

Mountain Home School District No. 9

Baxter County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



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BAXTER COUNTY, ARKANSAS
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JUNE 30, 2011

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Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
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Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Mountain Home School District No. 9 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 Mountain Home School District No. 9 (the "District"), as of and for the year ended June 30, 2011, 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, 2011, 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.

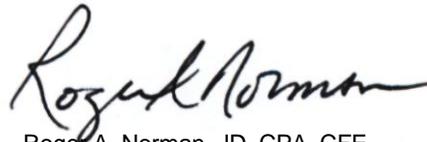
In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position 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.

As discussed in Note 1 to the financial statements, the District changed the classifications of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2012 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), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4), and Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, Arkansas
February 21, 2012
EDSD01411

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
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Senate Vice Chair
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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*

Mountain Home School District No. 9 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 Mountain Home School District No. 9 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 21, 2012. 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, 2011, 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.

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 or corrected on a timely basis.

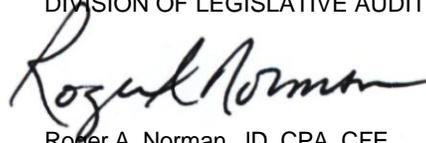
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 and federal 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*.

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, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, 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

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

Little Rock, Arkansas
February 21, 2012

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LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mountain Home School District No. 9 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Mountain Home School District No. 9 (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in items 2011-1 and 2011-2 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding reporting and the Davis-Bacon Act that are applicable to its Special Education Cluster (IDEA) and ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act program, respectively. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that cluster or program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

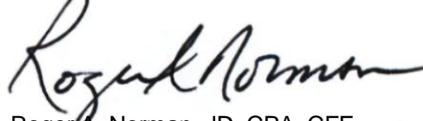
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-1 and 2011-2 to be material weaknesses.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, 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



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

Little Rock, Arkansas
February 21, 2012

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2011

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 2,813,353	\$ 287,981	\$ 3,695,042	\$ 82,706
Investments			1,254,203	15,000
Accounts receivable	23,188	461,819	363,907	
Property taxes receivable	101,641			
Deposit with paying agent	114,233			
TOTAL ASSETS	\$ 3,052,415	\$ 749,800	\$ 5,313,152	\$ 97,706
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 36,820	\$ 5,085	\$ 775,464	
Advance deposit on bond issue			18,500	
Due student groups				\$ 97,706
Total Liabilities	36,820	5,085	793,964	97,706
Fund Balances:				
Restricted	417,252	744,715	4,519,188	
Committed	400,000			
Assigned	71,180			
Unassigned	2,127,163			
Total Fund Balances	3,015,595	744,715	4,519,188	
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,052,415	\$ 749,800	\$ 5,313,152	\$ 97,706

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

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 16,781,967		
State assistance	12,763,667	\$ 13,309	\$ 328,833
Federal assistance	77,276	4,124,742	949,675
Activity revenues	285,551		
Meal sales		483,164	
Investment income	55,926		95,234
Other revenues	111,363	360,314	
TOTAL REVENUES	30,075,750	4,981,529	1,373,742
EXPENDITURES			
Regular programs	11,761,278	342,939	456,135
Special education	1,175,427	712,611	49,405
Workforce education programs	1,207,219	36,606	
Compensatory education programs	247,888	763,105	
Other instructional programs	2,241,023	76,650	
Student support services	1,177,880	115,608	179,545
Instructional staff support services	1,338,879	896,889	20,421
General administration support services	512,729	78,170	
School administration support services	1,683,143	20,319	44,928
Central services support services	438,041		
Operation and maintenance of plant services	2,986,599	34,661	454,602
Student transportation services	1,552,784	32,405	18,600
Other support services	44,854		
Food services operations	9,345	1,609,414	45,824
Community services operations		384	
Facilities acquisition and construction services			9,476,880
Non-programmed costs		19,380	
Activity expenditures	291,655		
Debt Service:			
Principal retirement	50,000		780,000
Interest and fiscal charges	8,673		1,893,225
TOTAL EXPENDITURES	26,727,417	4,739,141	13,419,565
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,348,333	242,388	(12,045,823)
OTHER FINANCING SOURCES (USES)			
Transfers in			2,673,225
Transfers out	(2,673,225)		
Compensation for loss of capital assets	103,972		
TOTAL OTHER FINANCING SOURCES (USES)	(2,569,253)		2,673,225
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	779,080	242,388	(9,372,598)
FUND BALANCES - JULY 1 (RESTATED)	2,236,515	502,327	13,891,786
FUND BALANCES - JUNE 30	\$ 3,015,595	\$ 744,715	\$ 4,519,188

