

Mountain Home School District No. 9

Baxter County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



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BAXTER COUNTY, ARKANSAS
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JUNE 30, 2012

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

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, 2012, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2012, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of 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), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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) are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for the purposes of additional analysis and are not a required part of the regulatory basis financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
January 17, 2013
EDSD01412

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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, 2012, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated January 17, 2013. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 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 previously.

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

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

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

Little Rock, Arkansas
January 17, 2013

Sen. Bryan B. King
Senate Chair
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Arkansas



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

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

INDEPENDENT AUDITOR'S REPORT

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, 2012. 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.

In our opinion, 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, 2012.

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.

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.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

A handwritten signature in cursive script that reads "Roger A. Norman".

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

Little Rock, Arkansas
January 17, 2013

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER COUNTY, ARKANSAS
 BALANCE SHEET - REGULATORY BASIS
 JUNE 30, 2012

Exhibit A

	Governmental Funds			
	Major			Fiduciary Fund Types
	General	Special Revenue	Other Aggregate	
ASSETS				
Cash	\$ 3,787,439	\$ 432,868	\$ 2,399,665	\$ 107,891
Investments			251,072	15,000
Accounts receivable	39,773	306,542		
Deposit with paying agent	132,942		57,826	
TOTAL ASSETS	\$ 3,960,154	\$ 739,410	\$ 2,708,563	\$ 122,891
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 53,438	\$ 23,282	\$ 236,836	
Due student groups				\$ 122,891
Total Liabilities	53,438	23,282	236,836	122,891
Fund Balances:				
Restricted	375,221	716,128	2,471,727	
Committed	192,526			
Assigned	98,899			
Unassigned	3,240,070			
Total Fund Balances	3,906,716	716,128	2,471,727	
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,960,154	\$ 739,410	\$ 2,708,563	\$ 122,891

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, 2012

Exhibit B

	Major		Other Aggregate
	General	Special Revenue	
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 17,018,174		
State assistance	13,274,621	\$ 13,250	
Federal assistance	70,186	4,146,245	\$ 1,174,160
Activity revenues	317,869		
Meal sales		454,968	
Investment income	72,150		22,186
Other revenues	156,935	406,640	12,524
TOTAL REVENUES	30,909,935	5,021,103	1,208,870
EXPENDITURES			
Regular programs	11,907,486	310,611	27,337
Special education	1,119,929	823,123	
Workforce education programs	1,139,902	27,247	
Compensatory education programs	405,094	803,243	
Other instructional programs	2,358,569	74,217	
Student support services	1,177,397	353,805	
Instructional staff support services	1,352,508	636,309	
General administration support services	518,190	83,645	
School administration support services	1,772,452	20,508	308
Central services support services	423,475		
Operation and maintenance of plant services	3,000,673	30,606	1,646,267
Student transportation services	1,449,011	80,785	
Other support services	81,070		
Food services operations	10,348	1,783,585	
Community services operations	6,814	1,337	
Facilities acquisition and construction services	207,474		2,693,477
Non-programmed costs		20,669	
Activity expenditures	290,149		
Debt Service:			
Principal retirement	50,000		800,000
Interest and fiscal charges	6,511		1,905,400
TOTAL EXPENDITURES	27,277,052	5,049,690	7,072,789
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,632,883	(28,587)	(5,863,919)
OTHER FINANCING SOURCES (USES)			
Transfers in			2,741,762
Transfers out	(2,741,762)		
Proceeds of bond issue			925,000
Proceeds of postdated warrants			185,456
Net bond issuance costs			(35,760)
TOTAL OTHER FINANCING SOURCES (USES)	(2,741,762)		3,816,458
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	891,121	(28,587)	(2,047,461)
FUND BALANCES - JULY 1	3,015,595	744,715	4,519,188
FUND BALANCES - JUNE 30	\$ 3,906,716	\$ 716,128	\$ 2,471,727

