

Spring Hill School District No. 10

Hempstead County, Arkansas

**Regulatory Basis Financial Statements
And Other Reports**

June 30, 2013

LEGISLATIVE JOINT AUDITING COMMITTEE



SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
TABLE OF CONTENTS
JUNE 30, 2013

Independent Auditor's Report

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

REGULATORY BASIS FINANCIAL STATEMENTS

Exhibit

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

SCHEDULES

Schedule

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

Report on the Financial Statements

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Spring Hill School District No. 10 (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, as described in Note 1, to meet the reporting requirements of the State of Arkansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the State of Arkansas, the financial statements are prepared by the District on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraphs, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2013, or the changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-413(c) as provided in Act 2201 of 2005 described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements.

The Schedule of Capital Assets and the Schedule of Selected Information for the Last Five Years - Regulatory Basis have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
April 21, 2014
EDSD15513

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major governmental fund and the aggregate remaining fund information of the Spring Hill School District No. 10 (the "District"), as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated April 21, 2014. We issued an adverse opinion because the District prepared the financial statements on the basis of the financial reporting provisions of Arkansas Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective regulatory basis financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2013, and the respective regulatory basis changes in financial position thereof and the respective regulatory basis budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the regulatory basis financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below in the Audit Findings section of this report, we identified a certain deficiency in internal control 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 regulatory basis 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 from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 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 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.

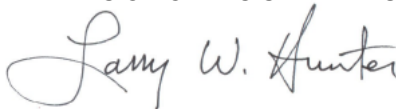
District's Response to Findings

The District's response to the finding identified in our audit is described above. The District's response was not subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
April 21, 2014

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2013

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 906,377	\$ 97,586	\$ 111,523	\$ 58,981
Accounts receivable	10,168	34,983	48,601	
Due from other funds		2,197		
TOTAL ASSETS	\$ 916,545	\$ 134,766	\$ 160,124	\$ 58,981
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 6,963	\$ 83		\$ 125
Due student groups				38,925
Due to other funds	2,197			
Total Liabilities	9,160	83		39,050
Fund Balances:				
Restricted	19,077	134,683	\$ 10,124	19,931
Assigned	43,461		150,000	
Unassigned	844,847			
Total Fund Balances	907,385	134,683	160,124	19,931
TOTAL LIABILITIES AND FUND BALANCES	\$ 916,545	\$ 134,766	\$ 160,124	\$ 58,981

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, 2013

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 634,419		
State assistance	3,590,245	\$ 2,136	\$ 446,125
Federal assistance		435,559	
Activity revenues	119,151		
Meal sales		83,938	
Investment income	3,080		
Other revenues	52,679	114	
TOTAL REVENUES	4,399,574	521,747	446,125
EXPENDITURES			
Regular programs	1,874,541	3,191	
Special education	91,524	65,484	
Career education programs	232,790		
Compensatory education programs	30,904	17,746	
Other instructional programs	92,488		
Student support services	144,671	42,432	
Instructional staff support services	161,313	116,403	
General administration support services	121,967	2,126	
School administration support services	216,609		
Central services support services	146,354		
Operation and maintenance of plant services	379,694		
Student transportation services	188,949		
Other support services		1,550	
Food services operations	1,280	257,174	
Community services operations		236	
Facilities acquisition and construction services	4,148		546,863
Non-programmed costs		3,427	
Activity expenditures	125,277		
Debt Service:			
Principal retirement	56,665		80,000
Interest and fiscal charges	19,904		108,693
TOTAL EXPENDITURES	3,889,078	509,769	735,556
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	510,496	11,978	(289,431)
OTHER FINANCING SOURCES (USES)			
Transfers in			349,028
Transfers out	(349,028)		
Proceeds from refunding bond issues			700,000
Payments to refunding bond escrow agents			(657,009)
Net bond issuance costs			(34,654)
TOTAL OTHER FINANCING SOURCES (USES)	(349,028)		357,365
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	161,468	11,978	67,934
FUND BALANCES - JULY 1 (RESTATED)	745,917	122,705	92,190
FUND BALANCES - JUNE 30	\$ 907,385	\$ 134,683	\$ 160,124