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

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER 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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 17,083,707	\$ 16,781,967	\$ (301,740)			
State assistance	12,267,026	12,763,667	496,641	\$ 14,000	\$ 13,309	\$ (691)
Federal assistance	60,000	77,276	17,276	6,552,896	4,124,742	(2,428,154)
Activity revenues		285,551	285,551			
Meal sales				596,200	483,164	(113,036)
Investment income	50,000	55,926	5,926			
Other revenues	59,200	111,363	52,163		360,314	360,314
TOTAL REVENUES	29,519,933	30,075,750	555,817	7,163,096	4,981,529	(2,181,567)
EXPENDITURES						
Regular programs	11,979,091	11,761,278	217,813	160,344	342,939	(182,595)
Special education	1,221,661	1,175,427	46,234	997,590	712,611	284,979
Workforce education programs	1,188,621	1,207,219	(18,598)	64,303	36,606	27,697
Compensatory education programs	301,991	247,888	54,103	920,276	763,105	157,171
Other instructional programs	2,216,632	2,241,023	(24,391)	63,950	76,650	(12,700)
Student support services	1,213,211	1,177,880	35,331	470,307	115,608	354,699
Instructional staff support services	1,530,424	1,338,879	191,545	899,445	896,889	2,556
General administration support services	491,468	512,729	(21,261)	85,641	78,170	7,471
School administration support services	1,712,800	1,683,143	29,657		20,319	(20,319)
Central services support services	481,769	438,041	43,728			
Operation and maintenance of plant services	2,924,010	2,986,599	(62,589)	1,562,700	34,661	1,528,039
Student transportation services	1,550,807	1,552,784	(1,977)	2,000	32,405	(30,405)
Other support services	30,000	44,854	(14,854)			
Food services operations	10,177	9,345	832	1,689,156	1,609,414	79,742
Community services operations				5,000	384	4,616
Facilities acquisition and construction services				383,380		383,380
Non-programmed costs	77,994		77,994		19,380	(19,380)
Activity expenditures		291,655	(291,655)			
Debt Service:						
Principal retirement	68,710	50,000	18,710			
Interest and fiscal charges	8,673	8,673				
TOTAL EXPENDITURES	27,008,039	26,727,417	280,622	7,304,092	4,739,141	2,564,951

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER 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, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 2,511,894	\$ 3,348,333	\$ 836,439	\$ (140,996)	\$ 242,388	\$ 383,384
OTHER FINANCING SOURCES (USES)						
Transfers in	14,093,407		(14,093,407)			
Transfers out	(16,766,138)	(2,673,225)	14,092,913			
Compensation for loss of capital assets		103,972	103,972			
TOTAL OTHER FINANCING SOURCES (USES)	(2,672,731)	(2,569,253)	103,478			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(160,837)	779,080	939,917	(140,996)	242,388	383,384
FUND BALANCES - JULY 1	2,317,478	2,236,515	(80,963)	587,330	502,327	(85,003)
FUND BALANCES - JUNE 30	\$ 2,156,641	\$ 3,015,595	\$ 858,954	\$ 446,334	\$ 744,715	\$ 298,381

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

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a seven 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 Mountain 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).

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.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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	7-30
Buildings	50
Equipment	5-20

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 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 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. Committed fund balance – represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Education.
3. 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.
4. 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.

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.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Budget and Budgetary Accounting (Continued)

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.