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 17,233,258	\$ 17,018,174	\$ (215,084)			
State assistance	12,580,352	13,274,621	694,269	\$ 14,000	\$ 13,250	\$ (750)
Federal assistance	70,000	70,186	186	5,759,363	4,146,245	(1,613,118)
Activity revenues		317,869	317,869			
Meal sales				583,200	454,968	(128,232)
Investment income	50,000	72,150	22,150			
Other revenues	87,650	156,935	69,285	2,000	406,640	404,640
TOTAL REVENUES	30,021,260	30,909,935	888,675	6,358,563	5,021,103	(1,337,460)
EXPENDITURES						
Regular programs	12,011,045	11,907,486	103,559	380,144	310,611	69,533
Special education	1,154,266	1,119,929	34,337	959,198	823,123	136,075
Workforce education programs	1,195,608	1,139,902	55,706	35,146	27,247	7,899
Compensatory education programs	401,436	405,094	(3,658)	679,222	803,243	(124,021)
Other instructional programs	2,418,906	2,358,569	60,337	77,855	74,217	3,638
Student support services	1,186,896	1,177,397	9,499	480,781	353,805	126,976
Instructional staff support services	1,517,825	1,352,508	165,317	860,280	636,309	223,971
General administration support services	509,596	518,190	(8,594)	90,358	83,645	6,713
School administration support services	1,798,646	1,772,452	26,194	20,508	20,508	
Central services support services	452,523	423,475	29,048			
Operation and maintenance of plant services	2,972,268	3,000,673	(28,405)	1,100,039	30,606	1,069,433
Student transportation services	1,576,619	1,449,011	127,608	123,274	80,785	42,489
Other support services	35,000	81,070	(46,070)			
Food services operations	10,414	10,348	66	1,568,306	1,783,585	(215,279)
Community services operations		6,814	(6,814)	5,000	1,337	3,663
Facilities acquisition and construction services		207,474	(207,474)	106,115		106,115
Non-programmed costs					20,669	(20,669)
Activity expenditures		290,149	(290,149)			
Debt Service:						
Principal retirement	145,069	50,000	95,069			
Interest and fiscal charges	57,321	6,511	50,810			
TOTAL EXPENDITURES	27,443,438	27,277,052	166,386	6,486,226	5,049,690	1,436,536

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, 2012

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 2,577,822	\$ 3,632,883	\$ 1,055,061	\$ (127,663)	\$ (28,587)	\$ 99,076
OTHER FINANCING SOURCES (USES)						
Transfers in	39,877,325		(39,877,325)			
Transfers out	(42,508,659)	(2,741,762)	39,766,897			
TOTAL OTHER FINANCING SOURCES (USES)	(2,631,334)	(2,741,762)	(110,428)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(53,512)	891,121	944,633	(127,663)	(28,587)	99,076
FUND BALANCES - JULY 1	2,981,424	3,015,595	34,171	709,534	744,715	35,181
FUND BALANCES - JUNE 30	\$ 2,927,912	\$ 3,906,716	\$ 978,804	\$ 581,871	\$ 716,128	\$ 134,257

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, 2012

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 Home 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.

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.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 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

F. Property Taxes

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year.

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

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance Classifications (Continued)

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.

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.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Encumbrances

The District does not utilize encumbrance accounting.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 750,260	\$ 750,260
Collateralized:		
Collateral held by the District's agent, pledging bank or pledging bank's trust department or agent in the District's name	6,243,675	7,349,300
Total Deposits	\$ 6,993,935	\$ 8,099,560

The above total deposits include certificates of deposit of \$266,072 reported as investments and classified as nonparticipating contracts.

3: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$346,315 at June 30, 2012 was comprised of the following:

Description	Governmental Funds		Total
	Major		
	General	Special Revenue	
State assistance	\$ 39,773		\$ 39,773
Federal assistance		\$ 274,400	274,400
Other		32,142	32,142
Totals	\$ 39,773	\$ 306,542	\$ 346,315

4: COMMITMENTS

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

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
High School and Junior High School additions and renovations	August 7, 2012	\$ 871,381

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.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4: COMMITMENTS (Continued)

B. Operating Lease (Continued)

1. Future minimum rental payments (aggregate) at June 30, 2012: \$286,818
2. Future minimum rental payments for the succeeding years:

Year Ended June 30,	Amount
2013	\$ 143,409
2014	143,409
Total	\$ 286,818

Rental payments for the operating lease described above were approximately \$143,409 for the year ended June 30, 2012.

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, 2012	Maturities To June 30, 2012
5/1/01	12/1/16	3.6 - 4.5%	\$ 1,018,700	\$ 435,000	\$ 583,700
3/1/04	12/1/16	2.4 - 3.3%	1,425,000	615,000	810,000
9/1/08	6/30/38	4 - 5%	41,055,000	39,260,000	1,795,000
7/7/11	6/1/27	4.65%	925,000	925,000	
6/23/04	11/1/13	4.95%	500,000	100,000	400,000
6/1/05	6/1/15		198,550	198,550	
9/27/11	9/27/21	4.55%	185,456	185,456	
Totals			\$ 45,307,706	\$ 41,719,006	\$ 3,588,700