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, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 492,844	\$ 634,419	\$ 141,575			
State assistance	3,568,947	3,590,245	21,298		\$ 2,136	\$ 2,136
Federal assistance				\$ 456,331	435,559	(20,772)
Activity revenues		119,151	119,151			
Meal sales				64,000	83,938	19,938
Investment income		3,080	3,080			
Other revenues		52,679	52,679		114	114
TOTAL REVENUES	4,061,791	4,399,574	337,783	520,331	521,747	1,416
EXPENDITURES						
Regular programs	1,873,510	1,874,541	(1,031)		3,191	(3,191)
Special education	89,610	91,524	(1,914)	108,971	65,484	43,487
Career education programs	230,537	232,790	(2,253)			
Compensatory education programs	25,651	30,904	(5,253)	15,459	17,746	(2,287)
Other instructional programs	92,029	92,488	(459)			
Student support services	134,061	144,671	(10,610)	55,064	42,432	12,632
Instructional staff support services	156,370	161,313	(4,943)	167,806	116,403	51,403
General administration support services	117,767	121,967	(4,200)	2,129	2,126	3
School administration support services	209,695	216,609	(6,914)			
Central services support services	137,673	146,354	(8,681)			
Operation and maintenance of plant services	464,102	379,694	84,408			
Student transportation services	194,078	188,949	5,129			
Other support services					1,550	(1,550)
Food services operations	200	1,280	(1,080)	96,461	257,174	(160,713)
Community services operations				3,000	236	2,764
Facilities acquisition and construction services	15,000	4,148	10,852			
Non-programmed costs					3,427	(3,427)
Activity expenditures		125,277	(125,277)			
Debt Service:						
Principal retirement	19,904	56,665	(36,761)			
Interest and fiscal charges	56,665	19,904	36,761			
TOTAL EXPENDITURES	3,816,852	3,889,078	(72,226)	448,890	509,769	(60,879)

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, 2013

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 244,939	\$ 510,496	\$ 265,557	\$ 71,441	\$ 11,978	\$ (59,463)
OTHER FINANCING SOURCES (USES)						
Transfers in	2,093,991		(2,093,991)			
Transfers out	(2,281,845)	(349,028)	1,932,817			
TOTAL OTHER FINANCING SOURCES (USES)	(187,854)	(349,028)	(161,174)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	57,085	161,468	104,383	71,441	11,978	(59,463)
FUND BALANCES - JULY 1 (RESTATED)	825,402	745,917	(79,485)	109,595	122,705	13,110
FUND BALANCES - JUNE 30	\$ 882,487	\$ 907,385	\$ 24,898	\$ 181,036	\$ 134,683	\$ (46,353)

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, 2013

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.

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

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 2012 calendar year taxes collected by June 30, 2013 and 32 percent of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2013 equaled or exceeded the 32 percent calculation.

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

Amendment no. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. Fund Balance Classifications

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

I. Budget and Budgetary Accounting

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

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

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

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.

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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	924,467	1,129,041
Total Deposits	\$ 1,174,467	\$ 1,379,041

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$93,752 at June 30, 2013 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
State assistance	\$ 10,153		\$ 48,601	\$ 58,754
Federal assistance		\$ 34,983		34,983
Other	15			15
Totals	\$ 10,168	\$ 34,983	\$ 48,601	\$ 93,752

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2013:

A. Construction Contract

<u>Project Name</u>	<u>Completion Date</u>	<u>Contract Balance</u>
Wastewater treatment plant	July 19, 2013	\$ 9,569

B. Operating Leases (noncapital leases with initial noncancellable lease terms in excess of one year)

General description of leases and leasing arrangements:

Three copiers and three printers for a term of 60 months with monthly payments of \$264 plus applicable taxes commencing January 15, 2013.

1. Future minimum rental payments (aggregate) at June 30, 2013: \$14,520
2. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2014	\$ 3,168
2015	3,168
2016	3,168
2017	3,168
2018	1,848
Total	<u>\$ 14,520</u>

Rental payments for the operating leases described above were approximately \$1,410 for the year ended June 30, 2013.