I. 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.

J. Minimum Fund Balance Policies

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

K. Fund Balance Classification Policies and Procedures

The District's highest level of decision-making authority is its Board of Education. The establishment of amounts classified as committed fund balances and subsequent modifications to such balances are the result of formal action taken by the District's Board of Education through a resolution or adoption of board policy.

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.

L. Encumbrances

The District does not utilize encumbrance accounting.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Change in Accounting Principle

The District adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

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)	\$ 999,353	\$ 999,353
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	7,146,853	8,732,425
Uninsured, Uncollateralized	2,079	2,079
Total Deposits	\$ 8,148,285	\$ 9,733,857

The above total deposits include certificates of deposit of \$1,269,203 reported as investments and classified as nonparticipating contracts.

Custodial Credit Risk – Deposit

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At June 30, 2011, \$2,079 of the District's bank balance of \$9,733,857 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$2,079

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$848,914 at June 30, 2011 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
State assistance	\$ 23,188			\$ 23,188
Federal assistance		\$ 461,819	\$ 363,907	825,726
Totals	\$ 23,188	\$ 461,819	\$ 363,907	\$ 848,914

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

4: COMMITMENTS

The District was contractually obligated for the following at June 30, 2011:

A. Construction Contracts

<u>Project Name</u>	<u>Estimated Completion Date</u>	<u>Contract Balance</u>
Nelson Wilks Herron Elementary	February 29, 2012	\$ 2,523,108
Pinkston Middle School Daily Living Skills	July 31, 2011	6,786
CBI remodeling	July 31, 2011	8,813
Nelson Wilks Herron Elementary re-roofing	September 30, 2011	665,915
Junior High School HVAC replacement	September 30, 2011	134,231
Auditorium HVAC replacement	September 30, 2011	127,692
High School Science Lab renovations	September 30, 2011	118,292
Architect fees for building projects	February 29, 2012	90,952

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

General description of lease and leasing arrangements:

Lease agreement with Copy Products, Inc., dated June 7, 2011, for 35 copiers for 36 months for \$11,066 plus tax per month

1. Future minimum rental payments (aggregate) at June 30, 2011: \$430,227
2. Future minimum rental payments for the succeeding years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 143,409
2013	143,409
2014	143,409
Total	<u>\$ 430,227</u>

There were no rental payments for the operating lease described above for the year ended June 30, 2011.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4: COMMITMENTS (Continued)

C. 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, 2011	Maturities To June 30, 2011
5/1/01	12/1/16	3.6 - 4.5%	\$ 1,018,700	\$ 510,000	\$ 508,700
3/1/04	12/1/16	2.4 - 3.3%	1,425,000	730,000	695,000
9/1/08	6/30/38	4 - 5%	41,055,000	39,870,000	1,185,000
6/23/04	11/1/13	4.95%	500,000	150,000	350,000
6/1/05	6/1/15		198,550	198,550	
Totals			<u>\$ 44,197,250</u>	<u>\$ 41,458,550</u>	<u>\$ 2,738,700</u>

Changes in Long-term Debt

	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011
Bonds payable	\$ 41,890,000		\$ 780,000	\$ 41,110,000
Certificates of indebtedness	200,000		50,000	150,000
Postdated warrants	198,550			198,550
Totals	<u>\$ 42,288,550</u>	<u>\$ 0</u>	<u>\$ 830,000</u>	<u>\$ 41,458,550</u>

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

Year Ended June 30,	Principal	Interest	Total
2012	\$ 850,000	\$ 1,868,105	\$ 2,718,105
2013	880,000	1,834,094	2,714,094
2014	910,000	1,798,608	2,708,608
2015	1,088,550	1,762,916	2,851,466
2016	925,000	1,727,096	2,652,096
2017-2021	5,265,000	8,037,183	13,302,183
2022-2026	6,640,000	6,799,159	13,439,159
2027-2031	8,525,000	5,069,031	13,594,031
2032-2036	11,065,000	2,744,000	13,809,000
2037-2038	5,310,000	269,000	5,579,000
Totals	<u>\$ 41,458,550</u>	<u>\$ 31,909,192</u>	<u>\$ 73,367,742</u>

