

Hillcrest School District No. 22

Lawrence County, Arkansas

Regulatory Basis Financial Statements And Other Reports

June 30, 2020



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LAWRENCE 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

Hillcrest School District No. 22 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 Hillcrest School District No. 22 (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
EDSD42520

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

Hillcrest School District No. 22 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 Hillcrest School District No. 22 (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

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2020

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 931,845		\$ 5,477,901	\$ 53,410
Investments			561,093	
Accounts receivable	452	\$ 112,419		
Due from other funds	18,205			
TOTAL ASSETS	\$ 950,502	\$ 112,419	\$ 6,038,994	\$ 53,410
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 19,708	\$ 52,904	\$ 4,684	\$ 1,869
Due student groups				45,693
Due to other funds		18,205		
Total Liabilities	19,708	71,109	4,684	47,562
Fund Balances:				
Restricted	187,241	41,310	2,544,805	5,848
Assigned	20,648		3,489,505	
Unassigned	722,905			
Total Fund Balances	930,794	41,310	6,034,310	5,848
TOTAL LIABILITIES AND FUND BALANCES	\$ 950,502	\$ 112,419	\$ 6,038,994	\$ 53,410

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

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE 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)	\$ 1,544,697		
State assistance	3,287,378	\$ 1,684	
Federal assistance		798,691	
Activity revenues	62,918		
Meal sales		45,457	
Investment income	6,539		\$ 11,122
Other revenues	36,810	4,000	
TOTAL REVENUES	4,938,342	849,832	11,122
EXPENDITURES			
Regular programs	1,557,094	274	
Special education	227,384	104,555	
Career education programs	214,168		
Compensatory education programs	100,422	13,757	
Other instructional programs	105,793		
Student support services	124,965	29,990	
Instructional staff support services	300,725	229,627	
General administration support services	188,932	39,056	
School administration support services	254,251		
Central services support services	90,320		
Operation and maintenance of plant services	657,346	17,827	
Student transportation services	368,222	11,197	
Other support services	40,723		
Food services operations	8,500	384,747	
Community services operations	16,824		
Facilities acquisition and construction services	378,419		7,834
Activity expenditures	56,196		
Debt Service:			
Principal retirement			155,000
Interest and fiscal charges			44,076
Net debt issuance costs			60,625
TOTAL EXPENDITURES	4,690,284	831,030	267,535
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	248,058	18,802	(256,413)
OTHER FINANCING SOURCES (USES)			
Transfers in			221,387
Transfers out	(221,387)		
Proceeds from refunding and construction bond issue			3,510,000
Payments to refunding bond escrow agents			(898,881)
TOTAL OTHER FINANCING SOURCES (USES)	(221,387)		2,832,506

HILLCREST SCHOOL DISTRICT NO. 22
 LAWRENCE 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	\$ 26,671	\$ 18,802	\$ 2,576,093
FUND BALANCES - JULY 1	904,123	22,508	3,458,217
FUND BALANCES - JUNE 30	\$ 930,794	\$ 41,310	\$ 6,034,310

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

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE 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)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,539,500	\$ 1,544,697	\$ 5,197			
State assistance	3,235,343	3,287,378	52,035	\$ 1,900	\$ 1,684	\$ (216)
Federal assistance				859,119	798,691	(60,428)
Activity revenues		62,918	62,918			
Meal sales				79,000	45,457	(33,543)
Investment income	7,000	6,539	(461)			
Other revenues	39,000	36,810	(2,190)		4,000	4,000
TOTAL REVENUES	4,820,843	4,938,342	117,499	940,019	849,832	(90,187)
EXPENDITURES						
Regular programs	1,482,026	1,557,094	(75,068)	274	274	
Special education	249,679	227,384	22,295	73,194	104,555	(31,361)
Career education programs	206,805	214,168	(7,363)	2,500		2,500
Compensatory education programs	93,956	100,422	(6,466)	14,390	13,757	633
Other instructional programs	106,254	105,793	461			
Student support services	124,965	124,965		51,926	29,990	21,936
Instructional staff support services	344,648	300,725	43,923	263,858	229,627	34,231
General administration support services	182,736	188,932	(6,196)	40,951	39,056	1,895
School administration support services	257,452	254,251	3,201			
Central services support services	85,113	90,320	(5,207)			
Operation and maintenance of plant services	782,886	657,346	125,540	8,757	17,827	(9,070)
Student transportation services	566,093	368,222	197,871	11,197	11,197	
Other support services	43,000	40,723	2,277			
Food services operations	16,000	8,500	7,500	357,929	384,747	(26,818)
Community services operations	1,200	16,824	(15,624)	2,000		2,000
Facilities acquisition and construction services		378,419	(378,419)			
Activity expenditures		56,196	(56,196)			
TOTAL EXPENDITURES	4,542,813	4,690,284	(147,471)	826,976	831,030	(4,054)

