



Financial Statements
June 30, 2012

Mountain Home School District #193

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Independent Auditor's Report

To the Board of Trustees
Mountain Home School District #193
Mountain Home, Idaho

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mountain Home School District #193, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mountain Home School District #193's (the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mountain Home School District #193, as of June 30, 2012, and the respective changes in financial position and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Eric Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Boise, Idaho
October 10, 2012

The discussion and analysis of the Mountain Home School District's (the District) financial performance provides an overall review of financial activities, with the focus on the District's financial activities for the 2011-2012 fiscal year, ending on June 30, 2012. Efforts have been made to provide comparison to prior years' data, when such data is available.

FINANCIAL HIGHLIGHTS

- The District ended the fiscal year with general fund revenues exceeding expenses by \$295,803 or 1.4% of revenue. Total General Fund revenue was under budget by \$319,762 or 1.5%. Revenue from taxes was \$17,736 under budget or .6%. Impact Aid was \$17,457 under budget or .8%. State revenue was under budget by \$428,664 or 2.8%. Total expenses were under budget by \$859,638 or 4.1% of budget.
- Federal revenue from Impact Aid fell short of budget by \$17,475 or .8%. This program supplements educational expenses for children affiliated with the military. Payments received in FY 2012 included \$1,292,440 from FY 2012, \$391,567 from FY 2011, \$127,002 from FY 2010, \$231,578 from FY 2009 and \$126,549, which is the final payment from FY 2007. On the FY 2012 application, students whose parents live and work on the base declined from 350 on October 2011 students to 331 for a reduction of 19 students or 5.4%. Uniformed services living off the base were 679 on October 2010 and declined by 107 to 572 in October of 2011.
- District enrollment as of the middle of May decreased by 55 students to 3,740 in fiscal year 2011-2012 from the previous year's end of school enrollment of 3,795. This is a decrease over the prior fiscal year of 1.4%. The Base Primary school increased 1 student from the prior year and all elementary decreased 14 students. Secondary enrollment declined a total of 41 students. High school juniors reflected the largest decline by grade, declining 35 students from the previous year. The second grade class increased 41 students from the prior year's class.

OVERVIEW OF THE FINANCIAL STATEMENTS

This section of the annual financial report consists of three parts: management's discussion and analysis, basic financial statements, and other required supplementary information.

The basic financial statements consist of two kinds of statements that present different views of the District's financial activities.

Government-Wide Financial Statements (GWFS)

The *GWFS* (i.e. statement of net assets and statement of activities) provides readers with a broad overview of the District's finances. The Statement of Net Assets and the Statement of Activities displays information about the reporting entity as a whole. The GWFS report information about the District as a whole, using accounting methods similar to those used by private-sector companies.

The *Statement of Net Assets* provides information on all of the assets and liabilities of the District, with the difference between the two providing the *net assets*. Increases or decreases in the net assets may indicate whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* shows how the net assets of the District have changed throughout the fiscal year. Changes in the net assets occur as soon as the underlying events give rise.

The statements present an aggregate view of the District's finances. GWFS contain useful long-term information as well as information for the just-completed fiscal year. To assess the overall financial condition of the District, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings, and other facilities, should be considered.

In the GWFS, the District's activities are all classified as government activities. Governmental activities include all regular and special education, all educational support activities, administration, transportation, and food services. Funding for these services come from property taxes, the State of Idaho, and Federal Impact Aid.

The GWFS can be found on pages 10-11 of this report.

Fund Financial Statements

Funds are accounting devices the District uses to keep track of sources of funding and spending on particular programs and to demonstrate compliance with various regulatory requirements. Fund Financial Statements focus on individual parts of the District. Fund Statements generally report operation in more detail than the government-wide statements. This statement focuses on its most significant or "major" funds and not on the District as a whole.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (i.e. repaying its long-term debt) or to show that it is properly using certain revenues (i.e. Plant Facility Funds). The District has two types of funds: Governmental and Fiduciary.

Governmental Funds – Governmental Funds account for nearly the same functions as the Governmental Activities. However, unlike the GWFS, Governmental Funds focus on near-term inflows and outflows, as well as the balances left at year-end that are available for funding future basic services.

It is useful to compare information found in the Governmental Funds with that of the Governmental Activities. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The basic governmental fund financial statements can be found on pages 12-16 of this report.

Fiduciary Funds – The District serves as a trustee, or fiduciary, for student organizations. The assets of these organizations belong to the organization, and not the District. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. These activities are excluded from the District-wide financial statements because the District cannot use these assets to finance its operations.

Notes – The notes to the financial statements provide further explanation of some of the information in the statements and provide additional disclosures so that statement users have a complete picture of the District's financial activities and position.

Required supplementary information further explains and supports the financial statements by including a comparison of the District's budget data for the year.

Government-Wide Financial Analysis

Governmental Activities

| | 2012 | 2011 | Change |
|---|----------------------|---------------|-------------|
| Current and Other Assets | \$ 7,617,375 | \$ 7,366,626 | \$ 250,749 |
| Capital Assets | 13,096,939 | 13,860,614 | (763,675) |
| Total Assets | 20,714,314 | 21,227,240 | (512,926) |
| Long-Term Liabilities Outstanding | 2,455,000 | 3,295,000 | (840,000) |
| Other Liabilities | 4,647,404 | 4,862,023 | (214,619) |
| Total Liabilities | 7,102,404 | 8,157,023 | (1,054,619) |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 9,801,939 | 9,775,614 | 26,325 |
| Restricted | 1,312,933 | 1,182,195 | 130,738 |
| Unrestricted | 2,497,038 | 2,112,408 | 384,630 |
| Total Net Assets | \$ 13,611,910 | \$ 13,070,217 | \$ 541,693 |

Net assets may serve as a useful indicator of a District's financial position. In the case of the District, total assets exceeded liabilities by \$13,611,910 at the close of the most recent fiscal year. This represents an overall increase of \$541,693 from the prior year.