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4: COMMITMENTS (Continued)

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

Qualified Zone Academy Bond (QZAB)

On June 1, 2005, the District obtained funding through the Qualified Zone Academy Bond (QZAB) program, a financial arrangement authorized under the Taxpayer Relief Act of 1997. A QZAB does not generally require interest payments from the borrower. The eligible financial institution holding the bond receives a tax credit in lieu of interest payments. The principal is not due until the end of the term. The District borrowed \$198,550 through this program by issuing postdated warrants. The District will deposit \$18,710 annually into a sinking fund for 10 years for a total of \$187,100. This amount plus interest will be used to retire the debt when due.

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$817,369 at June 30, 2011 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Vendor payables	\$ 36,820	\$ 5,036	\$ 775,464	\$ 817,320
Due to grantors		49		49
Totals	<u>\$ 36,820</u>	<u>\$ 5,085</u>	<u>\$ 775,464</u>	<u>\$ 817,369</u>

6: INTERFUND TRANSFERS

The District transferred \$2,673,225 from the general fund to the other aggregate funds for debt related payments.

7: 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 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, 2011, 2010, and 2009 were \$2,706,817, \$2,717,642, and \$2,577,871, respectively, equal to the required contributions for each year.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

7: RETIREMENT PLANS (Continued)

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteachers hired before July 1, 1989. APERS, 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 Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% 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 for school districts is 4% of covered salaries. The District's contributions to APERS for the years ended June 30, 2011, 2010, and 2009 were \$1,244, \$2,661, and \$3,246, respectively, equal to the required contributions for each year.

8: PRIOR YEAR RESTATEMENT

To comply with GASB no. 54, the beginning fund balance of the special revenue fund was decreased by \$51,629 and the beginning fund balance of the other aggregate funds was increased by the same amount to reclassify certain financial resources required to be used for capital projects.

9: GUY W. BERRY AND KATHLEEN F. BERRY PUBLIC SCHOOL LIBRARY IMPROVEMENT FUND

On December 31, 1985, grantors Guy W. Berry and Kathleen F. Berry established the Guy W. Berry and Kathleen F. Berry Public School Library Improvement Fund. On October 28, 2010, the Board approved the termination of the Guy W. Berry and Kathleen F. Berry Public School Library Improvement Fund since Guy Berry School had closed. The Board also approved the transfer of \$1,261, the ending balance of the fund at June 30, 2010, to the Hackler Intermediate School to be used in that library.

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 liability, student accidents, and business trips. 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.

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.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

10: RISK MANAGEMENT (Continued)

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

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 \$530,027 for the year ended June 30, 2011.

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	\$ 89,175			\$ 89,175
Professional development	43,450			43,450
Capital projects			\$ 4,519,188	4,519,188
Child nutrition programs		\$ 426,790		426,790
Debt service	114,233			114,233
Medical services		309,329		309,329
Special education programs	102,898			102,898
Other purposes	67,496	8,596		76,092
Total Restricted	<u>417,252</u>	<u>744,715</u>	<u>4,519,188</u>	<u>5,681,155</u>
Committed to:				
Capital projects	<u>400,000</u>			<u>400,000</u>
Assigned to:				
Student activities	<u>71,180</u>			<u>71,180</u>
Unassigned	<u>2,127,163</u>			<u>2,127,163</u>
Totals	<u>\$ 3,015,595</u>	<u>\$ 744,715</u>	<u>\$ 4,519,188</u>	<u>\$ 8,279,498</u>

13: SUBSEQUENT EVENTS

The District issued Qualified School Construction bonds of \$925,000 on July 7, 2011. Prior to June 30, 2011, the District received a good faith deposit of \$18,500 pertaining to this bond issue that is reflected in the accompanying financial statements as a liability, advance deposit on bond issue.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

14: COMPENSATION FOR LOSS OF CAPITAL ASSETS

During the year ended June 30, 2011, the District received insurance proceeds of \$103,972 for ice storm damage to the Middle School building at the Pinkston campus.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