Changes in Long-term Debt

	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012
Bonds payable	\$ 41,110,000	\$ 925,000	\$ 800,000	\$ 41,235,000
Certificates of indebtedness	150,000		50,000	100,000
Postdated warrants	198,550	185,456		384,006
Totals	\$ 41,458,550	\$ 1,110,456	\$ 850,000	\$ 41,719,006

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

4: COMMITMENTS (Continued)

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

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 880,000	\$ 1,885,545	\$ 2,765,545
2014	910,000	1,850,058	2,760,058
2015	1,088,550	1,814,367	2,938,608
2016	925,000	1,778,547	2,739,367
2017	965,000	1,741,177	2,743,547
2018-2022	5,690,456	8,067,872	7,431,633
2023-2027	7,895,000	6,714,128	15,962,872
2028-2032	8,980,000	4,653,288	15,694,128
2033-2037	11,660,000	2,189,112	16,313,288
2038	2,725,000	68,125	4,914,112
Totals	<u>\$ 41,719,006</u>	<u>\$ 30,762,219</u>	<u>\$ 72,481,225</u>

Qualified Zone Academy Bond (QZAB)

On June 1, 2005, the District obtained funding of \$198,550 through the Qualified Zone Academy Bond (QZAB) program, a debt financial arrangement authorized under the Taxpayer Relief Act of 1997. 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.

Qualified School Construction Bonds

On July 7, 2011 and September 27, 2011, the District obtained funding of \$925,000 and \$185,456, respectively, from Qualified School Construction Bonds, a debt financial arrangement authorized by the American Recovery and Reinvestment Act of 2009. The District will deposit specified amounts annually into sinking funds for 16 years and 10 years, respectively. These amounts plus interest earned will be used to retire the debt when due.

5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$313,556 at June 30, 2012 was comprised of the following:

Description	Governmental Funds			Total
	Major			
	General	Special Revenue	Other Aggregate	
Vendor payables	\$ 53,438	\$ 5,998	\$ 236,836	\$ 296,272
Due to grantors		17,284		17,284
Totals	<u>\$ 53,438</u>	<u>\$ 23,282</u>	<u>\$ 236,836</u>	<u>\$ 313,556</u>

6: INTERFUND TRANSFERS

The District transferred \$2,741,762 from the general fund to the other aggregate funds for debt related payments.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, 2011, and 2010 were \$2,752,615, \$2,706,817, and \$2,717,642, 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 (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, 2012, 2011, and 2010 were \$1,145, \$1,244, and \$2,661, respectively, equal to the required contributions for each year.

8: PLEDGED REVENUES

The District has pledged a portion of its property taxes to retire bonds of \$44,423,700 issued from May 1, 2001 through July 7, 2011. The bonds were issued for various capital projects. Total principal and interest remaining on the bonds is \$71,916,304 payable through June 30, 2038. Principal and interest paid for the current year and total property taxes pledged for debt service were \$2,700,605 and \$3,635,412, respectively. The percentage of property taxes pledged for the current year for principal and interest payments was 74.29 percent.

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 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.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER COUNTY, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

9: RISK MANAGEMENT (Continued)

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

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.

10: 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 \$448,213 for the year ended June 30, 2012.

11: 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	\$ 26,164			\$ 26,164
English-language learners	410			410
Professional development	23,212			23,212
Capital projects			\$2,413,901	2,413,901
Child nutrition programs		\$ 452,319		452,319
Debt service	132,942		57,826	190,768
Medical services		256,945		256,945
Special education programs	116,662			116,662
Other purposes	75,831	6,864		82,695
Total Restricted	<u>375,221</u>	<u>716,128</u>	<u>2,471,727</u>	<u>3,563,076</u>
Committed to:				
Capital projects	<u>192,526</u>			<u>192,526</u>
Assigned to:				
Student activities	<u>98,899</u>			<u>98,899</u>
Unassigned	<u>3,240,070</u>			<u>3,240,070</u>
Totals	<u>\$3,906,716</u>	<u>\$ 716,128</u>	<u>\$2,471,727</u>	<u>\$7,094,571</u>

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER COUNTY, ARKANSAS
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012
 (Unaudited)

Schedule 1

	Balance June 30, 2012
<i>Nondepreciable capital assets:</i>	
Land	\$ 862,692
<i>Depreciable capital assets:</i>	
Buildings	56,826,342
Improvements/infrastructure	2,917,238
Equipment	7,199,883
Total depreciable capital assets	66,943,463
Less accumulated depreciation for:	
Buildings	11,494,059
Improvements/infrastructure	1,679,754
Equipment	5,409,107
Total accumulated depreciation	18,582,920
Total depreciable capital assets, net	48,360,543
Capital assets, net	\$ 49,223,235

