

Lead Hill School District No. 4

Boone County, Arkansas

**Regulatory Basis Financial Statements
And Other Reports**

June 30, 2007



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BOONE COUNTY, ARKANSAS
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Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Lead Hill School District No. 4 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 Lead Hill School District No. 4 (the "District"), as of and for the year ended June 30, 2007, 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 above 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, 2007, 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 above 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, 2007, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2008 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) is presented for purposes of additional analysis and is not a required part of the regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script, appearing to read "Roger A. Norman".

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

Little Rock, Arkansas
April 8, 2008
EDSD02807

Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Lead Hill School District No. 4 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 Lead Hill School District No. 4 (the "District"), as of and for the year ended June 30, 2007, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated April 8, 2008. 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, 2007, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

AUDIT FINDINGS

Significant Deficiency

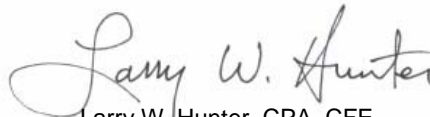
Financial accounting duties should be distributed among appropriate employees to enhance the design of the internal control process to ensure the preparation of reliable financial statements that are fairly presented in conformity with the regulatory basis of accounting. The District, because of cost/benefit implications, has not segregated financial accounting duties to sufficiently reduce the risk that a material misstatement of the financial statements due to fraud or error will not be prevented or detected. To achieve effective internal control over financial reporting, accounting duties should be distributed among appropriate employees.

Management Response: Management personnel concur with the recommendation and will implement corrective action to the extent possible.

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

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

DIVISION OF LEGISLATIVE AUDIT


Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
April 8, 2008

LEAD HILL SCHOOL DISTRICT NO. 4
 BOONE COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2007

Exhibit A

	Governmental Funds		
	Major		Fiduciary Fund Types
	General	Special Revenue	
ASSETS			
Cash	\$ 436,688	\$ 50,515	\$ 32,230
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,545		
Due student groups			\$ 28,160
Deferred taxes	23,818		
Total Liabilities	<u>26,363</u>		<u>28,160</u>
Fund Balances:			
Reserved:			
Scholarships			4,070
Unreserved:			
Undesignated	410,325	\$ 50,515	
Total Fund Balances	<u>410,325</u>	<u>50,515</u>	<u>4,070</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 436,688</u>	<u>\$ 50,515</u>	<u>\$ 32,230</u>

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

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2007

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 993,569		
State assistance	2,143,881	\$ 1,780	
Federal assistance	8,866	420,189	
Activity revenues	39,221		
Meal sales		29,840	
Investment income	21,181		
Other revenues	6,623	3,874	
TOTAL REVENUES	3,213,341	455,683	
EXPENDITURES			
Regular programs	1,228,677	42,939	
Special education	129,657	82,930	
Workforce education	102,177		
Compensatory education	21,120	103,467	
Other instructional programs	106,773		
Student support services	88,054	81	
Instructional staff support services	101,881	22,500	
General administration support services	193,894		
School administration support services	121,694		
Business support services		1,036	
Operation and maintenance of plant services	421,286	72	
Student transportation services	228,671		
Other support services	796		
Food services operations	1,259	184,837	
Community services		43	
Facilities acquisition and construction services	162,572		
Non-programmed costs	19,970		
Activity expenditures	32,386		
Debt Service:			
Principal retirement	23,681		\$ 80,000
Interest and fiscal charges	2,936		82,638
TOTAL EXPENDITURES	2,987,484	437,905	162,638
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	225,857	17,778	(162,638)
OTHER FINANCING SOURCES (USES)			
Transfers in			162,638
Transfers out	(162,638)		
Proceeds from certificate of indebtedness	90,000		
TOTAL OTHER FINANCING SOURCES (USES)	(72,638)		162,638
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	153,219	17,778	
FUND BALANCES - JULY 1	257,106	32,737	
FUND BALANCES - JUNE 30	\$ 410,325	\$ 50,515	\$ 0

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

LEAD HILL SCHOOL DISTRICT NO. 4
 BOONE 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, 2007