Schedule 1

	Balance June 30, 2011
<i>Nondepreciable capital assets:</i>	
Land	\$ 862,692
Construction in progress	9,105,177
Total nondepreciable capital assets	9,967,869
 <i>Depreciable capital assets:</i>	
Buildings	44,849,822
Improvements/infrastructure	2,917,238
Equipment	7,027,392
Total depreciable capital assets	54,794,452
 Less accumulated depreciation for:	
Buildings	10,405,185
Improvements/infrastructure	1,610,818
Equipment	5,015,520
Total accumulated depreciation	17,031,523
Total depreciable capital assets, net	37,762,929
Capital assets, net	\$ 47,730,798

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 3,917
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	03-03	232,243
National School Lunch Program - Cash Assistance	10.555	03-03-000	872,067
Total State Department of Education			<u>1,104,310</u>
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	0303000	77,708
TOTAL CHILD NUTRITION CLUSTER			<u>1,185,935</u>
TITLE I, PART A CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	03-03	1,122,513
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	03-03	82,496
TOTAL TITLE I, PART A CLUSTER			<u>1,205,009</u>
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	03-03	776,404
ARRA - Special Education - Grants to States, Recovery Act	84.391	03-03	611,954
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>1,388,358</u>
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program	10.582	03-03	37,877
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 5)	12.JROTC1035		66,530
<u>U. S. Department of Education</u>			
Passed Through State Department of Career Education:			
Career and Technical Education - Basic Grants to States	84.048	03-03	73,401
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	03-03	3,299
Education Technology State Grants	84.318	03-03	71,907
Rural Education	84.358	03-03	89,953
Improving Teacher Quality State Grants	84.367	03-03	225,229
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	03-03	498,686
ARRA - Education Jobs Fund, Recovery Act	84.410	03-03	360,639
Total State Department of Education			<u>1,249,713</u>
Total U. S. Department of Education			<u>1,323,114</u>

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>OTHER PROGRAMS (Continued)</u>			
<u>Corporation for National and Community Service</u>			
Passed Through State Department of Human Services:			
Learn and Serve America - School and Community Based Programs	94.004	03-03	\$ 9,685
<u>U. S. Department of Homeland Security</u>			
Passed Through State Department of Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	03-03	9,283
TOTAL OTHER PROGRAMS			1,446,489
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 5,225,791

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Mountain Home School District No. 9 (District) under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: The Federal CFDA Number was not available. An alternative identifying number was utilized.
- Note 6: During the year ended June 30, 2011, the District received Medicaid funding of \$198,105 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESSES

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION CLUSTER (IDEA) - CFDA NUMBERS 84.027 AND 84.391
PASS-THROUGH NUMBER 03-03
AUDIT PERIOD - YEAR ENDED JUNE 30, 2011

2011-1. Reporting

Criteria or specific requirement: The District is required to budget all Special Education Cluster (IDEA) expenditures, which includes ARRA and non-ARRA funds. Expenditures may not exceed the budgeted amounts for specific categories by more than 10 percent without prior approval from the Arkansas Department of Education (ADE) and the submission of budget amendments or adjustments. Annual financial reports are compiled at the end of the fiscal year.

Condition: The District's ARRA special education expenditures exceeded the budget in one category (function/object) by \$160,037 more than the 10 percent allowed without prior approval. Additionally, ARRA special education expenditures of \$1,800 were incurred in one category that was not budgeted and special education expenditures (non-ARRA) of \$397 and \$5,694, respectively, were incurred in two categories that were not budgeted. Total expenditures did not exceed the total overall budgets.

Context: Comparison of budgeted expenditures to actual expenditures as reported on the annual financial reports.

Effect: The District did not expend funds within the approved budget categories.

Cause: The District failed to properly monitor expenditures against the approved budgets

Recommendation: The District should implement procedures to ensure costs are incurred within the applicable budget categories and consult with the ADE for further guidance regarding this matter.