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
 BAXTER COUNTY, ARKANSAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012

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		\$ 5,098
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	03-03	239,901
National School Lunch Program - Cash Assistance	10.555	03-03-000	906,772
Total State Department of Education			1,146,673
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	0303000	106,786
TOTAL CHILD NUTRITION CLUSTER			1,258,557
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	1,091,656
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	03-03	92,872
TOTAL TITLE I, PART A CLUSTER			1,184,528
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	712,451
ARRA - Special Education - Grants to States, Recovery Act	84.391	03-03	193,067
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			905,518
OTHER PROGRAMS			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program	10.582	03-03	30,083
<u>U. S. Department of Defense</u>			
Direct Program:			
ROTC (Note 5)	12.JROTC123S		74,217
<u>U. S. Department of Labor</u>			
Direct Program:			
Employment Services and Job Training Pilots - Demonstrations and Research	17.249		3,509

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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>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	\$ 63,707
Passed Through State Department of Education:			
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	03-03	166
Education Technology State Grants	84.318	03-03	75
Rural Education	84.358	03-03	71,563
Improving Teacher Quality State Grants	84.367	03-03	184,466
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	03-03	1,118,365
ARRA - Education Jobs Fund, Recovery Act	84.410	03-03	384,434
Total State Department of Education			<u>1,759,069</u>
Total U. S. Department of Education			<u>1,822,776</u>
TOTAL OTHER PROGRAMS			<u>1,930,585</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,279,188</u>

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, 2012. 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 the 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, 2012, the District received Medicaid funding of \$259,737 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, 2012

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Types of auditor's reports issued: GAAP basis of reporting - adverse
 Regulatory basis opinion units - unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported
- Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 and 10.555	Child Nutrition Cluster
84.027 and 84.391	Special Education Cluster (IDEA)
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
84.410	ARRA - Education Jobs Fund, Recovery Act

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9
BAXTER COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Schedule 4

U. S. DEPARTMENT OF EDUCATION
PASSED THROUGH STATE DEPARTMENT OF EDUCATION
SPECIAL EDUCATION CLUSTER (IDEA) - CFDA NUMBERS 84.027 AND 84.391

2011 - Finding 2011-1: Special Education Cluster (IDEA) - CFDA Numbers 84.027 and 84.391

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.

Recommendation: The District should implement procedures to ensure cost are incurred within the applicable budget categories and consult with the Arkansas Department of Education for further guidance regarding this matter.

Current Status: Corrective action was taken.

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

2011 - Finding 2011-2: ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act - CFDA
Number 84.394

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.

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.

Current Status: Corrective action was taken.

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, 2012
(Unaudited)

General Fund	Year Ended June 30,				
	2012	2011	2010	2009	2008
Total Assets	\$ 3,960,154	\$ 3,052,415	\$ 2,519,526	\$ 2,020,169	\$ 907,127
Total Liabilities	53,438	36,820	283,011	445,996	205,498
Total Fund Balances	3,906,716	3,015,595	2,236,515	1,574,173	701,629
Total Revenues	30,909,935	30,075,750	29,881,406	27,828,646	27,934,573
Total Expenditures	27,277,052	26,727,417	26,628,768	26,760,212	27,472,598
Total Other Financing Sources (Uses)	(2,741,762)	(2,569,253)	(2,590,296)	(195,890)	(1,128,858)
<u>Special Revenue Fund</u>					
Total Assets	739,410	749,800	723,955	559,986	386,171
Total Liabilities	23,282	5,085	169,999	353	1,499
Total Fund Balances	716,128	744,715	553,956	559,633	384,672
Total Revenues	5,021,103	4,981,529	5,208,088	4,010,419	3,687,501
Total Expenditures	5,049,690	4,739,141	5,213,765	3,835,458	3,740,545
Total Other Financing Sources (Uses)					
<u>Other Aggregate Funds</u>					
Total Assets	2,708,563	5,313,152	15,375,155	30,852,246	1,086,237
Total Liabilities	236,836	793,964	1,534,998	1,309,865	189,547
Total Fund Balances	2,471,727	4,519,188	13,840,157	29,542,381	896,690
Total Revenues	1,208,870	1,373,742	762,773	619,468	20,079
Total Expenditures	7,072,789	13,419,565	19,055,293	6,770,132	1,465,809
Total Other Financing Sources (Uses)	3,816,458	2,673,225	2,590,296	34,796,355	1,526,763