

**Spring Hill School District No. 10**

**Hempstead County, Arkansas**

**Regulatory Basis Financial Statements  
And Other Reports**

**June 30, 2008**

LEGISLATIVE JOINT AUDITING COMMITTEE

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HEMPSTEAD COUNTY, ARKANSAS  
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JUNE 30, 2008

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**Sen. Bobby L. Glover**  
Senate Co-Chair  
**Rep. Johnny Hoyt**  
House Co-Chair  
**Sen. Bill Pritchard**  
Senate Co-Vice Chair  
**Rep. Beverly Pyle**  
House Co-Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Spring Hill School District No. 10 and School Board Members  
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Spring Hill School District No. 10 (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2008, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2009 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 (Schedule 1) and the Schedule of Selected Information for the Last Four Years – Regulatory Basis (Schedule 2) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Four Years – Regulatory Basis (Schedule 2) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Roger A. Norman".

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

Little Rock, Arkansas  
November 9, 2009  
EDSD15508

Sen. Bobby L. Glover  
Senate Co-Chair  
Rep. Johnny Hoyt  
House Co-Chair  
Sen. Bill Pritchard  
Senate Co-Vice Chair  
Rep. Beverly Pyle  
House Co-Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF 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*

Spring Hill School District No. 10 and School Board Members  
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Spring Hill School District No. 10 (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated November 9, 2009. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting as prescribed or permitted by Arkansas Code such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described below in the Audit Findings section of this report to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

AUDIT FINDING

MATERIAL WEAKNESS

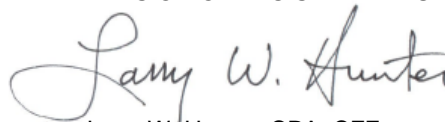
Internal control is a process consisting of five interrelated components – *control environment, risk assessment, information and communication, control activities, and monitoring*. Financial accounting duties should be distributed among appropriate employees to enhance the design of the internal control process to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting. The District, because of cost/benefit implications, has not segregated financial accounting duties to sufficiently reduce the risk that a material misstatement of the financial statements due to fraud or error will not be prevented or detected. An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained. The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weakness. District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Management Response: The District concurs with the recommendation.

The District's response to the finding identified in our audit is described above. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
November 9, 2009

SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2008

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 549,273	\$ 46,360	\$ 379,908	\$ 17,705
Accounts receivable	3,491	11,336		
<b>TOTAL ASSETS</b>	<b>\$ 552,764</b>	<b>\$ 57,696</b>	<b>\$ 379,908</b>	<b>\$ 17,705</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 874			
Due student groups				\$ 17,705
Deferred taxes	19,676			
<b>Total Liabilities</b>	<b>20,550</b>			<b>17,705</b>
Fund Balances:				
Reserved:				
Capital projects			\$ 379,908	
Unreserved:				
Undesignated	532,214	\$ 57,696		
<b>Total Fund Balances</b>	<b>532,214</b>	<b>57,696</b>	<b>379,908</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 552,764</b>	<b>\$ 57,696</b>	<b>\$ 379,908</b>	<b>\$ 17,705</b>

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

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SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2008

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 431,704		
State assistance	3,157,973	\$ 1,910	\$ 142,584
Federal assistance		244,235	
Activity revenues	101,003		
Meal sales		49,985	
Interest income	9,758		10,628
Other revenues	2,106	7,437	
<b>TOTAL REVENUES</b>	<b>3,702,544</b>	<b>303,567</b>	<b>153,212</b>
<b>EXPENDITURES</b>			
Regular programs	1,745,469	591	
Special education	165,260	59,137	
Workforce education	234,570		
Compensatory education	9,927	46,053	
Other instructional programs	92,110		
Student support services	126,920	30,317	
Instructional staff support services	118,099	13,883	
General administration support services	159,243	1,338	
School administration support services	148,270		
Central services support services	146,317	3,558	
Operation and maintenance of plant services	307,667		
Student transportation services	179,545		
Other support services	346		
Food services operations	34,573	165,798	
Facilities acquisition and construction services	2,486		202,158
Activity expenditures	89,230		
Debt Service:			
Principal retirement	15,946		50,000
Interest and fiscal charges	9,880		117,667
<b>TOTAL EXPENDITURES</b>	<b>3,585,858</b>	<b>320,675</b>	<b>369,825</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>116,686</b>	<b>(17,108)</b>	<b>(216,613)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			166,234
Transfers out	(166,234)		
Proceeds from sale of construction bonds			425,000
Net bond issuance costs			(19,605)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(166,234)</b>		<b>571,629</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(49,548)</b>	<b>(17,108)</b>	<b>355,016</b>
<b>FUND BALANCES - JULY 1</b>	<b>581,762</b>	<b>74,804</b>	<b>24,892</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 532,214</b>	<b>\$ 57,696</b>	<b>\$ 379,908</b>