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,033,567	\$ 993,569	\$ (39,998)			
State assistance	2,003,803	2,143,881	140,078	\$ 1,800	\$ 1,780	\$ (20)
Federal assistance	7,000	8,866	1,866	403,519	420,189	16,670
Activity revenues		39,221	39,221			
Meal sales				43,000	29,840	(13,160)
Investment income	10,000	21,181	11,181			
Other revenues	17,400	6,623	(10,777)		3,874	3,874
TOTAL REVENUES	3,071,770	3,213,341	141,571	448,319	455,683	7,364
EXPENDITURES						
Regular programs	1,314,070	1,228,677	85,393	67,938	42,939	24,999
Special education	137,080	129,657	7,423	87,569	82,930	4,639
Workforce education	112,845	102,177	10,668			
Compensatory education	46,124	21,120	25,004	119,626	103,467	16,159
Other instructional programs	82,311	106,773	(24,462)			
Student support services	90,312	88,054	2,258		81	(81)
Instructional staff support services	78,630	101,881	(23,251)	11,088	22,500	(11,412)
General administration support services	190,839	193,894	(3,055)			
School administration support services	122,645	121,694	951			
Business support services	24,282		24,282		1,036	(1,036)
Operation and maintenance of plant services	433,948	421,286	12,662	75	72	3
Student transportation services	229,154	228,671	483			
Other support services	800	796	4			
Food services operations		1,259	(1,259)	188,563	184,837	3,726
Community services					43	(43)
Facilities acquisition and construction services		162,572	(162,572)			
Non-programmed costs	44,661	19,970	24,691			
Activity expenditures		32,386	(32,386)			
Debt Service:						
Principal retirement		23,681	(23,681)			
Interest and fiscal charges		2,936	(2,936)			
TOTAL EXPENDITURES	2,907,701	2,987,484	(79,783)	474,859	437,905	36,954

LEAD HILL SCHOOL DISTRICT NO. 4
 BOONE 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, 2007

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 164,069	\$ 225,857	\$ 61,788	\$ (26,540)	\$ 17,778	\$ 44,318
OTHER FINANCING SOURCES (USES)						
Transfers in	1,382,026		(1,382,026)			
Transfers out	(1,544,516)	(162,638)	1,381,878			
Proceeds from certificate of indebtedness		90,000	90,000			
TOTAL OTHER FINANCING SOURCES (USES)	(162,490)	(72,638)	89,852			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,579	153,219	151,640	(26,540)	17,778	44,318
FUND BALANCES - JULY 1	290,115	257,106	(33,009)	32,736	32,737	1
FUND BALANCES - JUNE 30	\$ 291,694	\$ 410,325	\$ 118,631	\$ 6,196	\$ 50,515	\$ 44,319

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

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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 Lead Hill School District (District). There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

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

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

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

Fiduciary Fund types include the following:

Agency Funds - Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

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 Arkansas Code Annotated §10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

LEAD HILL SCHOOL DISTRICT NO. 4
 BOONE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

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 \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

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

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Taxes

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

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

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

G. Fund Balance Designations

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

H. Budget and Budgetary Accounting

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

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

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

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Budget and Budgetary Accounting (Continued)

On-behalf payments as described at Note 8 are nonbudgeted data for the year ended June 30, 2007. Such payments are reported as actual revenues and expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis (Exhibit C).

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)	\$ 103,572	\$ 103,572
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	415,861	596,908
Total Deposits	\$ 519,433	\$ 700,480

3: COMMITMENTS

The District was contractually obligated for the following at June 30, 2007:

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

General description of leases and leasing arrangements:

The District entered into noncancellable lease agreements for nine buses with Midwest Bus Sales in September 2005. In August 2006, the District made a payment of \$4,571 and returned one bus. The terms of the remaining eight lease agreements are annual rental payments of \$78,099. The District entered into an additional noncancellable lease agreement for one bus with Midwest Bus Sales in March 2006. The terms of the lease included an initial payment of \$3,249 and three annual payments of \$9,748. At the end of the lease terms, the District will return the leased buses to Midwest Bus Sales.