The largest portion of the District's net assets (72.0%) reflect investments in capital assets (i.e. land, buildings and improvements, furniture, and equipment) net of related debt (general obligation bonds) used to acquire those assets still outstanding. These capital assets provide services to students; consequently, these assets are not available for future spending. The District calculation of net assets uses a historical cost of school buildings that does not accurately reflect current replacement value.

Restricted net assets represent 9.6% of the District's net assets. These resources are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the District's ongoing obligations to students, employees, and creditors. The unrestricted net assets amount has been earmarked for the following purposes:

Unrestricted net assets increased from the prior fiscal year of \$2,112,408 to a current year balance in FY 2012 of \$2,497,038. This includes \$516,600 for a liability for other post employment benefits (OPEB) as required by GASB 45. Other factors that contributed to this deficit are revenue fluctuations in the General Fund discussed below in the General Fund section.

On the following statement for Changes in Net Assets from Operating Results, Total revenue has decreased in FY 2012 over FY 2011 by \$3,537,872. The majority of this decrease is in the State revenue area of non-major funds. In FY 2012, State revenue was under \$1,251,686 or 8.0% from FY 2011. Total Federal revenue was down \$457,330 due to the loss of Federal Stimulus money from FY 2011 and a decline in Impact Aid. Revenue from

Mountain Home School District #193
Management's Discussion and Analysis
June 30, 2012

Impact Aid was down \$83,242 or 3.7% from FY 2011. The total expense decreased \$1,233,178 with decreases in Secondary Programs of \$1,761,597, Elementary Programs increased \$1,001,951, and Student Services increase of \$153,788 make up the top three areas of expense change from the prior year.

Mountain Home School District 193
Changes in Net Assets from Operating Results
Governmental Activities

| | 2012 | 2011 | Change |
|--|-------------------|---------------------|-----------------------|
| REVENUES | | | |
| Program Revenues | | | |
| Charges for Services | \$ 381,304 | \$ 364,342 | \$ 16,962 |
| Operating Grants and Contributions | 4,341,560 | 4,909,774 | (568,214) |
| Capital Grants and Contributions | - | - | - |
| General Revenues | | | |
| Property Taxes levied for General purposes | 2,803,450 | 2,869,134 | (65,684) |
| Property Taxes levied for Debt Services | 855,894 | 1,059,316 | (203,422) |
| Property Taxes levied for Capital Outlay | 63,699 | 1,115,266 | (1,051,567) |
| Revenue in lieu of taxes | 19,324 | - | 19,324 |
| State Revenues | 14,321,203 | 15,572,889 | (1,251,686) |
| Grants and Contributions not restricted to Specific Purposes | | | |
| Federal Stimulus Funds | - | 499,800 | (499,800) |
| Federal Impact Aid | 2,169,138 | 2,252,380 | (83,242) |
| Other federal revenue | 697,094 | 621,182 | 75,912 |
| Interest and Investment Earnings | 14,072 | 12,080 | 1,992 |
| Miscellaneous | 218,634 | 196,880 | 21,754 |
| Total Revenue | <u>25,885,372</u> | <u>29,423,243</u> | <u>(3,537,871)</u> |
| EXPENSES | | | |
| Instructional Services | | | |
| Elementary Programs | 6,090,389 | 5,088,437 | 1,001,952 |
| Secondary / Alternative Programs | 5,545,214 | 7,306,811 | (1,761,597) |
| Exceptional Child Programs | 2,626,994 | 2,665,147 | (38,153) |
| Other Programs | 469,216 | 607,209 | (137,993) |
| Support Services | | | |
| Student Services | 1,859,770 | 1,705,982 | 153,788 |
| Instructional Improvement | 116,828 | 211,522 | (94,694) |
| Educational Media | 277,019 | 378,296 | (101,277) |
| Administration | 1,380,449 | 1,522,134 | (141,685) |
| School Administration | 1,455,427 | 1,493,007 | (37,580) |
| Plant Services | 2,162,968 | 2,275,487 | (112,519) |
| Transportation | 1,082,053 | 1,114,779 | (32,726) |
| Non-Instructional Services | | | |
| Community Service Programs | 435 | 263 | 172 |
| School Lunch | 1,173,744 | 1,196,313 | (22,569) |
| Capital Outlays | 93,078 | 115,360 | (22,282) |
| Interest / Bond Issuance Cost on Long-Term Debt | 94,699 | 133,038 | (38,339) |
| Depreciation | 915,396 | 763,071 | 152,325 |
| Total Expenses | <u>25,343,679</u> | <u>26,576,856</u> | <u>(1,233,177)</u> |
| Change in Net Assets | <u>\$ 541,693</u> | <u>\$ 2,846,387</u> | <u>\$ (2,304,694)</u> |

DISTRICT'S FUNDS FINANCIAL ANALYSIS

As noted earlier, the District uses funds to demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide balances of spendable resources and to provide data on near-term inflows and outflows.

General Fund – The General Fund is the general operating fund for the District. At the end of the 2011-2012 fiscal year, this fund balance was \$726,175, which is an increase of \$295,803 from the fiscal year 2010-2011 ending balance of \$430,372. In the General Fund in FY 2012, 74.2% of the revenue comes from the State of Idaho, down from 75.4% in FY 2011. Federal sources provided 11.0% of revenue with the remainder coming from other sources. General Fund expenses were 96.9% of revenue resulting in a increase of the fund balance. Net transfers in the General Fund resulted in an expense of \$357,071. Non-major funds had revenues in excess of expenses by \$755,364. Total activity increased the government-wide fund balances to \$4,251,003.

