

Spring Hill School District No. 10

Hempstead County, Arkansas

**Regulatory Basis Financial Statements
And Other Reports**

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2012

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

REGULATORY BASIS FINANCIAL STATEMENTS

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

SUPPLEMENTARY INFORMATION

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

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
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, 2012, 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, 2012, 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, 2012, 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 8, 2013 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. Such information has 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.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first name being the most prominent.

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

Little Rock, Arkansas
May 8, 2013
EDSD15512

Arkansas

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
House Vice Chair



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, 2012, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated May 8, 2013. 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, 2012, 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

Management of the District is responsible for establishing and maintaining effective 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*.

We noted certain matters that we reported to management of the District in a separate letter dated May 8, 2013.

AUDIT FINDINGS

Material Weakness

Internal control is a process consisting 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.

Deficiencies 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. Financial duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: the same employee, who receipts monies collected for the District's main operating account, also prepares deposits, maintains accounting records, and reconciles the District's bank account, without compensating controls. The same employee who collects and receipts monies collected for the child nutrition programs, also prepares and makes deposits, maintains daily count sheets and cash management worksheets, and prepares the monthly claim for reimbursement, without compensating controls. Payroll checks were prepared by the same employee responsible for preparing contracts, adding new employees, and processing payroll, without compensating controls. Also, another employee was responsible for preparing non-payroll checks, adding new vendors, and the processing of invoices, without compensating controls.

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 weaknesses. District management, due to cost/benefit implications, which hindered the District's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiencies in internal control.

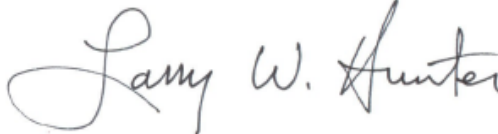
District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Management Response: We concur with the recommendation and will implement corrective procedures to the extent possible.

The District's response to the findings identified in our audit, excluding the management letter finding, 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 8, 2013

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

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

We would like to communicate the following item that came to our attention during this audit. The purpose of such comment is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws, and regulations and to improve internal control. This matter was discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

The District disbursed \$10,023 for HVAC services to a company in which a District employee had a financial interest without a Board resolution or Arkansas Department of Education approval, as required by Ark. Code Ann. § 6-24-107.

This letter 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

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
May 8, 2013

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2012

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 764,761	\$ 109,595	\$ 92,190	\$ 64,847
Accounts receivable	446	36,387		
Due from other funds	<u>20,308</u>			
TOTAL ASSETS	<u><u>\$ 785,515</u></u>	<u><u>\$ 145,982</u></u>	<u><u>\$ 92,190</u></u>	<u><u>\$ 64,847</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 45,939	\$ 2,969		\$ 1,393
Due student groups				42,073
Due to other funds		<u>20,308</u>		
Total Liabilities	<u>45,939</u>	<u>23,277</u>		<u>43,466</u>
Fund Balances:				
Restricted	19,184	122,705	\$ 92,190	21,381
Assigned	43,247			
Unassigned	<u>677,145</u>			
Total Fund Balances	<u>739,576</u>	<u>122,705</u>	<u>92,190</u>	<u>21,381</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 785,515</u></u>	<u><u>\$ 145,982</u></u>	<u><u>\$ 92,190</u></u>	<u><u>\$ 64,847</u></u>

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, 2012

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 527,480		
State assistance	3,543,417	\$ 1,887	\$ 121,858
Federal assistance		451,265	
Activity revenues	123,505		
Meal sales		78,392	
Investment income	710		
Other revenues	5,975	16,231	
TOTAL REVENUES	4,201,087	547,775	121,858
EXPENDITURES			
Regular programs	1,894,936	6,413	
Special education	89,806	100,664	
Workforce education programs	250,552		
Compensatory education programs	14,922	19,096	
Other instructional programs	88,349		
Student support services	131,340	28,219	
Instructional staff support services	136,869	111,280	
General administration support services	174,280		
School administration support services	184,990		
Central services support services	130,600		
Operation and maintenance of plant services	355,918		
Student transportation services	129,442		
Other support services	113	538	
Food services operations	104	225,448	
Other enterprise operations			
Community services operations		844	
Facilities acquisition and construction services			161,237
Activity expenditures	121,384		
Debt Service:			
Principal retirement	54,227		80,000
Interest and fiscal charges	22,342		110,136
TOTAL EXPENDITURES	3,780,174	492,502	351,373
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	420,913	55,273	(229,515)
OTHER FINANCING SOURCES (USES)			
Transfers in			193,222
Transfers out	(193,222)		
TOTAL OTHER FINANCING SOURCES (USES)	(193,222)		193,222
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	227,691	55,273	(36,293)
FUND BALANCES - JULY 1	511,885	67,432	128,483
FUND BALANCES - JUNE 30	\$ 739,576	\$ 122,705	\$ 92,190