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

SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD 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, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes (including property tax relief trust distribution)	\$ 361,500	\$ 431,704	\$ 70,204			
State assistance	3,137,087	3,157,973	20,886	\$ 2,000	\$ 1,910	\$ (90)
Federal assistance				373,591	244,235	(129,356)
Activity revenues	37,900	101,003	63,103			
Meal sales				53,000	49,985	(3,015)
Interest income	11,000	9,758	(1,242)			
Other revenues	585	2,106	1,521		7,437	7,437
<b>TOTAL REVENUES</b>	<b>3,548,072</b>	<b>3,702,544</b>	<b>154,472</b>	<b>428,591</b>	<b>303,567</b>	<b>(125,024)</b>
<b>EXPENDITURES</b>						
Regular programs	1,867,669	1,745,469	122,200		591	(591)
Special education	146,055	165,260	(19,205)	51,108	59,137	(8,029)
Workforce education	238,638	234,570	4,068			
Compensatory education	11,500	9,927	1,573	36,373	46,053	(9,680)
Other instructional programs	30,798	92,110	(61,312)			
Student support services	130,626	126,920	3,706	35,000	30,317	4,683
Instructional staff support services	117,814	118,099	(285)	81,386	13,883	67,503
General administration support services	166,182	159,243	6,939	1,400	1,338	62
School administration support services	133,836	148,270	(14,434)			
Central services support services	142,448	146,317	(3,869)	4,150	3,558	592
Operation and maintenance of plant services	273,282	307,667	(34,385)			
Student transportation services	47,552	179,545	(131,993)			
Other support services		346	(346)			
Food services operations	2,000	34,573	(32,573)	164,373	165,798	(1,425)
Facilities acquisition and construction services		2,486	(2,486)			
Activity expenditures	20,000	89,230	(69,230)			
Debt Service:						
Principal retirement		15,946	(15,946)			
Interest and fiscal charges		9,880	(9,880)			
<b>TOTAL EXPENDITURES</b>	<b>3,328,400</b>	<b>3,585,858</b>	<b>(257,458)</b>	<b>373,790</b>	<b>320,675</b>	<b>53,115</b>

SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD 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, 2008

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 219,672	\$ 116,686	\$ (102,986)	\$ 54,801	\$ (17,108)	\$ (71,909)
OTHER FINANCING SOURCES (USES)						
Transfers in	1,984,473		(1,984,473)	13,336		(13,336)
Transfers out	(2,127,337)	(166,234)	1,961,103	(13,336)		13,336
TOTAL OTHER FINANCING SOURCES (USES)	(142,864)	(166,234)	(23,370)	0		0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	76,808	(49,548)	(126,356)	54,801	(17,108)	(71,909)
FUND BALANCES - JULY 1	600,034	581,762	(18,272)	76,380	74,804	(1,576)
FUND BALANCES - JUNE 30	\$ 676,842	\$ 532,214	\$ (144,628)	\$ 131,181	\$ 57,696	\$ (73,485)

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

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SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**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 Spring Hill 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 the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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).

**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 Arkansas Code Annotated § 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.

SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**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, specific procedures for the identification of major governmental funds and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

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

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 fair 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

SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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

**F. Property Taxes**

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30<sup>th</sup> is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30<sup>th</sup> is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

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. Arkansas Code Annotated § 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 Designations**

1. Reserved fund balance - represents that portion of the fund balance which is not appropriable for expenditure or is legally segregated for a specific future use.
2. Undesignated fund balance - indicates that portion of the fund balance not reserved or designated.

**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.

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.

SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**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)	\$ 200,000	\$ 200,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	793,246	1,023,339
Total Deposits	\$ 993,246	\$ 1,223,339

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$14,827 at June 30, 2008 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Meal sales		\$ 11	\$ 11
Other	\$ 3,491	11,325	14,816
Totals	\$ 3,491	\$ 11,336	\$ 14,827

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2008:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
Elementary School - architect fees	June 1, 2010	\$ 47,000



SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**4: COMMITMENTS (Continued)**

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, 2008	Maturities To June 30, 2008
6/1/03	2/1/36	3.55 - 4.2%	\$ 2,488,000	\$ 2,295,000	\$ 193,000
9/1/03	2/1/30	1.2 - 5%	370,000	310,000	60,000
11/1/07	2/1/39	4.15 - 4.5%	425,000	425,000	
9/27/06	9/27/16	4.94%	<u>200,000</u>	<u>184,054</u>	<u>15,946</u>
Totals			<u>\$ 3,483,000</u>	<u>\$ 3,214,054</u>	<u>\$ 268,946</u>

