

Dierks School District No. 2

Howard County, Arkansas

Regulatory Basis Financial Statements And Other Reports

June 30, 2020



DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2020

Independent Auditor's Report
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

REGULATORY BASIS FINANCIAL STATEMENTS

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

SCHEDULES

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1
Schedule of Selected Information for the Last Five Years – Regulatory Basis (Unaudited)	2

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

Dierks 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 Dierks 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 26, 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 26, 2021
EDSD16420

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

Dierks 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 Dierks 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 26, 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 26, 2021

DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2020

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 889,616	\$ 71,172	\$ 3,610,760	\$ 290,869
Accounts receivable		28,439		
TOTAL ASSETS	\$ 889,616	\$ 99,611	\$ 3,610,760	\$ 290,869
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 40		\$ 65,632	
Due student groups				\$ 26,341
Total Liabilities	40		65,632	26,341
Fund Balances:				
Restricted	87,508	\$ 99,611	1,791,301	264,528
Assigned	134,616		1,753,827	
Unassigned	667,452			
Total Fund Balances	889,576	99,611	3,545,128	264,528
TOTAL LIABILITIES AND FUND BALANCES	\$ 889,616	\$ 99,611	\$ 3,610,760	\$ 290,869

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

DIERKS SCHOOL DISTRICT NO. 2
HOWARD 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	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,706,174		
State assistance	3,127,717	\$ 2,406	
Federal assistance	1,843	599,944	
Activity revenues	101,337		
Meal sales		110,612	
Investment income	106,252		
Other revenues	319,421	20,200	
TOTAL REVENUES	5,362,744	733,162	
EXPENDITURES			
Regular programs	2,188,412	24,750	
Special education	297,809	33,966	
Career education programs	192,066		
Compensatory education programs	36,236	99,889	
Other instructional programs	153,539		
Student support services	218,439	111,733	
Instructional staff support services	91,989	44,406	
General administration support services	182,261	37,659	
School administration support services	265,574		
Central services support services	110,427		
Operation and maintenance of plant services	478,762	4,419	\$ 16,833
Student transportation services	228,468		
Other support services	3,248		
Food services operations	5,523	398,419	
Facilities acquisition and construction services	3,600		125,217
Activity expenditures	75,628		
Debt Service:			
Principal retirement	75,320		130,000
Interest and fiscal charges	4,829		34,793
Net debt issuance costs			84,986
TOTAL EXPENDITURES	4,612,130	755,241	391,829
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	750,614	(22,079)	(391,829)
OTHER FINANCING SOURCES (USES)			
Transfers in			732,085
Transfers out	(732,085)		
Proceeds from refunding and construction bond issue			3,150,000
Payment to refunding bond escrow agents			(1,153,036)
TOTAL OTHER FINANCING SOURCES (USES)	(732,085)		2,729,049

DIERKS SCHOOL DISTRICT NO. 2
 HOWARD 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	\$ 18,529	\$ (22,079)	\$ 2,337,220
FUND BALANCES - JULY 1	871,047	121,690	1,207,908
FUND BALANCES - JUNE 30	\$ 889,576	\$ 99,611	\$ 3,545,128