Views of responsible officials and planned corrective actions: The District did not realize the ARRA funds also came into the 10 percent spending rule, although this instance was the only noted variance above the allowed threshold. We will be certain to apply the necessary tests to all future federal expenditures, regardless of categorization, to make sure they do not vary more than 10 percent of the budgeted function amounts. If necessary, we will amend future budgets late in the year to accommodate any needed changes of that nature.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

MATERIAL WEAKNESSES (Continued)

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT - CFDA
NUMBER 84.394
PASS-THROUGH NUMBER 03-03

2011-2. Davis-Bacon Act

Criteria or specific requirement: The Davis-Bacon Act requires all contractors and subcontractors performing on construction contracts in excess of \$2,000, financed by Federal funds, to pay their laborers and mechanics not less than the prevailing wage rates as determined by the Department of Labor. Non-federal entities are to include in the applicable construction contract a requirement that the contractor or subcontractor comply with the provisions of the Davis-Bacon Act and the Department of Labor regulations. Such requirements include the submission of weekly certified payrolls, for each week in which any contract work is performed, to the non-federal entities.

Condition: The District executed a construction contract of \$32,657 to install fiber optic cable connection and termination between the high school and the new elementary school. This contract did not include the notification requirement that the contractor or subcontractor comply with the provisions of the Davis-Bacon Act and Department of Labor regulations. Additionally, the required certified payrolls were not obtained.

Context: Examination of the contract for the installation of fiber optic cable from the high school to the elementary school.

Effect: The District did not comply with the notification requirements regarding compliance with the Davis-Bacon Act and did not obtain weekly certified payrolls.

Cause: Lack of internal controls and management oversight resulted in the Davis-Bacon Act provisions not being properly followed.

Recommendation: The District should ensure that all applicable construction contracts contain the required notification regarding compliance with the Davis-Bacon Act. Copies of weekly certified payrolls should also be obtained for applicable projects. The District should contact the Arkansas Department of Education for further directives regarding this matter.

Views of responsible officials and planned corrective actions: At the time the District requested bids and secured the contract for fiber installation at Hackler Intermediate School, the ARRA program was in its infancy. Complete guidelines were issued later, and the District did comply with necessary requirements for subsequent contracts utilizing ARRA funds.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 4

There were no findings in the prior audit.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER COUNTY, ARKANSAS
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

General Fund	Year Ended June 30,				
	2011	2010	2009	2008	2007
Total Assets	\$ 3,052,415	\$ 2,519,526	\$ 2,020,169	\$ 907,127	\$ 1,405,214
Total Liabilities	36,820	283,011	445,996	205,498	36,702
Total Fund Balances	3,015,595	2,236,515	1,574,173	701,629	1,368,512
Total Revenues	30,075,750	29,881,406	27,828,646	27,934,573	24,879,003
Total Expenditures	26,727,417	26,628,768	26,760,212	27,472,598	26,730,622
Total Other Financing Sources (Uses)	(2,569,253)	(2,590,296)	(195,890)	(1,128,858)	(1,045,327)
 Special Revenue Fund					
Total Assets	749,800	723,955	559,986	386,171	460,956
Total Liabilities	5,085	169,999	353	1,499	23,240
Total Fund Balances	744,715	553,956	559,633	384,672	437,716
Total Revenues	4,981,529	5,208,088	4,010,419	3,687,501	3,664,106
Total Expenditures	4,739,141	5,213,765	3,835,458	3,740,545	3,592,263
Total Other Financing Sources (Uses)					(78,000)
 Other Aggregate Funds					
Total Assets	5,313,152	15,375,155	30,852,246	1,086,237	828,899
Total Liabilities	793,964	1,534,998	1,309,865	189,547	13,242
Total Fund Balances	4,519,188	13,840,157	29,542,381	896,690	815,657
Total Revenues	1,373,742	762,773	619,468	20,079	80,246
Total Expenditures	13,419,565	19,055,293	6,770,132	1,465,809	1,227,007
Total Other Financing Sources (Uses)	2,673,225	2,590,296	34,796,355	1,526,763	1,123,327