Actual revenues for General Fund totaled \$20,753,238. Total revenue funding was \$319,762 under the budgeted projection of \$21,073,000. Total Federal revenue was under budget by \$17,475 due to timing of the past years Impact Aid payments. State revenue was under budget by \$428,664 due to support units being less than anticipated. Declining enrollment and a stagnate economic recovery continue to affect this District.

Expenditures for general District purposes totaled \$20,100,364, a decrease of \$1,289,635 or 6.0% from the 2010-2011 fiscal year total of \$21,389,999. The instructional expenditures in FY 2012 of \$12,129,533 decreased from FY 2011 by \$1,163,354. This category accounts for 60.3% of all general fund expenditures this year. Support services constitute 39.7% of general fund expenditures, with 26.3% or \$2,099,786 of total support services being maintenance and building improvement related. This category decreased from the FY 2011 level of \$2,252,958 by \$153,172 or 6.8%.

Purchases for capital assets in the general fund declined from the prior year by \$7,671 due to the cutbacks in equipment purchases. Total General Fund outlays for capital in FY 2012 were \$1,244.

Federal Forest Fund – This fund can be used for technology and textbook purchases. The main expenditures in the current year were \$135,916 for textbooks, \$44,026 for software, and \$11,368 for equipment. Revenues of \$487,615 from the Department of Defense and Federal Forest funding exceeded budget of \$250,000 by \$237,615. The fund balance increased in this fund as of June 30, 2012 to \$708,322.

Plant Facility Fund – The Plant Facility Fund is the fund used to pay for capital construction and building repair and remodeling throughout the District. A request for a continuation of the Plant Facility Levy by the patrons was not passed in May of 2011. Proposed expenditures planned for these funds were immediately put on hold until the needs could be reassessed. As a result of a delay in expenditures, at the end of the current fiscal year, the Plant Facility Fund balance is \$1,386,228. The major purchases from this fund for the current fiscal year were: \$77,782 for repairs, \$52,138 for equipment, \$39,460 for contracted services, \$9,595 for supplies, and \$15,943 for software. Bids for a new roof resurfacing at the high school and West Elementary were awarded in May 2012 which is expected to consume the remaining fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

In June, the District adopted an original budget for the subsequent year. The budget for the FY 2012-2013 was approved by the Board of Trustees on June 15, 2012. The budget was not amended.

CAPITAL ASSETS

The capital projects fund is used primarily to account for the costs incurred while acquiring and improving sites, constructing and remodeling facilities, and producing equipment necessary for providing educational programs for all students within the District. The Mountain Home School District has invested approximately \$32,307,311 in a broad range of capital assets over the years. The total accumulated depreciation on these assets at June 30, 2012 amounts to \$19,210,372.

- Asset additions for governmental activities totaled \$151,721 for the current fiscal year.
- The District did not have any asset disposals in FY 2012.

LONG-TERM DEBT

At year-end, the District had \$3,295,000 in general obligation bonds, exclusive of deferred interest. Of this amount, \$840,000 will be retired within the next year and \$2,455,000 will be retired within 5 years. The District retired \$790,000 of outstanding bonds in fiscal year 2012. This retirement was the result of the District's payment on the 1995 bonds. The debt of the District is secured by an annual tax levy authorized by the patrons of the District by a two-thirds majority vote.

Additional information regarding the District's long-term debt can be found in Note #7 to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District continues to balance current need versus available resources. Additional testing requirements by the State (ISAT) and Federal Government (NCLB) have increased the administrative burden to the District. In fiscal year 2012, significant improvement had been made in meeting the Adequate Yearly Progress (AYP) goals according to the guidelines set forth by NCLB. The Junior High School, Base Primary, West Elementary, North Elementary, and Pine have met their AYP goals in FY 2012. Meeting the AYP standards will be the focus of resource allocation in FY 2013. The District continues to face difficult choices over the allocation of available resources in light of increasing costs and reduced funding.

The District has seen an overall decline in enrollment for eight of the past ten years. Since fiscal year 2000-2001, enrollment has dropped from a high of 4,454 enrolled students to 3,740 at the end of fiscal year 2011-2012. This past year showed a decrease of 55 students from the prior fiscal year. The enrollment on the air base has fallen from 1,022 students in fiscal year 2000-2001 to a current enrollment of 285. Housing reconstruction on the base is starting to progress after the awarding of the construction bid. Until the projects are completed, this renovation restricts the number of students living on base and affects our federal reimbursement per military child.

In May of 2012, the voters of Mountain Home approved a supplemental levy of \$2.7 million per year for two years to stabilize the funding for the district during the revenue cutbacks from the state and federal governments. This levy saved employee layoffs, service cutbacks, and athletic opportunities in the district which would have resulted in significant operational changes.

For the fiscal year 2012 budget, significant cutbacks were implemented to reduce overall district wide expenses. Salary scales were frozen again for all staff and furlough days required of year around staff. Educational and experience advances were implemented due to similar actions by the State Legislature. Salary funding from the State however remained behind with several areas of funding not reinstated from prior year cuts. Healthcare benefits were reduced by the inclusion of a pharmacy deductible and higher annual deductibles. There were several positions not filled or filled with classified para-professionals instead of certified staff. This was in part a reduction to the declining enrollment figures projected for the current year. These operational adjustments along with the support of the community and the supplemental levy described above gave the District a slight increase in its financial position at the end of FY 2012.