C. Long-term Debt Issued and Outstanding

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

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2013</u>	<u>Maturities To June 30, 2013</u>
7/1/10	2/1/36	1 - 4%	\$ 2,345,000	\$ 2,215,000	\$ 130,000
3/1/13	2/1/30	1 - 2%	275,000	275,000	
3/15/13	2/1/39	2.25 - 3%	425,000	425,000	
9/27/06	9/27/16	4.94%	200,000	91,704	108,296
9/3/09	9/3/19	4.25%	406,500	301,771	104,729
Totals			<u>\$ 3,651,500</u>	<u>\$ 3,308,475</u>	<u>\$ 343,025</u>

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

4: COMMITMENTS (Continued)

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

Changes in Long-term Debt

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013
Bonds payable	\$ 2,945,000	\$ 700,000	\$ 730,000	\$ 2,915,000
Postdated warrants	450,140		56,665	393,475
Totals	\$ 3,395,140	\$ 700,000	\$ 786,665 *	\$ 3,308,475

*Includes \$650,000 early retirement of debt - See Note 6.

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

Year Ended June 30,	Principal	Interest	Total
2014	\$ 134,214	\$ 108,569	\$ 242,783
2015	141,877	106,811	248,688
2016	149,661	102,627	252,288
2017	157,571	98,217	255,788
2018	139,787	93,238	233,025
2019-2023	620,365	404,859	1,025,224
2024-2028	595,000	315,288	910,288
2029-2033	715,000	203,012	918,012
2034-2038	605,000	60,400	665,400
2039	50,000	1,500	51,500
Totals	\$ 3,308,475	\$ 1,494,521	\$ 4,802,996

5: ACCOUNTS PAYABLE

The accounts payable balance of \$7,171 at June 30, 2013 was comprised of the following:

Description	Governmental Funds		Fiduciary Fund Types	Total
	Major			
	General	Special Revenue		
Vendor payables	\$ 6,963	\$ 83	\$ 125	\$ 7,171

6: DEBT REFUNDINGS

On March 1, 2013, the District issued refunding bonds of \$275,000 with interest rates of 1 to 2 percent to advance refund \$255,000 of outstanding bonds dated September 1, 2003 with interest rates of 1.25 to 5 percent. Bond proceeds of \$257,773 were remitted to an escrow agent to provide for all future debt service payments for the 2003 bonds. The 2003 bonds were called on April 18, 2013.

The remaining proceeds of \$3,690 (after payment of \$13,537 net bond issuance costs) will be utilized for subsequent debt payments. The advance refunding of the 2003 bonds will result in savings of \$54,063 to the District over a period of 17 fiscal years. The 2013 bond issue did not extend the debt requirements beyond the original maturity date of fiscal year 2030 for the District.

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6: DEBT REFUNDINGS (Continued)

On March 15, 2013, the District issued refunding bonds of \$425,000 with interest rates of 2.25 to 3 percent to advance refund \$395,000 of outstanding bonds dated November 1, 2007 with interest rates of 4.15 to 4.5 percent. Bond proceeds of \$399,236 were remitted to the escrow agent to provide for all future debt payments for the 2007 bonds. The 2007 bonds were called on April 18, 2013.

The remaining proceeds of \$4,647 (after payment of \$21,117 net bond issuance costs) will be utilized for subsequent debt payments. The advance refunding of the 2007 bonds will result in savings of \$81,804 to the District over a period of 26 fiscal years. The 2013 bond issue did not extend the debt requirements beyond the original maturity date of fiscal year 2039 for the District.

7: INTERFUND TRANSFERS

The District transferred \$349,028 from the general fund to the other aggregate funds for debt related payments of \$188,693, debt refunding savings of \$1,999 required to be utilized for capital expenditures, and \$158,336 for current and future capital expenditures.

8: RETIREMENT PLAN

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers 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, 2013, 2012, and 2011 were \$356,339, \$346,338, and \$326,802, respectively, equal to the required contributions for each year.