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

DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS

Exhibit C

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

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,729,497	\$ 1,706,174	\$ (23,323)			
State assistance	3,076,007	3,127,717	51,710	\$ 2,300	\$ 2,406	\$ 106
Federal assistance		1,843	1,843	636,851	599,944	(36,907)
Activity revenues	530,785	101,337	(429,448)			
Meal sales				127,561	110,612	(16,949)
Investment income	73,000	106,252	33,252	325		(325)
Other revenues	290,700	319,421	28,721	850	20,200	19,350
TOTAL REVENUES	5,699,989	5,362,744	(337,245)	767,887	733,162	(34,725)
EXPENDITURES						
Regular programs	2,226,368	2,188,412	37,956	553	24,750	(24,197)
Special education	287,247	297,809	(10,562)	33,500	33,966	(466)
Career education programs	195,265	192,066	3,199			
Compensatory education programs	37,099	36,236	863	123,062	99,889	23,173
Other instructional programs	163,679	153,539	10,140			
Student support services	231,696	218,439	13,257	109,750	111,733	(1,983)
Instructional staff support services	101,269	91,989	9,280	55,447	44,406	11,041
General administration support services	193,990	182,261	11,729	37,717	37,659	58
School administration support services	289,893	265,574	24,319			
Central services support services	114,859	110,427	4,432			
Operation and maintenance of plant services	564,528	478,762	85,766		4,419	(4,419)
Student transportation services	236,591	228,468	8,123			
Other support services	5,000	3,248	1,752			
Food services operations	3,800	5,523	(1,723)	402,676	398,419	4,257
Community services operations				1		1
Facilities acquisition and construction services	3,600	3,600				
Non-programmed costs				2,822		2,822
Activity expenditures	406,932	75,628	331,304			
Debt Service:						
Principal retirement	92,422	75,320	17,102			
Interest and fiscal charges	10,400	4,829	5,571			
TOTAL EXPENDITURES	5,164,638	4,612,130	552,508	765,528	755,241	10,287

DIERKS SCHOOL DISTRICT NO. 2
HOWARD 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	\$ 535,351	\$ 750,614	\$ 215,263	\$ 2,359	\$ (22,079)	\$ (24,438)
OTHER FINANCING SOURCES (USES)						
Transfers in	4,255,438		(4,255,438)	26,841		(26,841)
Transfers out	(4,666,935)	(732,085)	3,934,850	(26,841)		26,841
TOTAL OTHER FINANCING SOURCES (USES)	(411,497)	(732,085)	(320,588)	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	123,854	18,529	(105,325)	2,359	(22,079)	(24,438)
FUND BALANCES - JULY 1	1,203,513	871,047	(332,466)	105,104	121,690	16,586
FUND BALANCES - JUNE 30	\$ 1,327,367	\$ 889,576	\$ (437,791)	\$ 107,463	\$ 99,611	\$ (7,852)

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

DIERKS SCHOOL DISTRICT NO. 2
HOWARD 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 Dierks 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.

DIERKS SCHOOL DISTRICT NO. 2
 HOWARD 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 \$1,500 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.

DIERKS SCHOOL DISTRICT NO. 2
HOWARD 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. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. 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.
3. 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.

H. Budget and Budgetary Accounting

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

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis. Additionally, the District routinely budgets restricted federal programs as part of the special revenue fund. Significant variances may result in the budgetary comparison of the revenues and expenditures of the special revenue fund because of the reclassification of those federal programs primarily utilized for capital projects to the other aggregate funds for reporting purposes.

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

I. 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.

DIERKS SCHOOL DISTRICT NO. 2
 HOWARD COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Minimum Fund Balance Policies

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

K. 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.

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 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	4,612,417	4,931,990
Total Deposits	\$ 4,862,417	\$ 5,181,990

DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

3: ACCOUNTS RECEIVABLE

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

Description	Governmental Fund Major Special Revenue
Federal assistance	\$ 28,439

4: COMMITMENTS

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

A. Construction Contract

Project Name	Completion Date	Contract Balance
Joann Walters Elementary School Addition	April 1, 2021	\$ 1,759,460

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>					
11/1/19	2/1/49	1.5 - 3%	\$ 3,150,000	\$ 3,020,000	\$ 130,000
<u>Direct Borrowings</u>					
3/29/16	3/29/21	2.97%	90,628	19,210	71,418
4/26/16	4/26/22	3.27%	96,740	34,360	62,380
5/3/18	5/3/21	3.22%	120,960	41,614	79,346
Total Direct Borrowings			308,328	95,184	213,144
Total Long-Term Debt			\$ 3,458,328	\$ 3,115,184	\$ 343,144

DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

4: COMMITMENTS (Continued)

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

Changes in Long-term Debt

	Balance July 1, 2019	Issued	Retired	Balance June 30, 2020
Bonds payable	\$ 1,140,000	\$ 3,150,000	\$ 1,270,000	\$ 3,020,000
<u>Direct Borrowings</u>				
Installment contracts	170,504		75,320	95,184
Total Long-Term Debt	<u>\$ 1,310,504</u>	<u>\$ 3,150,000</u>	<u>\$ 1,345,320</u>	<u>\$ 3,115,184</u>

* Includes \$1,140,000 early retirement of debt – See Note 6.