The budget for FY 2013 again reflects another anticipated decrease in funding from the State of Idaho for education. We have budgeted three certified less staff in FY 2013 than in FY 2012, fewer classified staff, and shifted one administrator to perform dual duties. We budgeted a reduction in enrollment by 90 students or another 1.8% decrease in students. Funds have been withheld by the State Department of Education from discretionary use by the local boards to be dedicated to a state mandated pay for performance criteria and technology of some kind.

State funding continues to drop in relation to the cost of education. Fiscal year 2012, unlike FY 2010, has seen the Federal Stimulus funds dry up that had been allocated to supplement State revenue shortages. Fiscal year 2012 saw cuts to districts for Federal programs, negligible increases for classified, certified, and administration salary reimbursement rates on the salary based apportionment section of the state foundation payments. Entitlement reimbursement increased \$80.00 per support unit or .4% when the regional CPI increased 1.5% during that same period.

In FY 2011, the Plant Facility levy was not renewed by the patrons in Mountain Home. As a result of this levy not passing, capital improvements, repairs, and equipment had been placed on a moratorium. An analysis of immediate critical needs was prioritized and it was determined the highest need for student safety and asset preservation was the replacement of roof membrane at the high school and West Elementary. These will be replaced starting in July of 2012. Future repairs and major capital upgrades are currently lacking any funding source.

Housing renovation on the base has commenced and will be in progress during the next 18 months. Any increase to militarily-connected students living on base will not occur until this is completed and open for occupancy. The possibility of a squadron of F-35 fighters stationed at Mountain Home is doubtful at best but the District sees little or no growth in student enrollment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors, with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

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Mountain Home School District #193
Statement of Net Assets
June 30, 2012

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 1,423,700 |
| Investments | 3,381,974 |
| Property taxes receivable | 1,641,400 |
| State and federal receivables | 993,974 |
| Other receivables | 74,245 |
| Prepays | 3,565 |
| Inventories | 80,065 |
| Bond issuance costs (net of amortization) | 18,452 |
| Capital assets (not subject to depreciation) | 481,372 |
| Capital assets (net of depreciation) | 12,615,567 |
| Total assets | 20,714,314 |
| Liabilities | |
| Accounts payable | 146,016 |
| Accrued payroll and related liabilities | 2,983,604 |
| Interest payable | 45,347 |
| Premium on bonds | 115,837 |
| Other post employment benefits obligation | 516,600 |
| Long-term liabilities | |
| Due within one year | 840,000 |
| Due in more than one year | 2,455,000 |
| Total liabilities | 7,102,404 |
| Net Assets | |
| Invested in capital assets, net of related debt | 9,801,939 |
| Restricted for debt service | 1,312,933 |
| Unrestricted | 2,497,038 |
| Total net assets | \$ 13,611,910 |

Mountain Home School District #193
Statement of Activities
Year Ended June 30, 2012

| Functions/Programs | Program Revenues | | | Net (expense) Revenue and Changes in Net Assets | |
|--|----------------------|---------------------|--|--|--|
| | Expenses | Program Revenues | Operating Grants and Contributions | | Capital Grants and Contributions |
| <i>Governmental activities</i> | | | | | |
| Instruction | | | | | |
| Elementary programs | \$ 6,090,389 | \$ - | \$ 1,287,708 | \$ - | \$ (4,802,681) |
| Secondary/alternative programs | 5,545,214 | - | 297,637 | - | (5,247,577) |
| Exceptional/preschool programs | 2,626,994 | - | 612,573 | - | (2,014,421) |
| Other instructional programs | 469,216 | - | 12,607 | - | (456,609) |
| Support services | | | | | |
| Student services | 1,859,770 | 36,755 | 378,324 | - | (1,444,691) |
| Instructional improvement | 116,828 | - | 83,878 | - | (32,950) |
| Educational media | 277,019 | - | - | - | (277,019) |
| Administration | 1,380,449 | - | - | - | (1,380,449) |
| School administration | 1,455,427 | - | - | - | (1,455,427) |
| Plant services | 2,162,968 | - | - | - | (2,162,968) |
| Pupil transportation services | 1,082,053 | - | 855,362 | - | (226,691) |
| Community service programs | 435 | - | 1,801 | - | 1,366 |
| Food services | 1,173,744 | 344,549 | 811,670 | - | (17,525) |
| Capital improvements | 93,078 | - | - | - | (93,078) |
| Interest on long-term debt | 94,699 | - | - | - | (94,699) |
| Depreciation-unallocated | 915,396 | - | - | - | (915,396) |
| Total Governmental Activities | \$ 25,343,679 | \$ 381,304 | \$ 4,341,560 | \$ - | (20,620,815) |
| General revenues | | | | | |
| State revenue | | | | | |
| Taxes | | | | | |
| Property taxes, levied for general purposes | | | | | |
| Property taxes, levied for debt services | | | | | |
| Property taxes, levied for capital outlay | | | | | |
| State revenue in lieu of taxes | | | | | |
| Grants and contributions not restricted to specific programs | | | | | |
| Federal impact aid | | | | | |
| Other federal revenue | | | | | |
| Interest and investment earnings general fund | | | | | |
| Other funds | | | | | |
| Miscellaneous | | | | | |
| Total general revenues | | | | | |
| Changes in Net Assets | | | | | |
| Net Assets, Beginning of Year | | | | | |
| Net Assets, End of Year | | | | | |

