

**Spring Hill School District No. 10**

**Hempstead County, Arkansas**

**Regulatory Basis Financial Statements  
And Other Reports**

**June 30, 2010**

LEGISLATIVE JOINT AUDITING COMMITTEE

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HEMPSTEAD COUNTY, ARKANSAS  
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JUNE 30, 2010

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**Sen. Bill Pritchard**  
Senate Chair  
**Rep. Tim Summers**  
House Chair  
**Sen. David Wyatt**  
Senate Vice Chair  
**Rep. Toni Bradford**  
House 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, 2010, 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, 2010, 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, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds 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 May 5, 2011 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 Five 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 Five 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 black ink, appearing to read "Roger A. Norman". The signature is written in a cursive style with a large initial "R".

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

Little Rock, Arkansas  
May 5, 2011  
EDSD15510

**Sen. Bill Pritchard**  
Senate Chair  
**Rep. Tim Summers**  
House Chair  
**Sen. David Wyatt**  
Senate Vice Chair  
**Rep. Toni Bradford**  
House 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, 2010, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated May 5, 2011. 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, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below in the Audit Findings section of this report, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below in the Audit Findings section of this report 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 FINDINGS

### Material Weakness

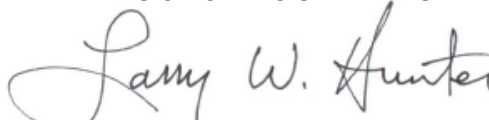
Internal control is a process of five interrelated components - *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. A deficiency in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. The District, because of cost/benefit implications, has not adequately segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting. 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: We concur with the recommendation and will implement corrective procedures to the extent possible.

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 the response.

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 Ark. Code Ann. § 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  
May 5, 2011

SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2010

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
<b>ASSETS</b>				
Cash	\$ 446,791	\$ 43,810	\$ 248,905	\$ 40,037
Accounts receivable	3,458		130,584	
<b>TOTAL ASSETS</b>	<b>\$ 450,249</b>	<b>\$ 43,810</b>	<b>\$ 379,489</b>	<b>\$ 40,037</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 10,666	\$ 2,923		\$ 1,679
Due student groups				38,358
Deferred taxes	21,967			
<b>Total Liabilities</b>	<b>32,633</b>	<b>2,923</b>		<b>40,037</b>
Fund Balances:				
Reserved:				
Capital projects			\$ 379,489	
Unreserved:				
Undesignated	417,616	40,887		
<b>Total Fund Balances</b>	<b>417,616</b>	<b>40,887</b>	<b>379,489</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 450,249</b>	<b>\$ 43,810</b>	<b>\$ 379,489</b>	<b>\$ 40,037</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 -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
<b>REVENUES</b>			
Property taxes (including property tax relief trust distribution)	\$ 504,594		
State assistance	2,833,591	\$ 1,823	\$ 1,497,970
Federal assistance		412,207	
Activity revenues	86,811		
Meal sales		63,433	
Investment income	1,372		12,934
Other revenues	4,380	6,801	
<b>TOTAL REVENUES</b>	<b>3,430,748</b>	<b>484,264</b>	<b>1,510,904</b>
<b>EXPENDITURES</b>			
Regular programs	1,771,123		
Special education	85,289	93,183	
Workforce education	221,353		
Compensatory education	8,125	151,067	
Other instructional programs	84,437		
Student support services	115,198	34,720	
Instructional staff support services	89,209	41,862	
General administration support services	157,759		
School administration support services	189,450		
Central services support services	118,726		
Operation and maintenance of plant services	332,957	327	
Student transportation services	111,572		
Food services operations		187,288	
Facilities acquisition and construction services			1,692,706
Activity expenditures	93,448		
Debt Service:			
Principal retirement	17,560		60,000
Interest and fiscal charges	8,266		132,870
<b>TOTAL EXPENDITURES</b>	<b>3,404,472</b>	<b>508,447</b>	<b>1,885,576</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>26,276</b>	<b>(24,183)</b>	<b>(374,672)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			192,870
Transfers out	(192,870)		
Proceeds from postdated warrants			406,500
Postdated warrants issuance cost			(6,500)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(192,870)</b>		<b>592,870</b>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>(166,594)</b>	<b>(24,183)</b>	<b>218,198</b>
<b>FUND BALANCES - JULY 1</b>	<b>584,210</b>	<b>65,070</b>	<b>161,291</b>
<b>FUND BALANCES - JUNE 30</b>	<b>\$ 417,616</b>	<b>\$ 40,887</b>	<b>\$ 379,489</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, 2010