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE 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	\$ 278,030	\$ 248,058	\$ (29,972)	\$ 113,043	\$ 18,802	\$ (94,241)
OTHER FINANCING SOURCES (USES)						
Transfers in	4,835,236		(4,835,236)	19,726		(19,726)
Transfers out	(5,033,737)	(221,387)	4,812,350	(19,726)		19,726
TOTAL OTHER FINANCING SOURCES (USES)	(198,501)	(221,387)	(22,886)	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	79,529	26,671	(52,858)	113,043	18,802	(94,241)
FUND BALANCES - JULY 1	980,873	904,123	(76,750)	23,442	22,508	(934)
FUND BALANCES - JUNE 30	\$ 1,060,402	\$ 930,794	\$ (129,608)	\$ 136,485	\$ 41,310	\$ (95,175)

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

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Board of Education, a seven 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 Hillcrest 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.

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE 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	5-20
Buildings	25-50
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.

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE 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. 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.

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.

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.

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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)	\$ 500,000	\$ 500,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	6,524,249	6,759,062
Total Deposits	\$ 7,024,249	\$ 7,259,062

The above total deposits include certificates of deposit of \$561,093 reported as investments and classified as nonparticipating contracts.

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE 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 Funds	
	Major	
	General	Special Revenue
Federal assistance		\$ 112,419
Other	\$ 452	
Totals	\$ 452	\$ 112,419

4: COMMITMENTS

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

- A. Operating Lease (noncapital lease with initial noncancellable lease terms in excess of one year)

General description of lease and leasing arrangement:

On June 11, 2018, the District executed an operating lease for twelve copiers commencing on August 30, 2018. The agreement stipulated monthly payments of \$1,079 plus sales tax for 48 months.

1. Future minimum rental payments (aggregate) at June 30, 2020: \$26,975
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2021	\$ 12,948
2022	12,948
2023	1,079
Total	\$ 26,975

Rental payments for the operating lease described above were approximately \$14,113 for the year ended June 30, 2020.

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

4: COMMITMENTS (Continued)

B. Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2020</u>	<u>Maturities To June 30, 2020</u>
Bonds					
3/1/12	2/1/23	.75 - 2%	\$ 735,000	\$ 230,000	\$ 505,000
2/1/20	6/1/42	2 - 2.375%	3,510,000	3,425,000	85,000
Total Bonds			\$ 4,245,000	\$ 3,655,000	\$ 590,000

Changes in Long-term Debt

	<u>Balance July 1, 2019</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2020</u>
Bonds payable	\$ 1,190,000	\$ 3,510,000	\$ 1,045,000 *	\$ 3,655,000

* Includes \$890,000 early retirement of debt – See Note 6.

Future Principal and Interest Payments

<u>Year Ended June 30,</u>	<u>Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 110,000	\$ 79,050	\$ 189,050
2022	115,000	76,850	191,850
2023	125,000	74,550	199,550
2024	135,000	72,050	207,050
2025	135,000	69,350	204,350
2026-2030	755,000	304,250	1,059,250
2031-2035	870,000	223,088	1,093,088
2036-2040	975,000	122,081	1,097,081
2041-2042	435,000	15,556	450,556
Totals	\$ 3,655,000	\$ 1,036,825	\$ 4,691,825

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.

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE 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			Fiduciary Fund Types
	Major			
	General	Special Revenue	Other Aggregate	
Vendor payables	\$ 19,708	\$ 52,904	\$ 4,684	\$ 1,869

6: DEBT REFUNDINGS

On February 1, 2020, the District issued refunding and construction bonds of \$3,510,000 with interest rates of 2 to 2.375 percent to refund \$890,000 of outstanding bonds dated October 1, 2010 and March 1, 2012. The interest rates of the bonds refunded ranged from 1 to 3.2 percent. Net bond proceeds of \$898,881 were remitted to escrow agents to provide all future debt service payments for the bonds refunded. These bonds were called on March 16, 2020. The remaining proceeds of \$2,547,956 and \$2,538 (after payment of \$60,625 net bond issuance costs) will be utilized for capital projects and subsequent debt payments. This bond issue restructured and extended the debt obligation of the District from fiscal year 2027 to fiscal year 2042.

7: INTERFUND TRANSFERS

The District transferred \$221,387 from the general fund to other funds in the aggregate for debt related payments of \$196,537 and for future capital expenditures of \$24,850.

