<b>25,029</b>

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
 BOONE COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2020

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 2,143,935	\$ 441,228	\$ (1,702,707)	\$ 2,512	\$ (7,992)	\$ (10,504)
OTHER FINANCING SOURCES (USES)						
Transfers in	9,175,907		(9,175,907)			
Transfers out	(11,428,355)	(549,274)	10,879,081			
TOTAL OTHER FINANCING SOURCES (USES)	(2,252,448)	(549,274)	1,703,174			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(108,513)	(108,046)	467	2,512	(7,992)	(10,504)
FUND BALANCES - JULY 1	1,560,747	1,442,082	(118,665)	62,985	62,984	(1)
FUND BALANCES - JUNE 30	<u>\$ 1,452,234</u>	<u>\$ 1,334,036</u>	<u>\$ (118,198)</u>	<u>\$ 65,497</u>	<u>\$ 54,992</u>	<u>\$ (10,505)</u>

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

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Valley Springs School District (District). There are no component units.

**B. Description of Funds**

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

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

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

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

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

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

Fiduciary Fund types include the following:

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

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

**C. Measurement Focus and Basis of Accounting**

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

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
 BOONE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2020

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

C. Measurement Focus and Basis of Accounting (Continued)

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, inclusion of the net pension liability in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

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

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at acquisition value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

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

Asset Class	Estimated Useful Life in Years
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

F. Property Taxes

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

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

F. Property Taxes (Continued)

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2019 calendar year taxes collected by June 30, 2020 and 4 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2020 equaled or exceeded the 4 percent calculation.

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

G. Interfund Receivables and Payables

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

H. Fund Balance Classifications

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

I. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

Additionally, the District routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

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

I. Budget and Budgetary Accounting (Continued)

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

J. Stabilization Arrangements

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

K. Minimum Fund Balance Policies

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

L. Fund Balance Classification Policies and Procedures

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

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

M. Encumbrances

The District does not utilize encumbrance accounting.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
 BOONE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2020

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	4,304,046	5,759,261
Total Deposits	\$ 4,554,046	\$ 6,009,261

The above total deposits include certificates of deposit of \$8,491 reported as investments and classified as nonparticipating contracts.

**3. INVESTMENTS**

At June 30, 2020, the District's investments consisted of Windstream Holdings, Inc. common stock with a market value of \$25 and Communication Sales and Leasing, Inc. stock with a market value of \$11,594. The earnings from the stock are used for capital projects. Additionally, investments included certificates of deposit of \$8,491 reported as investments and classified as nonparticipating contracts (See Note 2).

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in Windstream Holdings, Inc. and Communications Sales and Leasing, Inc. stock. Of the investments reported in the other aggregate funds, \$25 was invested in Windstream Holdings, Inc. stock and \$11,594 was invested in Communications Sales and Leasing, Inc. stock, related to a gift from Lena A. Moore.

Fair value of investments - Fair value measurements are based on the fair value hierarchy as follows:

- Level 1 - Quoted prices in active markets for identical assets
- Level 2 - Significant other observable inputs
- Level 3 - Significant unobservable inputs

Of the above investments, \$11,619, is comprised of common stock classified in Level 1. There are no investments classified in Level 2 or Level 3.



VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

**4: ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2020 were comprised of the following:

Description	Governmental Funds	
	Major	
	General	Special Revenue
State assistance	\$ 1,007	
Federal assistance		\$ 59,439
Totals	\$ 1,007	\$ 59,439

**5: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2020:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
High School	July 2020	\$ 1,022,254
Albright Hall Demolition	July 2020	218,123
Valley Springs Remodel	October 2020	899,897

B. Long-term Debt Issued and Outstanding

The District is presently paying on the following long-term debt:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2020	Maturities To June 30, 2020
<u>Bonds</u>					
3/1/16	2/1/38	1 - 3%	\$ 2,645,000	\$ 2,380,000	\$ 265,000
6/1/20	2/1/48	1.25 - 2.5%	7,145,000	7,145,000	
Total Bonds			9,790,000	9,525,000	265,000
<u>Direct Borrowings</u>					
5/1/11	5/1/21	4.7%	187,868	22,950	164,918
Total Direct Borrowings			187,868	22,950	164,918
Total Long-Term Debt			\$ 9,977,868	\$ 9,547,950	\$ 429,918

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

**5: COMMITMENTS (Continued)**

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

Changes in Long-term Debt

	<u>July 1, 2019</u>	<u>Issued</u>	<u>Retired</u>	<u>June 30, 2020</u>
Bonds payable	\$ 9,395,000	\$ 7,145,000	\$ 7,015,000 *	\$ 9,525,000
<u>Direct Borrowings</u>				
Capital lease	44,858		21,908	22,950
Total Direct Borrowings	<u>44,858</u>		<u>21,908</u>	<u>22,950</u>
Total Long-Term Debt	<u>\$ 9,439,858</u>	<u>\$ 7,145,000</u>	<u>\$ 7,036,908</u>	<u>\$ 9,547,950</u>

\* Includes \$6,905,000 early retirement of debt – See Note 7.