Mountain Home School District #193
Balance Sheet - Governmental Funds
June 30, 2012

| | General | Non Major Funds | Total Governmental Funds |
|---|---------------------|---------------------|--------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 1,423,125 | \$ 575 | \$ 1,423,700 |
| Investments | 3,381,974 | - | 3,381,974 |
| Property taxes receivable | 1,235,750 | 405,650 | 1,641,400 |
| State and federal receivables | 652,112 | 341,862 | 993,974 |
| Other receivables | 64,820 | 9,425 | 74,245 |
| Prepays | - | 3,565 | 3,565 |
| Interfund | - | 3,235,246 | 3,235,246 |
| Inventories | 33,100 | 46,965 | 80,065 |
| | <u>\$ 6,790,881</u> | <u>\$ 4,043,288</u> | <u>\$ 10,834,169</u> |
| Liabilities and Fund Balance | | | |
| Liabilities | | | |
| Accounts payable | \$ 87,902 | \$ 58,114 | \$ 146,016 |
| Accrued payroll and related liabilities | 2,606,758 | 376,846 | 2,983,604 |
| Deferred property taxes | 134,800 | 83,500 | 218,300 |
| Interfund | 3,235,246 | - | 3,235,246 |
| | <u>6,064,706</u> | <u>518,460</u> | <u>6,583,166</u> |
| Fund Balance | | | |
| Nonspendable | 33,100 | 46,965 | 80,065 |
| Restricted for debt service | - | 1,312,933 | 1,312,933 |
| Assigned | - | 2,164,930 | 2,164,930 |
| Unassigned | 693,075 | - | 693,075 |
| | <u>726,175</u> | <u>3,524,828</u> | <u>4,251,003</u> |
| | <u>\$ 6,790,881</u> | <u>\$ 4,043,288</u> | <u>\$ 10,834,169</u> |

Mountain Home School District #193
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2012

| | | |
|--|---------------------|----------------------|
| Total fund balances - governmental funds | | \$ 4,251,003 |
| <p>The cost of capital assets purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Assets includes those capital assets among the assets of the District as a whole. The cost of those capital assets is allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in government funds.</p> | | |
| Costs of capital assets | 32,307,311 | |
| Depreciation expense to date | <u>(19,210,372)</u> | 13,096,939 |
| <p>Elimination of interfund assets and liabilities</p> | | |
| Interfund assets | (3,235,246) | |
| Interfund liabilities | <u>3,235,246</u> | - |
| <p>Property taxes receivable, as recorded in the Statement of Net Assets, will be collected in the next fiscal year, but are not available soon enough to pay current year expenditures and therefore are deferred in the Governmental Fund Statements.</p> | | |
| | | 218,300 |
| <p>Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in treatment of long-term debt and related items. Balances at June 30, 2012 are:</p> | | |
| Capitalized debt issuance costs | 62,986 | |
| Amortization of debt issuance costs to date | (44,534) | |
| Premium on bonds issued | (395,391) | |
| Amortization of bond premium to date | <u>279,554</u> | (97,385) |
| <p>Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the Statement of Net Assets. Balances at June 30, 2012 are:</p> | | |
| Bonds payable in less than one year | (840,000) | |
| Bonds payable in more than one year | (2,455,000) | |
| Interest payable | (45,347) | |
| Other post employment benefits obligation | <u>(516,600)</u> | <u>(3,856,947)</u> |
| Net Assets | | <u>\$ 13,611,910</u> |

Mountain Home School District #193
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2012

| | Governmental Fund Types | | |
|--|-------------------------|--------------------|--------------------------------|
| | General | Non Major Funds | Total Governmental Funds |
| Revenues | | | |
| Local revenues | | | |
| Property taxes | \$ 2,842,264 | \$ 919,593 | \$ 3,761,857 |
| Earnings on investments | 9,609 | 4,463 | 14,072 |
| Other | 33,571 | 388,434 | 422,005 |
| State revenue | 15,407,336 | 230,338 | 15,637,674 |
| Federal revenue | | | |
| Impact aid | 2,073,046 | 96,092 | 2,169,138 |
| Other | 209,479 | 3,989,789 | 4,199,268 |
| Other revenue | 177,933 | - | 177,933 |
| | <u>20,753,238</u> | <u>5,628,709</u> | <u>26,381,947</u> |
| Expenditures | | | |
| Instructional | | | |
| Elementary school program | 5,098,294 | 937,395 | 6,035,689 |
| Secondary school program | 4,971,438 | 586,776 | 5,558,214 |
| Exceptional school program | 1,410,112 | 946,907 | 2,357,019 |
| Preschool school program | 171,673 | 83,002 | 254,675 |
| Gifted and talented school program | 74,337 | - | 74,337 |
| Interscholastic school program | 398,715 | - | 398,715 |
| School activity program | 2,485 | - | 2,485 |
| Summer school program | 2,479 | - | 2,479 |
| | <u>12,129,533</u> | <u>2,554,080</u> | <u>14,683,613</u> |
| Support Services | | | |
| Attendance-guidance | 485,639 | 642 | 486,281 |
| Educational services | 1,292,379 | 64,410 | 1,356,789 |
| Instructional improvement program | 104,365 | 14,663 | 119,028 |
| Educational media program | 275,619 | - | 275,619 |
| District administration program | 1,273,729 | 102,620 | 1,376,349 |
| School administration program | 1,358,651 | 89,576 | 1,448,227 |
| Maintenance and improvements: buildings, grounds, and equipment | 2,099,786 | 58,282 | 2,158,068 |
| Pupil transportation | 1,079,419 | 2,634 | 1,082,053 |
| | <u>7,969,587</u> | <u>332,827</u> | <u>8,302,414</u> |