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 \$395,717, 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 \$3,798,854.

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	<u>\$ 750</u>
DEDUCTIONS	
Scholarships	<u>6,878</u>
CHANGE IN FUND BALANCE	(6,128)
FUND BALANCE - JULY 1	<u>11,976</u>
FUND BALANCE - JUNE 30	<u>\$ 5,848</u>

10: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$4,245,000 issued from March 1, 2012 to February 1, 2020. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$4,691,825. Principal and interest paid for the current year and total property taxes pledged for debt service were \$197,756 and \$469,003, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 42.17 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 accident, business trip accidental death and dismemberment, and out-of-state vehicle travel coverages.

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.

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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 \$84,421 for the year ended June 30, 2020.

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

Description	Governmental Funds		
	Major		Other Aggregate
	General	Special Revenue	
Fund Balances:			
Restricted for:			
Enhanced student achievement funding	\$ 14,183		
English-language learners	690		
Professional development	2,879		
Capital projects			\$ 2,544,805
Child nutrition programs		\$ 15,844	
Medical services		16,633	
Special education programs	48,719		
Isolated funding	86,192		
Other purposes	34,578	8,833	
Total Restricted	<u>187,241</u>	<u>41,310</u>	<u>2,544,805</u>
Assigned to:			
Capital projects			3,489,505
Student activities	20,648		
Total Assigned	<u>20,648</u>		<u>3,489,505</u>
Unassigned	<u>722,905</u>		
Totals	<u>\$ 930,794</u>	<u>\$ 41,310</u>	<u>\$ 6,034,310</u>

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.

15: SUBSEQUENT EVENT

On April 7, 2021, the District executed a contract totaling \$5,276,152 for the construction of a new elementary school cafeteria with offices and a new high school cafeteria.

HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2020
(Unaudited)

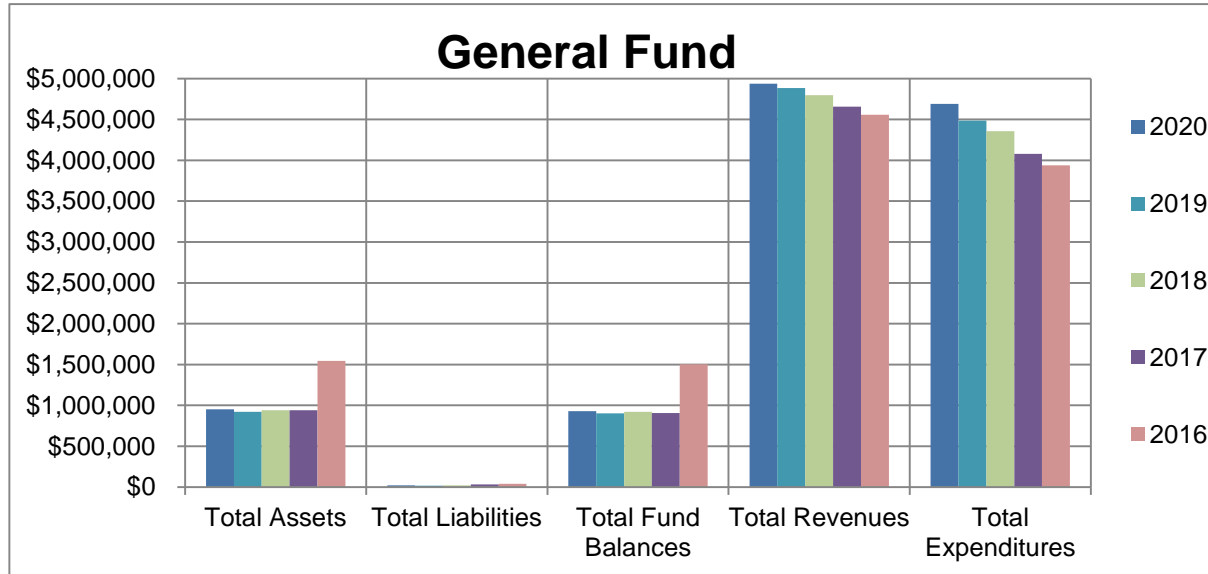
Schedule 1

	Balance June 30, 2020
Nondepreciable capital assets:	
Land	\$ 140,774
Depreciable capital assets:	
Buildings	5,267,067
Improvements/infrastructure	559,065
Equipment	2,229,377
Total depreciable capital assets	<u>8,055,509</u>
Less accumulated depreciation for:	
Buildings	2,007,333
Improvements/infrastructure	156,532
Equipment	1,079,149
Total accumulated depreciation	<u>3,243,014</u>
Total depreciable capital assets, net	<u>4,812,495</u>
Capital assets, net	<u>\$ 4,953,269</u>