Future Principal and Interest Payments

Year Ended June 30,	<u>Bonds</u>			<u>Direct Borrowings</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 110,000	\$ 158,850	\$ 268,850	\$ 22,950	\$ 812	\$ 23,762
2022	115,000	208,671	323,671			
2023	115,000	207,090	322,090			
2024	145,000	205,365	350,365			
2025	290,000	203,102	493,102			
2026-2030	1,525,000	944,175	2,469,175			
2031-2035	1,700,000	788,000	2,488,000			
2036-2040	1,920,000	575,385	2,495,385			
2041-2045	2,160,000	342,375	2,502,375			
2046-2048	1,445,000	72,875	1,517,875			
Totals	<u>\$ 9,525,000</u>	<u>\$ 3,705,888</u>	<u>\$13,230,888</u>	<u>\$ 22,950</u>	<u>\$ 812</u>	<u>\$ 23,762</u>

Capital Lease

Capital assets acquired through a capital lease consisted of the following at June 30, 2020:

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value</u>
Excel Lighting	<u>\$ 187,868</u>	<u>\$ 86,106</u>	<u>\$ 101,762</u>

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

**5: COMMITMENTS (Continued)**

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

The present value of the net minimum lease payments is as follows at June 30, 2020:

Total Minimum Lease Payments	\$	23,762
Less: Amount Representing Interest		812
Total Present Value of Net Minimum Lease Payments	\$	22,950

Security for Debt Payments

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

**6: ACCOUNTS PAYABLE**

Accounts payable at June 30, 2020 were comprised of the following:

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Vendor payables	\$ 11,170	\$ 1	\$ 544,570

**7: DEBT REFUNDING**

On June 1, 2020, the District issued refunding bonds of \$7,145,000 with interest rates of 1.25 to 2.5 percent to refund \$6,905,000 of outstanding bonds dated August 1, 2018. The interest rates of the bonds refunded were 3 to 3.625 percent. Net bond proceeds of \$7,027,824 were remitted to an escrow agent to provide all future debt service payments for the bonds refunded. These bonds will be called on August 1, 2020. The remaining proceeds of \$3,175 (after payment of \$114,001 net bond issuance costs) will be utilized for subsequent debt payments. The issuance of these bonds will result in a savings of \$1,203,492 to the District over the life of the bonds.

The outstanding principal of the bonds refunded was \$6,905,000 at June 30, 2020. U.S. Government securities of \$7,022,981, purchased by the escrow agent, were pledged for the retirement of these bonds.

**8: INTERFUND TRANSFERS**

The District transferred \$549,274 from the general fund to the other aggregate funds for debt related payments of \$519,274 and future capital projects of \$30,000.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

**9: RETIREMENT PLAN**

Arkansas Teacher Retirement System

Plan Description

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

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6.25% 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 14.25% of covered salaries. The District's contributions to ATRS for the year ended June 30, 2020 were \$679,357, equal to the required contributions.

Net Pension Liability

The Division of Elementary and Secondary Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement no. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2019 (actuarial valuation date and measurement date) was \$6,407,087.

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

ADDITIONS	
Donations	\$ 2,590
Interest	<u>172</u>
 TOTAL ADDITIONS	 2,762
DEDUCTIONS	
Scholarships	<u>7,466</u>
 CHANGE IN FUND BALANCE	 (4,704)
 FUND BALANCE - JULY 1	 <u>16,177</u>
 FUND BALANCE - JUNE 30	 <u><u>\$ 11,473</u></u>

**11: PLEDGED REVENUES**

The District has pledged a portion of its property taxes to retire bonds of \$9,790,000 issued from March 1, 2016 to June 1, 2020. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$13,230,888, payable through February 1, 2048. Principal and interest paid for the current year and total property taxes pledged for debt service were \$521,665 and \$804,911, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 64.81 percent.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

**12: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for board liability and business trip accidental death and dismemberment coverage.