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)	\$ 467,000	\$ 504,594	\$ 37,594			
State assistance	2,814,770	2,833,591	18,821		\$ 1,823	\$ 1,823
Federal assistance				\$ 588,319	412,207	(176,112)
Activity revenues		86,811	86,811			
Meal sales				56,000	63,433	7,433
Investment income	8,000	1,372	(6,628)			
Other revenues	1,500	4,380	2,880		6,801	6,801
<b>TOTAL REVENUES</b>	<b>3,291,270</b>	<b>3,430,748</b>	<b>139,478</b>	<b>644,319</b>	<b>484,264</b>	<b>(160,055)</b>
<b>EXPENDITURES</b>						
Regular programs	1,754,655	1,771,123	(16,468)			
Special education	85,871	85,289	582	159,478	93,183	66,295
Workforce education	210,724	221,353	(10,629)			
Compensatory education	5,500	8,125	(2,625)	247,524	151,067	96,457
Other instructional programs	81,470	84,437	(2,967)			
Student support services	113,776	115,198	(1,422)	34,300	34,720	(420)
Instructional staff support services	79,885	89,209	(9,324)	30,111	41,862	(11,751)
General administration support services	155,168	157,759	(2,591)			
School administration support services	175,443	189,450	(14,007)			
Central services support services	118,828	118,726	102			
Operation and maintenance of plant services	301,004	332,957	(31,953)		327	(327)
Student transportation services	94,122	111,572	(17,450)			
Food services operations				167,422	187,288	(19,866)
Community services operations				1,000		1,000
Activity expenditures		93,448	(93,448)			
Debt Service:						
Principal retirement	17,560	17,560				
Interest and fiscal charges	8,266	8,266				
<b>TOTAL EXPENDITURES</b>	<b>3,202,272</b>	<b>3,404,472</b>	<b>(202,200)</b>	<b>639,835</b>	<b>508,447</b>	<b>131,388</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, 2010

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 88,998	\$ 26,276	\$ (62,722)	\$ 4,484	\$ (24,183)	\$ (28,667)
OTHER FINANCING SOURCES (USES)						
Transfers in	1,913,627		(1,913,627)			
Transfers out	(2,105,667)	(192,870)	1,912,797			
TOTAL OTHER FINANCING SOURCES (USES)	(192,040)	(192,870)	(830)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(103,042)	(166,594)	(63,552)	4,484	(24,183)	(28,667)
FUND BALANCES - JULY 1	665,458	584,210	(81,248)	40,423	65,070	24,647
FUND BALANCES - JUNE 30	\$ 562,416	\$ 417,616	\$ (144,800)	\$ 44,907	\$ 40,887	\$ (4,020)

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

SPRING HILL SCHOOL DISTRICT NO. 32  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**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 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.

SPRING HILL SCHOOL DISTRICT NO. 32  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**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:

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

SPRING HILL SCHOOL DISTRICT NO. 32  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**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. 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 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. 32  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**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)	\$ 498,905	\$ 498,905
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	280,638	372,101
Total Deposits	\$ 779,543	\$ 871,006

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$134,042 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Other Aggregate	
State assistance		\$ 130,584	\$ 130,584
Other	\$ 3,458		3,458
Totals	\$ 3,458	\$ 130,584	\$ 134,042

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2010:

A. Construction Contract

Project Name	Completion Date	Contract Balance
Elementary School building	October 18, 2010	\$ 771,642

SPRING HILL SCHOOL DISTRICT NO. 32  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**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, 2010	Maturities To June 30, 2010
6/1/03	2/1/36	3.55 - 4.2%	\$ 2,488,000	\$ 2,215,000	\$ 273,000
9/1/03	2/1/30	1.25 - 5%	370,000	290,000	80,000
11/1/07	2/1/39	4.15 - 4.5%	425,000	415,000	10,000
9/27/06	9/27/16	4.94%	200,000	149,761	50,239
9/3/09	9/3/19	4.25%	406,500	406,500	
Totals			<u>\$ 3,889,500</u>	<u>\$ 3,476,261</u>	<u>\$ 413,239</u>