Changes in Long-term Debt

	Balance July 1, 2007	Issued	Retired	Balance June 30, 2008
Bonds payable	\$ 2,655,000	\$ 425,000	\$ 50,000	\$ 3,030,000
Postdated warrants	<u>200,000</u>		<u>15,946</u>	<u>184,054</u>
Totals	<u>\$ 2,855,000</u>	<u>\$ 425,000</u>	<u>\$ 65,946</u>	<u>\$ 3,214,054</u>

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

Year Ended June 30,	Principal	Interest	Total
2009	\$ 66,733	\$ 147,551	\$ 214,284
2010	77,560	140,306	217,866
2011	78,427	137,098	215,525
2012	84,337	133,868	218,205
2013	85,293	130,385	215,678
2014-2018	456,704	595,681	1,052,385
2019-2023	450,000	501,040	951,040
2024-2028	555,000	389,906	944,906
2029-2033	705,000	248,040	953,040
2034-2038	605,000	78,110	683,110
2039	<u>50,000</u>	<u>2,250</u>	<u>52,250</u>
Totals	<u>\$ 3,214,054</u>	<u>\$ 2,504,235</u>	<u>\$ 5,718,289</u>

SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$874 at June 30, 2008 was comprised of the following:

Description	Governmental Fund
	Major
	General
Vendor payables	\$ 874

**6: INTERFUND TRANSFERS**

The District transferred \$166,234 from the operating fund to the other aggregate funds for debt related payments.

**7: 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 all Arkansas public school employees, except certain nonteachers hired before July 1, 1989. 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 or by calling 1-800-666-2877.

**Funding Policy.** ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2008, 2007 and 2006 were \$323,255, \$306,436 and \$300,827, respectively, equal to the required contributions for each year.

**8: 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 legal liability. Settled claims have not exceeded this commercial 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.

SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**8: RISK MANAGEMENT (Continued)**

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.

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 \$250,000 with a \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The District participates in the Public School Property and Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program’s general objectives are to formulate, develop and administer, on behalf of member districts, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for its coverage of buildings, contents and vehicles.

**9: SUBSEQUENT EVENTS**

- A. On November 6, 2008, the District accepted a bid of \$3,455,959 for the construction of an elementary school.
- B. On September 3, 2009, the District issued postdated warrants of \$406,500 for completing the constructing and equipping of Phase 2 of the elementary school.

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SPRING HILL SCHOOL DISTRICT NO. 10  
 HEMPSTEAD COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2008  
 (Unaudited)

Schedule 1

	Balance <u>June 30, 2008</u>
<i>Nondepreciable capital assets:</i>	
Land	\$ 87,583
Construction in progress	177,266
Total nondepreciable capital assets	<u>264,849</u>
 <i>Depreciable capital assets:</i>	
Buildings	3,527,587
Improvements/infrastructure	413,360
Equipment	890,777
Total depreciable capital assets	<u>4,831,724</u>
 Less accumulated depreciation for:	
Buildings	865,169
Improvements/infrastructure	74,430
Equipment	499,713
Total accumulated depreciation	<u>1,439,312</u>
Total depreciable capital assets, net	<u>3,392,412</u>
Capital assets, net	<u><u>\$ 3,657,261</u></u>

SPRING HILL SCHOOL DISTRICT NO. 10  
 HEMPSTEAD COUNTY, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FOUR YEARS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2008  
 (Unaudited)

Schedule 2

	Year Ended June 30,			
	2008	2007	2006	2005
<b><u>General Fund</u></b>				
Total Assets	\$ 552,764	\$ 585,316	\$ 590,589	\$ 1,087,739
Total Liabilities	20,550	3,554	9,106	
Total Fund Balances	532,214	581,762	581,483	1,087,739
Total Revenues	3,702,544	3,695,556	3,410,636	3,340,891
Total Expenditures	3,585,858	3,530,989	3,341,337	3,149,227
Total Other Financing Sources (Uses)	(166,234)	(164,288)	(575,555)	(162,161)
<b><u>Special Revenue Fund</u></b>				
Total Assets	57,696	76,381	33,686	43,045
Total Liabilities		1,577	1,219	
Total Fund Balances	57,696	74,804	32,467	43,045
Total Revenues	303,567	449,687	445,222	385,990
Total Expenditures	320,675	407,350	455,800	393,383
Total Other Financing Sources (Uses)				
<b><u>Other Aggregate Funds</u></b>				
Total Assets	379,908	24,892	376,766	53,853
Total Liabilities				
Total Fund Balances	379,908	24,892	376,766	53,853
Total Revenues	153,212			100
Total Expenditures	369,825	716,162	252,642	224,801
Total Other Financing Sources (Uses)	571,629	364,288	575,555	162,161