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 480,244	\$ 527,480	\$ 47,236			
State assistance	3,073,574	3,543,417	469,843		\$ 1,887	\$ 1,887
Federal assistance				\$ 411,862	451,265	39,403
Activity revenues		123,505	123,505			
Meal sales				60,000	78,392	18,392
Investment income		710	710			
Other revenues	500	5,975	5,475		16,231	16,231
TOTAL REVENUES	3,554,318	4,201,087	646,769	471,862	547,775	75,913
EXPENDITURES						
Regular programs	1,804,978	1,894,936	(89,958)		6,413	(6,413)
Special education	87,836	89,806	(1,970)	114,996	100,664	14,332
Workforce education programs	226,633	250,552	(23,919)			
Compensatory education programs	14,922	14,922		18,572	19,096	(524)
Other instructional programs	92,454	88,349	4,105			
Student support services	130,077	131,340	(1,263)	43,835	28,219	15,616
Instructional staff support services	134,803	136,869	(2,066)	140,559	111,280	29,279
General administration support services	166,666	174,280	(7,614)			
School administration support services	179,134	184,990	(5,856)			
Central services support services	124,028	130,600	(6,572)			
Operation and maintenance of plant services	320,904	355,918	(35,014)	1,000		1,000
Student transportation services	109,832	129,442	(19,610)			
Other support services		113	(113)		538	(538)
Food services operations		104	(104)	180,781	225,448	(44,667)
Community services operations				2,000	844	1,156
Activity expenditures		121,384	(121,384)			
Debt Service:						
Principal retirement	54,227	54,227				
Interest and fiscal charges	22,342	22,342				
TOTAL EXPENDITURES	3,468,836	3,780,174	(311,338)	501,743	492,502	9,241

SPRING HILL SCHOOL DISTRICT NO. 10

Exhibit C

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, 2012

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 85,482	\$ 420,913	\$ 335,431	\$ (29,881)	\$ 55,273	\$ 85,154
OTHER FINANCING SOURCES (USES)						
Transfers in	1,967,002		(1,967,002)			
Transfers out	(2,156,997)	(193,222)	1,963,775			
TOTAL OTHER FINANCING SOURCES (USES)	(189,995)	(193,222)	(3,227)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(104,513)	227,691	332,204	(29,881)	55,273	85,154
FUND BALANCES - JULY 1	601,715	511,885	(89,830)	66,241	67,432	1,191
FUND BALANCES - JUNE 30	\$ 497,202	\$ 739,576	\$ 242,374	\$ 36,360	\$ 122,705	\$ 86,345

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

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 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.

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.

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

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.

Ark. Code Ann. § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of 2011 calendar year taxes collected by June 30, 2012 and 36 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2012 equaled or exceeded the 36 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.

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

J. Stabilization Arrangements

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

K. Minimum Fund Balance Policies

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

L. Fund Balance Classification Policies and Procedures

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

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

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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)	\$ 250,000	\$ 250,000
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	781,393	889,596
Total Deposits	\$ 1,031,393	\$ 1,139,596

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$36,833 at June 30, 2012 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
Federal assistance		\$ 33,688	\$ 33,688
Activity fund accounts	\$ 50		50
Other	396	2,699	3,095
Totals	\$ 446	\$ 36,387	\$ 36,833

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2012:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
Wastewater treatment plant - engineering fees	June 1, 2013	\$12,364

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012	Maturities To June 30, 2012
9/1/03	2/1/30	1.25 - 5%	\$ 370,000	\$ 270,000	\$ 100,000
11/1/07	2/1/39	4.15 - 4.5%	425,000	400,000	25,000
7/1/10	2/1/36	1 - 4%	2,345,000	2,275,000	70,000
9/27/06	9/27/16	4.94%	200,000	111,997	88,003
9/3/09	9/3/19	4.25%	406,500	338,143	68,357
Totals			<u>\$ 3,746,500</u>	<u>\$ 3,395,140</u>	<u>\$ 351,360</u>

Changes in Long-term Debt

	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012
Bonds payable	\$ 3,025,000		\$ 80,000	\$ 2,945,000
Postdated warrants	504,367		54,227	450,140
Totals	<u>\$ 3,529,367</u>	<u>\$ 0</u>	<u>\$ 134,227</u>	<u>\$ 3,395,140</u>

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

June 30,	Principal	Interest	Total
2013	\$ 136,665	\$ 127,757	\$ 264,422
2014	139,214	123,614	262,828
2015	141,877	119,501	261,378
2016	149,661	114,615	264,276
2017	152,571	109,504	262,075
2018-2022	620,152	472,726	1,092,878
2023-2027	555,000	370,789	925,789
2028-2032	690,000	252,678	942,678
2033-2037	710,000	101,875	811,875
2038-2039	100,000	6,750	106,750
Totals	<u>\$ 3,395,140</u>	<u>\$ 1,799,809</u>	<u>\$ 5,194,949</u>

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$50,301 at June 30, 2012 was comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types	Total
	General	Special Revenue		
Vendor payables	\$ 19,228	\$ 2,969	\$ 1,393	\$ 23,590
Due to grantors	26,711			26,711
Totals	\$ 45,939	\$ 2,969	\$ 1,393	\$ 50,301

6: INTERFUND TRANSFERS

The District transferred \$193,222 from the general fund to the other aggregate funds for debt related payments of \$190,136 and debt refunding savings of \$3,086, required to be utilized for capital expenditures.