Mountain Home School District #193
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2012

| | Governmental Fund Types | | |
|---|-------------------------|--------------------|--------------------------------|
| | General | Non Major Funds | Total Governmental Funds |
| Community services program | - | 435 | 435 |
| Food services program | - | 1,168,844 | 1,168,844 |
| Capital assets program | 1,244 | 243,555 | 244,799 |
| Debt services program | | | |
| Principal | - | 790,000 | 790,000 |
| Interest | - | 140,675 | 140,675 |
| Total debt service program | - | 930,675 | 930,675 |
| Total expenditures | 20,100,364 | 5,230,416 | 25,330,780 |
| Excess of Revenues over Expenditures | 652,874 | 398,293 | 1,051,167 |
| Other Financing Sources (Uses) | | | |
| Interfund transfers in | 91,180 | 448,251 | 539,431 |
| Interfund transfers out | (448,251) | (91,180) | (539,431) |
| Total other financing source (uses) | (357,071) | 357,071 | - |
| Changes in Fund Balance | 295,803 | 755,364 | 1,051,167 |
| Fund Balance, Beginning of Year | 430,372 | 2,769,464 | 3,199,836 |
| Fund Balance, End of Year | \$ 726,175 | \$ 3,524,828 | \$ 4,251,003 |

Mountain Home School District #193

Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to
the Statement of Activities
Year Ended June 30, 2012

Total net change in fund balances - governmental funds \$ 1,051,167

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays during the fiscal year:

| | | |
|----------------------|-----------|-----------|
| Depreciation expense | (915,396) | |
| Capital outlays | 151,721 | (763,675) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

| | | |
|-----------------------------|---------|---------|
| Bond repayment | 790,000 | |
| Amortization issuance costs | (5,905) | |
| Amortization of premium | 37,068 | 821,163 |

Because some property taxes will not be collected for several months after the District's fiscal year end they are not considered available revenues in the governmental funds, but are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (38,814)

Because some grant revenues will not be collected for several months after the District's fiscal year end they are not considered available revenues in the governmental funds, but are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (457,761)

Benefits paid on behalf of retirees for other post employment benefits (OPEB) in the Statement of Activities differs from the amount reported in the governmental funds because these costs are recognized as an expenditure in the governmental funds when they are paid, thus requiring the use of current financial resources. In the Statement of Activities, however, the OPEB obligation is recognized based on the actuarial valuation, regardless of when it is paid. (85,200)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the governmental funds when it is due, thus requiring the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 14,813

Change in net assets of governmental activities. \$ 541,693

Mountain Home School District #193
Statement of Fiduciary Net Assets - Fiduciary Funds
June 30, 2012

| | <u>Agency Funds</u> |
|---------------------------|--------------------------|
| Assets | |
| Cash and cash equivalents | \$ 289,642 |
| Investments | <u>263,232</u> |
| Total assets | <u><u>\$ 552,874</u></u> |
| Liabilities | |
| Due to student groups | <u>\$ 552,874</u> |
| Total liabilities | <u><u>\$ 552,874</u></u> |

Note 1 - Summary of Significant Accounting Policies

The Mountain Home School District #193 of Mountain Home, Idaho (the District) operates under a School Board form of government and provides education to students as authorized under Title 33 of the Idaho Code.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units and to state laws applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below:

Financial Reporting Entity

The District follows GASB Statement No.'s 14 and 39 in determining the reporting entity and component units. The financial reporting entity consists solely of the primary government. Accordingly, the financial statements include all funds, and agencies of the primary government whose budgets are controlled or whose boards are appointed by the District's Board of Trustees. Control or dependence on the District was determined on the basis of appointment authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District and legal standing.

The District contributes to the multi-employer Public Employee Retirement System of Idaho (PERSI). PERSI is administered by the State of Idaho. A ten-year history is provided in PERSI's annual report.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The funds of the District are classified into two categories: governmental and fiduciary. In turn, each category is divided into separate fund types. The fund classifications and a description of each existing fund type follow:

Governmental Funds

Governmental funds are used to account for the District's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term debt. The general fund and the capital projects fund are considered major funds while the remaining governmental funds are considered non-major. Governmental funds include:

General fund – the primary operating fund of the District accounts for all financial resources, except those required to be accounted for in other funds.

Special revenue funds – account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt service funds – account for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Capital project fund – accounts for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Fiduciary Funds

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of outside parties, including other governments, or on behalf of other funds within the District.

Agency funds are used to account for assets that the government holds for others in an agency capacity. These agency funds are as follows:

School activity fund – accounts for assets held by the District as an agent for the individual schools and school organizations.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements (GWFS)

The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the GWFS. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions.”

Program Revenues

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District’s taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District’s general revenues. Program revenues include charges to students or applicants who purchase, use or directly benefit from the goods or services provided by the given function.

Allocation of Indirect Expenses

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions is not allocated to those functions but is reported separately in the Statement of Activities. Depreciation is not specifically identified by function and is considered an unallocated indirect expense. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Fund Financial Statements (FFS)

Governmental Funds

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual, defined as measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt which is recognized when due, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The governmental funds use the following practices in recording revenues and expenditures:

Revenues

Ad valorem taxes are susceptible to accrual.

Entitlements and shared revenues (which include state equalization and state revenue sharing) are recorded as unrestricted grants-in-aid at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and when resources are available and all other grant requirements have been met and the susceptible to accrual criteria have been met.

Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time.

Expenditures

Salaries are recorded as paid. Salaries for nine-month employees are accrued at June 30.

Other Financing Sources (Uses)

Transfers between funds that are not expected to be repaid (or any other types, such as capital lease transactions, sale of fixed assets, debt extinguishments, long-term debt proceeds, et cetera) are accounted for as other financing sources (uses). These other financing sources (uses) are recognized at the time the underlying events occur.