1. Future minimum rental payments (aggregate) at June 30, 2007: \$97,595
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2008	\$ 87,847
2009	9,748
Total	\$ 97,595

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

3: COMMITMENTS (CONTINUED)

A. (Continued)

Rental payments for the operating leases described above were approximately \$92,418 for the year ended June 30, 2007.

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, 2007	Maturities To June 30, 2007
6/1/05	2/1/25	2.75 - 3.9%	\$ 2,400,000	\$ 2,280,000	\$ 120,000
11/15/98	11/15/08	5%	55,734	10,211	45,523
11/17/06	11/1/11	4.95%	90,000	90,000	
Totals			<u>\$ 2,545,734</u>	<u>\$ 2,380,211</u>	<u>\$ 165,523</u>

Changes in Long-term Debt

	Balance July 1, 2006	Issued	Retired	Balance June 30, 2007
Bonds payable	\$ 2,360,000		\$ 80,000	\$ 2,280,000
Postdated warrants	17,282		17,282	
Installment contracts	16,610		6,399	10,211
Certificate of indebtedness		\$ 90,000		90,000
Totals	<u>\$ 2,393,892</u>	<u>\$ 90,000</u>	<u>\$ 103,681</u>	<u>\$ 2,380,211</u>

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

Year Ended June 30,	Principal	Interest	Total
2008	\$ 104,723	\$ 84,441	\$ 189,164
2009	106,488	80,879	187,367
2010	108,000	77,436	185,436
2011	108,000	73,755	181,755
2012	128,000	70,074	198,074
2013-2017	610,000	292,180	902,180
2018-2022	710,000	178,345	888,345
2023-2025	505,000	39,895	544,895
Totals	<u>\$ 2,380,211</u>	<u>\$ 897,005</u>	<u>\$ 3,277,216</u>

LEAD HILL SCHOOL DISTRICT NO. 4
 BOONE COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

4: ACCOUNTS PAYABLE

The accounts payable balance of \$2,545 at June 30, 2007 was comprised of the following:

	Governmental Fund
	Major
	General
Vendor payables	\$ 2,545

5: INTERFUND TRANSFERS

The District transferred \$162,638 from the general fund to the other aggregate funds for debt related payments.

6: RETIREMENT PLANS

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 prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution 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 non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%. The District's contributions to ATRS for the years ended June 30, 2007, 2006 and 2005 were \$242,319, \$264,610 and \$250,357, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteaching Arkansas public school employees hired before July 1, 1989. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2007, 2006 and 2005 were \$2,599, \$2,192 and \$1,911, respectively, equal to the required contributions for each year.

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

7: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Donations	\$ 2,500
DEDUCTIONS	
Scholarships	<u>500</u>
CHANGE IN FUND BALANCE	2,000
FUND BALANCE - JULY 1	<u>2,070</u>
FUND BALANCE - JUNE 30	<u><u>\$ 4,070</u></u>

8: ON-BEHALF PAYMENTS

The accompanying financial statements reflect on-behalf payments of \$25,072 for health insurance premiums paid by the Arkansas Department of Education.

9: 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 business trip accidental death and dismemberment and student accidents. 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 exceeds the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

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

LEAD HILL SCHOOL DISTRICT NO. 4
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

9: RISK MANAGEMENT (CONTINUED)

The District participates in the Public School Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The general objective of the program is to allow member districts a means of insuring vehicles. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for this coverage.

LEAD HILL SCHOOL DISTRICT NO. 4
 BOONE COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2007
 (Unaudited)

Schedule 1

	Balance June 30, 2007
<i>Nondepreciable capital assets:</i>	
Land	\$ 84,663
<i>Depreciable capital assets:</i>	
Buildings	3,153,792
Improvements/infrastructure	99,925
Equipment	281,537
Total depreciable capital assets	3,535,254
Less accumulated depreciation for:	
Buildings	1,204,496
Improvements/infrastructure	56,656
Equipment	199,037
Total accumulated depreciation	1,460,189
Total depreciable capital assets, net	2,075,065
Capital assets, net	\$ 2,159,728