Future Principal and Interest Payments

Year Ended June 30,	Bonds			Direct Borrowings		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 75,000	\$ 76,109	\$ 151,109	\$ 77,726	\$ 2,423	\$ 80,149
2022	75,000	74,871	149,871	17,458	429	17,887
2023	80,000	73,634	153,634			
2024	80,000	72,034	152,034			
2025	80,000	70,434	150,434			
2026-2030	430,000	327,143	757,143			
2031-2035	480,000	277,390	757,390			
2036-2040	545,000	214,020	759,020			
2041-2045	615,000	137,325	752,325			
2046-2049	560,000	42,450	602,450			
Totals	<u>\$ 3,020,000</u>	<u>\$ 1,365,410</u>	<u>\$ 4,385,410</u>	<u>\$ 95,184</u>	<u>\$ 2,852</u>	<u>\$ 98,036</u>

Security for Debt Payments

Ark. Code Ann. § 6-20-1204 specifies procedures to be followed if a school district is delinquent in a payment to the paying agent for bonded debt. As additional security, any delinquent payment for bonded debt will be satisfied by the 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.

DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

5: ACCOUNTS PAYABLE

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

Description	Governmental Funds	
	Major	
	General	Other Aggregate
Vendor payables	\$ 40	\$ 65,632

6: DEBT REFUNDINGS

On November 1, 2019, the District issued refunding and construction bonds of \$3,150,000 with interest rates of 1.5 to 3 percent. Bond proceeds of \$1,153,036 were deposited with escrow agents to refund \$165,000 of outstanding bonds dated May 1, 2009, with interest rates of 3 to 4 percent; and \$975,000 of outstanding bonds dated October 1, 2011, with interest rates of 1.5 to 2.45 percent; and to pay interest and fees for each refunded bond. The 2009 and 2011 bonds were called on December 23, 2019. The remaining proceeds of \$1,907,642 and \$4,336 (after payment of \$84,986 net bond issuance costs) will be utilized for construction projects and subsequent debt payments, respectively.

7: INTERFUND TRANSFERS

The District transferred \$732,085 from the general fund to other aggregate funds for debt related payments of \$163,711 and \$568,374 for future capital projects.

8: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description

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

Funding Policy

ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6.25% 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 \$463,610, 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 \$4,483,648.

DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 15,825
DEDUCTIONS	
Scholarships	<u>36,346</u>
CHANGE IN FUND BALANCE	(20,521)
FUND BALANCE - JULY 1	<u>285,049</u>
FUND BALANCE - JUNE 30	<u>\$ 264,528</u>

The District maintains three scholarship funds. The Quinn Cumba Nursing Scholarship was funded by Ann McDonald. Scholarships are awarded to students pursuing a nursing degree. The High School Scholarship Fund is made up of donations from various individuals and businesses. Scholarship recipients are selected by committees in accordance with stipulations set forth by the donors. The Thornton-Chandler Scholarship Fund was funded by Maggie Lou Chandler. Scholarship recipients are selected by committees in accordance with stipulations set forth by the donor.

10: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$3,150,000 issued November 1, 2019. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$4,385,410, payable through February 1, 2049. Principal and interest paid for the current year and total property taxes pledged for debt service were \$163,397 and \$436,463, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 37.44 percent.

11: RISK MANAGEMENT

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

The District carries commercial insurance for board liability, student accidents, and business trip accidents.

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, vehicles and mobile equipment.

DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

11: RISK MANAGEMENT (Continued)

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.

12: 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 \$122,599 for the year ended June 30, 2020.