Changes in Long-term Debt

	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010
Bonds payable	\$ 2,980,000		\$ 60,000	\$ 2,920,000
Postdated warrants	167,321	\$ 406,500	17,560	556,261
Totals	<u>\$ 3,147,321</u>	<u>\$ 406,500</u>	<u>\$ 77,560</u>	<u>\$ 3,476,261</u>

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

Year Ended June 30,	Principal	Interest	Total
2011	\$ 111,894	\$ 154,375	\$ 266,269
2012	119,227	149,722	268,949
2013	121,665	144,756	266,421
2014	124,214	139,675	263,889
2015	131,877	134,499	266,376
2016-2020	667,384	586,735	1,254,119
2021-2025	490,000	460,028	950,028
2026-2030	615,000	337,163	952,163
2031-2035	770,000	182,220	952,220
2036-2039	325,000	28,140	353,140
Totals	<u>\$ 3,476,261</u>	<u>\$ 2,317,313</u>	<u>\$ 5,793,574</u>

SPRING HILL SCHOOL DISTRICT NO. 32  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$15,268 at June 30, 2010 was comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types	Total
	Major			
	General	Special Revenue		
Vendor payables	\$ 10,666	\$ 2,923	\$ 1,679	\$ 15,268

**6: INTERFUND TRANSFERS**

The District transferred \$192,870 from the general 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, 2010, 2009, and 2008 were \$323,261, \$316,570, and \$323,255, 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.

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.



SPRING HILL SCHOOL DISTRICT NO. 32  
HEMPSTEAD COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**8: RISK MANAGEMENT (Continued)**

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 \$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.

**9: ON-BEHALF PAYMENTS**

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$46,422 for the year ended June 30, 2010.

**10: SUBSEQUENT EVENTS**

The District issued refunding bonds of \$2,345,000 on July 1, 2010 to advance refund the bond issue dated June 1, 2003.

SPRING HILL SCHOOL DISTRICT NO. 10  
 HEMPSTEAD COUNTY, ARKANSAS  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2010  
 (Unaudited)

Schedule 1

	Balance <u>June 30, 2010</u>
<i>Nondepreciable capital assets:</i>	
Land	\$ 87,583
Construction in progress	3,305,787
Total nondepreciable capital assets	<u>3,393,370</u>
 <i>Depreciable capital assets:</i>	
Buildings	3,527,587
Improvements/infrastructure	415,144
Equipment	965,340
Total depreciable capital assets	<u>4,908,071</u>
 Less accumulated depreciation for:	
Buildings	1,003,343
Improvements/infrastructure	106,777
Equipment	604,819
Total accumulated depreciation	<u>1,714,939</u>
 Total depreciable capital assets, net	 <u>3,193,132</u>
 Capital assets, net	 <u>\$ 6,586,502</u>

SPRING HILL SCHOOL DISTRICT NO. 10  
HEMPSTEAD COUNTY, ARKANSAS  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2010  
(Unaudited)

<b>General Fund</b>	Year Ended June 30,				
	2010	2009	2008	2007	2006
Total Assets	\$ 450,249	\$ 654,286	\$ 552,764	\$ 585,316	\$ 590,589
Total Liabilities	32,633	70,076	20,550	3,554	9,106
Total Fund Balances	417,616	584,210	532,214	581,762	581,483
Total Revenues	3,430,748	3,558,473	3,702,544	3,695,556	3,410,636
Total Expenditures	3,404,472	3,317,195	3,585,858	3,530,989	3,341,337
Total Other Financing Sources (Uses)	(192,870)	(189,282)	(166,234)	(164,288)	(575,555)
 <b>Special Revenue Fund</b>					
Total Assets	43,810	67,796	57,696	76,381	33,686
Total Liabilities	2,923	2,726		1,577	1,219
Total Fund Balances	40,887	65,070	57,696	74,804	32,467
Total Revenues	484,264	358,051	303,567	449,687	445,222
Total Expenditures	508,447	350,677	320,675	407,350	455,800
Total Other Financing Sources (Uses)					
 <b>Other Aggregate Funds</b>					
Total Assets	379,489	418,317	379,908	24,892	376,766
Total Liabilities		257,026			
Total Fund Balances	379,489	161,291	379,908	24,892	376,766
Total Revenues	1,510,904	960,173	153,212		
Total Expenditures	1,885,576	1,368,072	369,825	716,162	252,642
Total Other Financing Sources (Uses)	592,870	189,282	571,629	364,288	575,555