Cash and Cash Equivalents

The District pools cash of all funds into common bank accounts. The accounting records of each fund reflect its interest in the pooled cash. Any deficiencies in cash of individual funds represent liabilities to other funds for cash borrowed. Cash includes amounts in demand deposits and interest-bearing demand deposits, and time deposit accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits or time deposits with state banks organized under Idaho law and national banks having their principal offices in Idaho.

Investments

Investments are stated at fair value, as determined by quoted market prices, except for any certificates of deposit, which are non-participating contracts, and are therefore carried at amortized cost. Interest earned is allocated on a basis of average investment balance. Idaho Code provides authorization for the investment of funds as well as to what constitutes an allowable investment. The District policy allows for investment of idle funds consistent with the Idaho State Code 67-1210 and 67-1210A.

The Code limits investments to the following general types:

- Certain revenue bonds, general obligation bonds, local improvement district bonds and registered warrants of state and local governmental entities.
- Time deposit accounts, tax anticipation and interest-bearing notes.
- Bonds, treasury bills, debentures, or other similar obligations of the United States Government and United States Government Agencies.
- Repurchase agreements secured by the above.

The District has adopted an investment policy that further specifies that the following investments are allowed following types of securities:

1. United States Securities
2. United States Governmental Agencies
3. Federal Instrumentalities
4. Certificates of Deposit
5. Repurchase Agreements of governmental securities
6. Bankers Acceptance
7. Registered Investment Companies (Money Market Mutual Funds)
8. Investment Pools composed entirely of instruments that are legal for direct investment by an intermediate school district (Idaho State Investment Pool)

The Joint Powers Investment Pool was established as a cooperative endeavor to enable public entities of the State of Idaho to aggregate funds for investment. This pooling is intended to improve administrative efficiency and increase investment yield. The Pool is managed by the State of Idaho Treasurer's office. The funds of the Pool are invested in certificates of deposit, repurchase agreements, and U.S. government securities. The certificates of deposit are federally insured. The U.S. government securities and the collateral for the repurchase agreements are held in trust by a safekeeping bank. An annual audit of Joint Powers Investment Pool is conducted by the State Legislative Auditors Office. The Legislative Auditor of the State of Idaho has full access to the records of the Pool. Investments in the Joint Powers Investment Pool and repurchase agreements are valued at fair value.

Short-term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for services rendered. These receivables and payables are classified as due from other funds or due to other funds on the fund financial statements balance sheet. Short-term interfund loans are classified as interfund receivables/payables.

Elimination and Reclassifications

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all governmental funds. Encumbrances outstanding at year end lapse and are included in the next year's budget.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Taxes

Property tax revenues are recognized when received or, if received within the two-month period subsequent to year end, they are accrued on the government fund financial statements. Property tax revenues are recognized when levied with appropriate accrual made at year end on the government-wide financial statements. The District's property taxes, levied on the second Monday in September on a market value basis, are billed to the taxpayers in November. Half of the real, personal, and mobile home property taxes are due on December 20 and the remainder is due the following June 20. Other property taxes are due December 20. Real property taxes not paid constitute a lien on the property when entered on the real property assessment roll as delinquent on the first day of January of the succeeding year.

Delinquent property tax receivable is recognized as revenue in the government-wide financial statements. Only the portion that meets the revenue recognition criteria is recognized as revenue on the fund financial statements.

Under State law, county governments are responsible for extending authorized property tax levies, computing tax rates, billing and collecting all property taxes, and making periodic distributions of collections to entities levying taxes. Elmore County bills and collects property taxes for the District.

Historically, virtually all ad valorem taxes receivable were collected since they are secured by property; therefore, there is no allowance for uncollectible taxes.

Inventories

School operating supplies and maintenance supplies are stated at the lower of cost (first-in, first-out) or market.

Inventories on hand at year end are reflected as assets and are fully reserved in the fund financial statements indicating the inventories are unavailable for appropriation even though they are a component of reported assets.

Capital Assets

The District's policy is to capitalize capital assets in excess of \$20,000. Capital assets are recorded at historical cost and depreciated over their estimated useful lives (excluding salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Estimated useful lives are management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives:

| | |
|-----------------------------------|-------------|
| Buildings | 40 years |
| Improvements other than buildings | 15-40 years |
| Furniture and equipment | 3-15 years |

The costs of land and buildings acquired before 1994 are recorded at estimated historical cost. Land and buildings acquired after 1994 are recorded at historical cost. The cost of equipment and vehicles is based on historical cost.

The cost of normal maintenance and repairs not adding to the value of the asset or materially extending asset lives are not capitalized.

The District does not possess any material amounts of infrastructure capital assets (e.g. roads, bridges, parking lots, sewer). Amounts expended for such items prior to June 30, 2002 were considered part of the cost of the buildings or other immovable property. From July 1, 2002 forward, such items that are built or constructed, and appear to be material in cost compared to all capital assets, are capitalized and depreciated over their estimated useful lives.

Long-Term Liabilities

For government-wide reporting, the costs associated with the bonds are recognized over the lives of the bonds. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

For fund financial reporting, bond premiums and discounts, as well as issuance costs, are recognized in the period the bonds are issued. Bond proceeds are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Restricted Net Assets

For the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net assets use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments;

Imposed by law through constitutional provisions or enabling legislation.

Fund Balances of Fund Financial Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable**: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified inventories as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted**: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified debt service resources as restricted as they are to be used for future servicing of the general obligation bond and are restricted through debt covenants.
- **Committed**: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Trustees remove or change the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of June 30, 2012.
- **Assigned**: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Trustees or through the Trustees delegating this responsibility to the Superintendent through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District did not have any assigned resources within the General Fund as of June 30, 2012.

- **Unassigned:** This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursement, are reported as transfers.