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

Description	Governmental Funds		
	Major		Other
	General	Special Revenue	Aggregate
Fund Balances:			
Restricted for:			
Alternative learning environment	\$ 4,472		
Enhanced student achievement funding	36,055		
English-language learners	301		
Professional development	7,447		
Capital projects			\$ 1,788,047
Child nutrition programs		\$ 60,496	
Debt service			3,254
Medical services		37,591	
Special education programs	25,027		
Title I programs		280	
Other purposes	14,206	1,244	
Total Restricted	<u>87,508</u>	<u>99,611</u>	<u>1,791,301</u>
Assigned to:			
Capital projects			1,753,827
Student activities	134,616		
Total Assigned	<u>134,616</u>		<u>1,753,827</u>
Unassigned	<u>667,452</u>		
Totals	<u>\$ 889,576</u>	<u>\$ 99,611</u>	<u>\$ 3,545,128</u>

DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

14: 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.

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

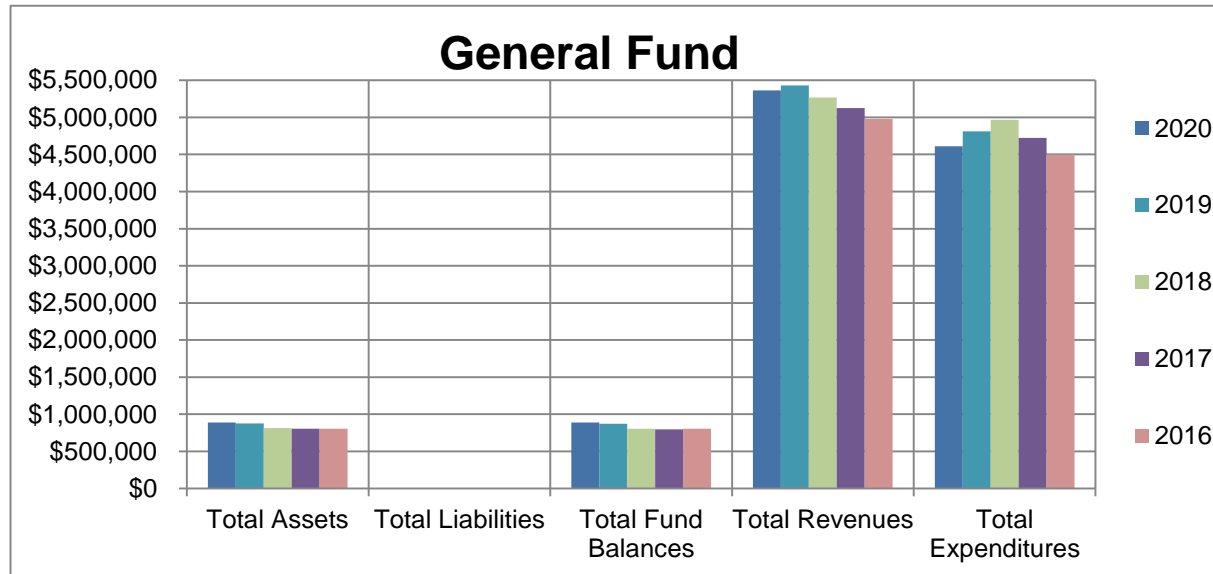
Schedule 1

	Balance June 30, 2020
Nondepreciable capital assets:	
Land	\$ 83,425
Construction in progress	53,964
Total nondepreciable capital assets	137,389
Depreciable capital assets:	
Buildings	6,944,881
Improvements/infrastructure	672,421
Equipment	1,380,042
Total depreciable capital assets	8,997,344
Less accumulated depreciation for:	
Buildings	3,665,321
Improvements/infrastructure	371,437
Equipment	1,078,808
Total accumulated depreciation	5,115,566
Total depreciable capital assets, net	3,881,778
Capital assets, net	\$ 4,019,167

DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS

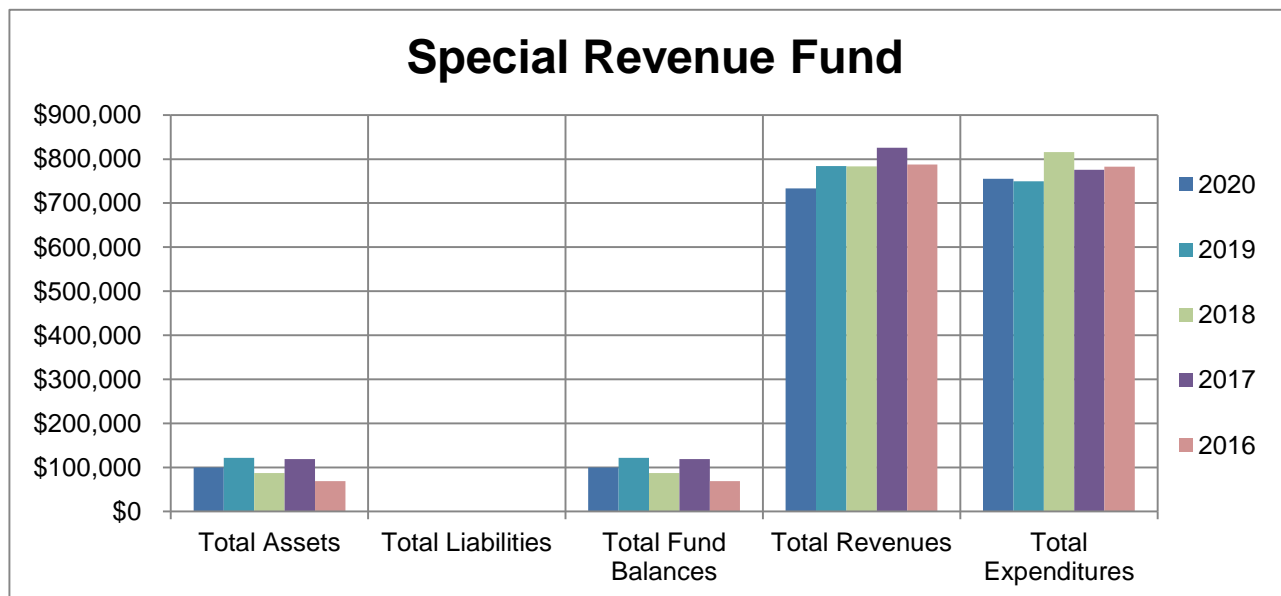
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020
(Unaudited)

<u>General Fund</u>	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets	\$ 889,616	\$ 877,537	\$ 813,223	\$ 804,449	\$ 805,197
Total Liabilities	40	6,490	7,192	8,197	1,390
Total Fund Balances	889,576	871,047	806,031	796,252	803,807
Total Revenues	5,362,744	5,430,658	5,265,475	5,124,135	4,977,397
Total Expenditures	4,612,130	4,810,802	4,966,269	4,724,684	4,497,093
Total Other Financing Sources (Uses)	(732,085)	(554,840)	(289,427)	(407,006)	(398,248)



DIERKS SCHOOL DISTRICT NO. 2
 HOWARD COUNTY, ARKANSAS
 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	\$ 99,611	\$ 121,690	\$ 86,843	\$ 119,166	\$ 68,946
Total Liabilities					
Total Fund Balances	99,611	121,690	86,843	119,166	68,946
Total Revenues	733,162	784,486	783,478	825,704	787,752
Total Expenditures	755,241	749,639	815,801	775,484	782,626
Total Other Financing Sources (Uses)					



DIERKS SCHOOL DISTRICT NO. 2
HOWARD COUNTY, ARKANSAS

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

Other Aggregate Funds	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets	\$ 3,610,760	\$ 1,207,908	\$ 919,645	\$ 713,460	\$ 737,391
Total Liabilities	65,632				
Total Fund Balances	3,545,128	1,207,908	919,645	713,460	737,391
Total Revenues					
Total Expenditures	391,829	266,577	287,096	443,517	418,723
Total Other Financing Sources (Uses)	2,729,049	554,840	493,281	419,586	579,033