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, 2012, 2011, and 2010 were \$346,338, \$326,802, and \$323,261, respectively, equal to the required contributions for each year.

8: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

The Debra McMaster and Cara Jones Memorial Scholarship Funds were established to award scholarships annually to selected students to attend an institution of higher education.

ADDITIONS	
Donations	<u>\$ 3,157</u>
DEDUCTIONS	
Scholarships	<u>750</u>
CHANGE IN FUND BALANCE	2,407
FUND BALANCE - JULY 1	<u>18,974</u>
FUND BALANCE - JUNE 30	<u><u>\$ 21,381</u></u>

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

9: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$3,140,000 issued from September 1, 2003 through July 1, 2010. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$4,659,874 payable through February 1, 2039. Principal and interest paid for the current year and total property taxes pledged for debt service were \$189,294 and \$212,002, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 89.29 percent.

10: 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.

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 \$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.

11: 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 \$51,088 for the year ended June 30, 2012.

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Fund Balances:				
Restricted for:				
Educational programs - national school lunch state categorical funding	\$ 1,701			\$ 1,701
English-language learners	6,631			6,631
Professional development	2,383			2,383
Capital projects			\$ 92,190	92,190
Child nutrition programs		\$ 77,305		77,305
Medical services		27,132		27,132
Special education programs	5,980	17,296		23,276
Title I programs		908		908
Other purposes	2,489	64		2,553
Total Restricted	<u>19,184</u>	<u>122,705</u>	<u>92,190</u>	<u>234,079</u>
Assigned to:				
Student activities	<u>43,247</u>			<u>43,247</u>
Unassigned				
	<u>677,145</u>			<u>677,145</u>
Totals	<u>\$ 739,576</u>	<u>\$ 122,705</u>	<u>\$ 92,190</u>	<u>\$ 954,471</u>

13: SUBSEQUENT EVENTS

- (a) On August 8, 2012, the District executed an agreement of \$492,624 with Arkansas Land and Water Development, Inc., for the construction of a wastewater treatment system.
- (b) On March 1, 2013, the District issued refunding bonds of \$275,000 with interest rates of 1 to 2 percent to refund the 2003 series bonds.
- (c) On March 15, 2013, the District issued refunding bonds of \$425,000 with interest rates of 2.25 to 3 percent to refund the 2007 series bonds.

SPRING HILL SCHOOL DISTRICT NO. 10
 HEMPSTEAD COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012
 (Unaudited)

Schedule 1

	Balance <u>June 30, 2012</u>
<i>Nondepreciable capital assets:</i>	
Land	\$ <u>87,583</u>
<i>Depreciable capital assets:</i>	
Buildings	7,432,502
Improvements/infrastructure	505,475
Equipment	981,972
Total depreciable capital assets	<u>8,919,949</u>
Less accumulated depreciation for:	
Buildings	1,194,667
Improvements/infrastructure	139,647
Equipment	749,174
Total accumulated depreciation	<u>2,083,488</u>
Total depreciable capital assets, net	<u>6,836,461</u>
Capital assets, net	<u><u>\$ 6,924,044</u></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, 2012
(Unaudited)

Schedule 2

General Fund	Year Ended June 30,				
	2012	2011	2010	2009	2008
Total Assets	\$ 785,515	\$ 556,548	\$ 450,249	\$ 654,286	\$ 552,764
Total Liabilities	45,939	44,663	32,633	70,076	20,550
Total Fund Balances	739,576	511,885	417,616	584,210	532,214
Total Revenues	4,201,087	3,662,578	3,430,748	3,558,473	3,702,544
Total Expenditures	3,780,174	3,387,802	3,404,472	3,317,195	3,585,858
Total Other Financing Sources (Uses)	(193,222)	(180,507)	(192,870)	(189,282)	(166,234)
<u>Special Revenue Fund</u>					
Total Assets	145,982	67,749	43,810	67,796	57,696
Total Liabilities	23,277	317	2,923	2,726	
Total Fund Balances	122,705	67,432	40,887	65,070	57,696
Total Revenues	547,775	647,731	484,264	358,051	303,567
Total Expenditures	492,502	621,186	508,447	350,677	320,675
Total Other Financing Sources (Uses)					
<u>Other Aggregate Funds</u>					
Total Assets	92,190	128,483	379,489	418,317	379,908
Total Liabilities				257,026	
Total Fund Balances	92,190	128,483	379,489	161,291	379,908
Total Revenues	121,858	533,011	1,510,904	960,173	153,212
Total Expenditures	351,373	974,326	1,885,576	1,368,072	369,825
Total Other Financing Sources (Uses)	193,222	190,309	592,870	189,282	571,629