9: PRIOR YEAR RESTATEMENT

The general fund balance at July 1, 2012 was increased by \$6,341 due to the reclassification of activity accounts that had previously been classified as agency funds within the fiduciary fund types.

10: 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	\$	50
DEDUCTIONS		
Scholarships		1,500
CHANGE IN FUND BALANCE		(1,450)
FUND BALANCE - JULY 1		21,381
FUND BALANCE - JUNE 30	\$	19,931

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

11: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$3,045,000 issued from July 1, 2010 to March 15, 2013. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$4,344,490, payable through February 1, 2039. Principal and interest paid for the current year and total property taxes pledged for debt service were \$187,854 and \$254,982, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 73.67 percent.

12: 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.

13: 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 \$68,641 for the year ended June 30, 2013.

SPRING HILL SCHOOL DISTRICT NO. 10
HEMPSTEAD COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

14: **DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE**

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Fund Balances:				
Restricted for:				
Educational programs - national school lunch state categorical funding	\$ 613			\$ 613
English-language learners	7,333			7,333
Professional development	428			428
Capital projects			\$ 1,787	1,787
Child nutrition programs		\$ 97,782		97,782
Debt service			8,337	8,337
Medical services		34,974		34,974
Special education programs	8,311			8,311
Other purposes	2,392	1,927		4,319
Total Restricted	19,077	134,683	10,124	163,884
Assigned to:				
Capital projects			150,000	150,000
Student activities	43,461			43,461
Total Assigned	43,461		150,000	193,461
Unassigned	844,847			844,847
Totals	\$ 907,385	\$ 134,683	\$ 160,124	\$1,202,192

SPRING HILL SCHOOL DISTRICT NO. 10
 HEMPSTEAD COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2013
 (Unaudited)

Schedule 1

	Balance <u>June 30, 2013</u>
<i>Nondepreciable capital assets:</i>	
Land	\$ 87,583
Construction in progress	546,863
Total nondepreciable capital assets	<u>634,446</u>
 <i>Depreciable capital assets:</i>	
Buildings	7,432,502
Improvements/infrastructure	505,475
Equipment	1,051,724
Total depreciable capital assets	<u>8,989,701</u>
 Less accumulated depreciation for:	
Buildings	1,071,121
Improvements/infrastructure	163,663
Equipment	726,679
Total accumulated depreciation	<u>1,961,463</u>
Total depreciable capital assets, net	<u>7,028,238</u>
Capital assets, net	<u><u>\$ 7,662,684</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, 2013
(Unaudited)

	Year Ended June 30,				
	2013	2012	2011	2010	2009
<u>General Fund</u>					
Total Assets	\$ 916,545	\$ 785,515	\$ 556,548	\$ 450,249	\$ 654,286
Total Liabilities	9,160	45,939	44,663	32,633	70,076
Total Fund Balances	907,385	739,576	511,885	417,616	584,210
Total Revenues	4,399,574	4,201,087	3,662,578	3,430,748	3,558,473
Total Expenditures	3,889,078	3,780,174	3,387,802	3,404,472	3,317,195
Total Other Financing Sources (Uses)	(349,028)	(193,222)	(180,507)	(192,870)	(189,282)
<u>Special Revenue Fund</u>					
Total Assets	134,766	145,982	67,749	43,810	67,796
Total Liabilities	83	23,277	317	2,923	2,726
Total Fund Balances	134,683	122,705	67,432	40,887	65,070
Total Revenues	521,747	547,775	647,731	484,264	358,051
Total Expenditures	509,769	492,502	621,186	508,447	350,677
<u>Other Aggregate Funds</u>					
Total Assets	160,124	92,190	128,483	379,489	418,317
Total Liabilities					257,026
Total Fund Balances	160,124	92,190	128,483	379,489	161,291
Total Revenues	446,125	121,858	533,011	1,510,904	960,173
Total Expenditures	735,556	351,373	974,326	1,885,576	1,368,072
Total Other Financing Sources (Uses)	357,365	193,222	190,309	592,870	189,282