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

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

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

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

**13: ON-BEHALF PAYMENTS**

The allocation of the health insurance premiums paid by the Division of Elementary and Secondary Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$154,766 for the year ended June 30, 2020.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

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

Description	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
Fund Balances:			
Nonspendable:			
Deposit with paying agent			\$ 28,228
Restricted for:			
English-language learners	\$ 7,474		
Professional development	9,403		
Capital projects			2,066,855
Child nutrition programs		\$ 54,992	
Special education programs	14,885		
Other purposes	10,826		
Total Restricted	<u>42,588</u>	<u>54,992</u>	<u>2,066,855</u>
Assigned to:			
Capital projects			510,809
Student activities	106,164		
Other purposes	7,753		
Total Assigned	<u>113,917</u>		<u>510,809</u>
Unassigned	<u>1,177,531</u>		
Totals	<u>\$ 1,334,036</u>	<u>\$ 54,992</u>	<u>\$ 2,605,892</u>

**15: RESPONSE TO COVID-19**

On March 11, 2020, the Governor of Arkansas issued Executive Order 20-03 declaring an emergency and ordered the Arkansas Department of Health to take action to prevent the spread of coronavirus disease 2019 (COVID-19). A mandatory, two week, statewide closure for all schools was announced on March 15, 2020 by the Governor. On April 6, 2020, the Governor announced that on-site instruction for all Arkansas public schools would be discontinued until the 2020-2021 school year and school districts would continue alternative methods of instruction (AMI) through the remainder of the 2019-2020 school year.

**16: SUBSEQUENT EVENT**

On November 1, 2020, the District issued refunding bonds of \$2,480,000 to refund the March 1, 2016, bond issue.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
 BOONE COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2020  
 (Unaudited)

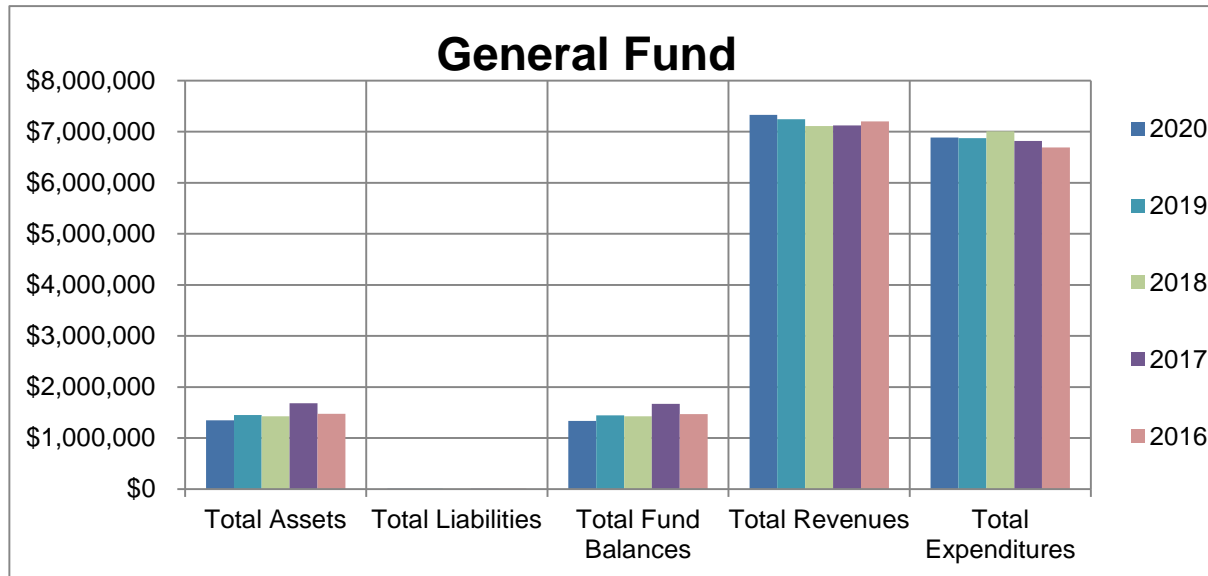
Schedule 1

	Balance June 30, 2020
Nondepreciable capital assets:	
Land	\$ 668,460
Construction in progress	5,613,231
Total nondepreciable capital assets	6,281,691
Depreciable capital assets:	
Buildings	7,461,752
Improvements/infrastructure	59,461
Equipment	2,453,234
Total depreciable capital assets	9,974,447
Less accumulated depreciation for:	
Buildings	3,104,558
Improvements/infrastructure	40,276
Equipment	1,803,315
Total accumulated depreciation	4,948,149
Total depreciable capital assets, net	5,026,298
Capital assets, net	\$ 11,307,989

VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
 BOONE COUNTY, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2020  
 (Unaudited)

Schedule 2

<b>General Fund</b>	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets	\$ 1,345,206	\$ 1,452,449	\$ 1,429,188	\$ 1,680,709	\$ 1,476,621
Total Liabilities	11,170	10,367	1,166	8,489	10,657
Total Fund Balances	1,334,036	1,442,082	1,428,022	1,672,220	1,465,964
Total Revenues	7,328,498	7,243,275	7,112,055	7,124,113	7,201,420
Total Expenditures	6,887,270	6,873,380	7,006,780	6,819,317	6,688,452
Total Other Financing Sources (Uses)	(549,274)	(355,835)	(349,473)	(98,540)	(315,998)



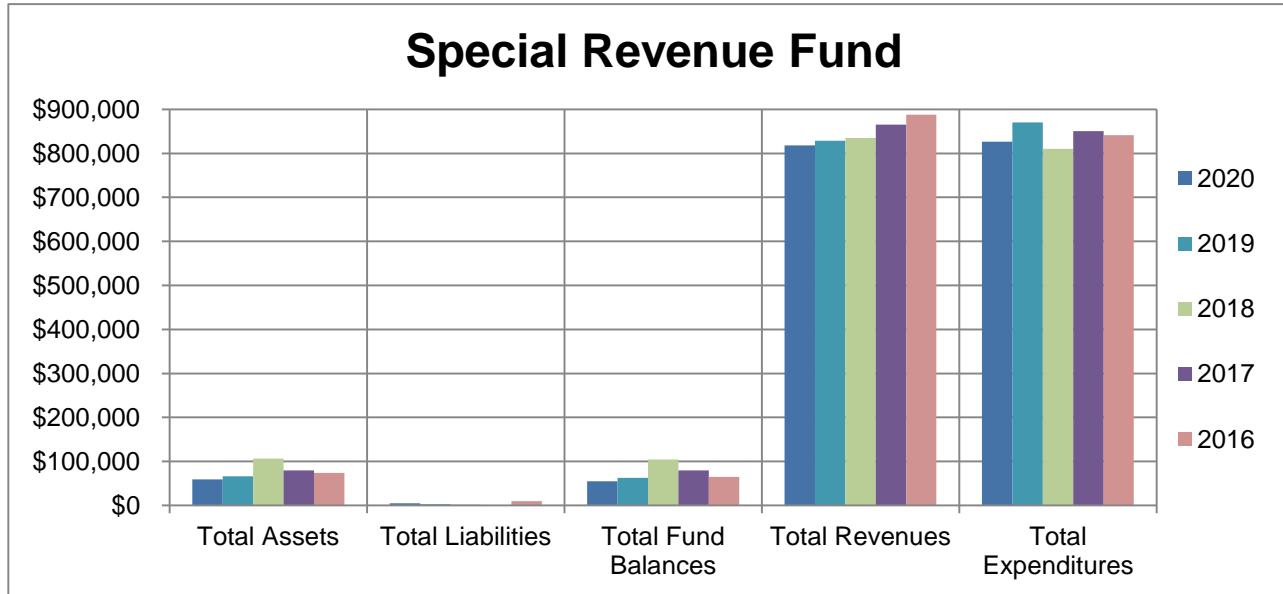


VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
BOONE COUNTY, ARKANSAS

Schedule 2

SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2020  
(Unaudited)

<u>Special Revenue Fund</u>	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets	\$ 59,439	\$ 65,881	\$ 106,326	\$ 79,560	\$ 73,958
Total Liabilities	4,447	2,897	2,042		9,447
Total Fund Balances	54,992	62,984	104,284	79,560	64,511
Total Revenues	818,478	828,984	835,187	865,632	888,236
Total Expenditures	826,470	870,284	810,463	850,583	841,606
Total Other Financing Sources (Uses)					



VALLEY SPRINGS SCHOOL DISTRICT NO. 2  
 BOONE COUNTY, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2020  
 (Unaudited)

Schedule 2

<b><u>Other Aggregate Funds</u></b>	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets	\$ 3,150,462	\$ 7,627,965	\$ 1,042,712	\$ 843,719	\$ 1,509,711
Total Liabilities	544,570	20,453	14,322		
Total Fund Balances	2,605,892	7,607,512	1,028,390	843,719	1,509,711
Total Revenues	947,751	168,778	1,577	741	22,078
Total Expenditures	6,615,613	836,396	166,379	765,273	439,226
Total Other Financing Sources (Uses)	666,242	7,246,740	349,473	98,540	322,838