HILLCREST SCHOOL DISTRICT NO. 22
 LAWRENCE COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2020
 (Unaudited)

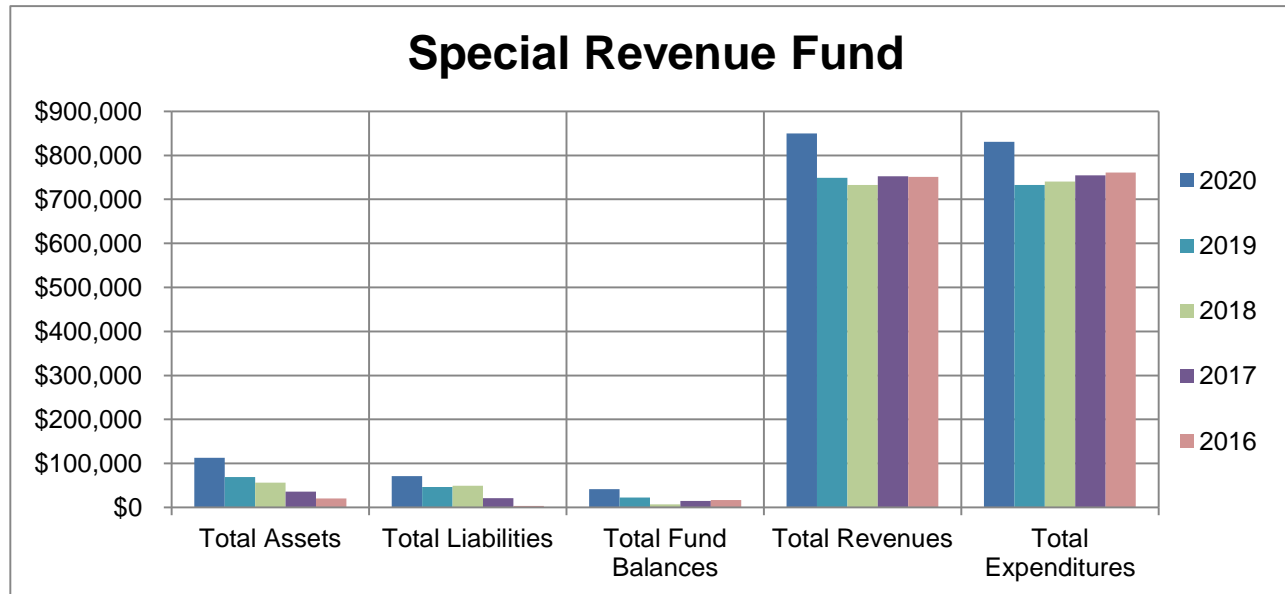
Schedule 2

<u>General Fund</u>	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets	\$ 950,502	\$ 923,131	\$ 940,347	\$ 939,286	\$ 1,545,178
Total Liabilities	19,708	19,008	20,042	33,526	41,749
Total Fund Balances	930,794	904,123	920,305	905,760	1,503,429
Total Revenues	4,938,342	4,885,392	4,798,707	4,654,916	4,559,552
Total Expenditures	4,690,284	4,485,995	4,357,437	4,078,201	3,938,552
Total Other Financing Sources (Uses)	(221,387)	(415,579)	(426,725)	(1,174,384)	(570,772)



HILLCREST SCHOOL DISTRICT NO. 22
 LAWRENCE 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	\$ 112,419	\$ 69,056	\$ 55,960	\$ 35,671	\$ 19,995
Total Liabilities	71,109	46,548	49,045	21,080	3,199
Total Fund Balances	41,310	22,508	6,915	14,591	16,796
Total Revenues	849,832	748,731	732,601	752,386	751,364
Total Expenditures	831,030	733,138	740,277	754,591	761,228
Total Other Financing Sources (Uses)					10,150



HILLCREST SCHOOL DISTRICT NO. 22
LAWRENCE COUNTY, ARKANSAS

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

<u>Other Aggregate Funds</u>	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets	\$ 6,038,994	\$ 3,458,217	\$ 3,235,474	\$ 3,011,566	\$ 2,040,726
Total Liabilities	4,684				
Total Fund Balances	6,034,310	3,458,217	3,235,474	3,011,566	2,040,726
Total Revenues	11,122	5,645	3,230		
Total Expenditures	267,535	198,481	206,047	203,544	205,678
Total Other Financing Sources (Uses)	2,832,506	415,579	426,725	1,174,384	560,622