Deferred Revenue

The District reports deferred revenues on its statement of net assets and fund balance sheet. Deferred revenues arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and the revenue is recognized. On the government fund financial statements property taxes that are delinquent are recorded as deferred revenue since they are not available for within 60 days of the fiscal year end, however in the government-wide financial statements all property taxes are recognized in the year they are measurable.

Compensated Absences

All 12-month or full time employees earn vacation and sick leave in amounts varying with tenure and classification. Upon retirement, unused vacation leave is paid to employees. No reimbursement or accrual is made for unused sick leave.

The District's recognition and measurement criteria for compensated absences follow:

GASB Statement No. 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both the following conditions are met:

1. The employees' right to receive compensation is attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

The entire compensated absence liability is reported on the fund level financial statements and is recorded in the account "Accrued payroll and related liabilities" in the fund from which the employees who have accumulated unpaid leave are paid. At June 30, 2012, management has evaluated the balances in the compensated absences and has determined that the full amount is current and properly reflected as a liability in the fund financial statements.

Grants and Other Intergovernmental Revenues

Federal and State reimbursement-type grants are recorded as intergovernmental revenues when the related expenditures/expenses are incurred and, in the governmental funds, when the revenues meet the availability criterion. For programs that are supported by multiple funding sources, federal and state grant monies are applied to expenditures first.

Note 2 - Cash and Cash Equivalents

At June 30, 2012, the District's cash and cash equivalents consisted of the following:

| | Governmental Funds | Agency Funds |
|-----------------|-----------------------|-----------------|
| Bank balance | | |
| Insured | \$ 2,026,478 | \$ 306,210 |
| | \$ 1,423,700 | \$ 289,642 |
| Carrying amount | | |

Note 3 - Investments

At June 30, 2012, the District's investments consisted of the following:

| | Fair Value | Cost |
|--|---------------|--------------|
| State Treasurer's investment pool | \$ 3,381,974 | \$ 3,375,884 |
| State Treasurer's investment pool - Agency | \$ 263,232 | \$ 262,758 |
| | \$ 3,645,206 | \$ 3,638,642 |

For purposes of efficient cash flow management and the management of temporary investments, the District utilizes the Investment Pool for its cash.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party.

The District's investment policy only allows securities to be purchased from the following institutions organized in the United State that have \$500,000,000. The following is a list of the authorized institutions:

1. Primary and regional dealers who qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule), and
2. Capital of no less than \$10,000,000, and
3. Registered as a dealer under the Securities Exchange Act of 1934, and
4. A member of the National Association of Securities Dealers (NASD), and
5. Registered to sell securities in the State of Idaho, and
6. The firm and assigned broker have been engaged in the business of effecting transactions in U.S. Government and agency obligations for at least five consecutive years or,
7. Any Public Depository qualified in accordance with Idaho Code (I.C.) 67-1210.

The securities must be registered and collateralized in the District's name. The District was in compliance with their policy at June 30, 2012.

Credit Risk

Credit risk is the risk that an issuer of debt securities or another counterparty to an investment will not fulfill its obligation is commonly expressed in terms of the credit quality rating issued by a nationally recognized statistical rating organization such as Moody's, Standard & Poor's and Fitch's. The District's policy only allows for investments that have an AAA or AA rating as prescribed by S&P and Moody's. Investments in the State Treasurer's Pool are not required to be rated. The District was in compliance with the policy at June 30, 2012.

Interest Rate Risk

Investments that are fixed for longer periods are likely to experience greater variability in their fair values due to future changes in interest rates. The District's policy is not to purchase investments with maturities greater than 185 calendar days, and repurchase agreements cannot exceed one business day. The District was in compliance with this policy at June 30, 2012.

Concentration of Credit Risk

When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The Governmental Accounting Standards Board has adopted a principal that governments should provide note disclosure when 5% of the total entities investments are concentrated in any one issuer. Investments in obligations specifically guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. The District's policy is to not allow more than 50% of the total portfolio in Certificate of Deposits, Bankers Acceptance, non-governmental money market mutual funds, or any combination thereof. As of June 30, 2012, the amounts in the Wells Fargo Bank repurchase agreements represented more than 5% of the investments.

Note 4 - Interfund Balance Transfers

As of June 30, 2012, the General Fund has an outstanding interfund payable to the Non Major funds of \$3,235,246 due to the timing of cash received for the various funds and maintained in the General Fund checking account.

During the year ended June 30, 2012, the General Fund transferred \$448,251 to the Non Major Funds in compliance with Federal mandates for food service benefits and to cover costs in excess of federal awards. The Non Major Funds transferred \$91,180 to the General Fund for indirect cost reimbursement in relation to the administration of state and federal funded programs.

Note 5 - Capital Assets

A summary of activity in the Capital Assets is as follows:

| | <u>June 30, 2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2012</u> |
|-----------------------------------|----------------------|---------------------|------------------|----------------------|
| Governmental activities | | | | |
| Capital assets | | | | |
| Land | \$ 481,372 | \$ - | \$ - | \$ 481,372 |
| Land improvements | 1,827,622 | - | - | 1,827,622 |
| Buildings | 26,213,106 | - | - | 26,213,106 |
| Furniture and equipment | <u>3,633,490</u> | <u>151,721</u> | <u>-</u> | <u>3,785,211</u> |
| Total capital assets | <u>32,155,590</u> | <u>151,721</u> | <u>-</u> | <u>32,307,311</u> |
| Less accumulated depreciation for | | | | |
| Land improvements | (1,388,391) | (100,483) | - | (1,488,874) |
| Buildings | (14,278,245) | (562,828) | - | (14,841,073) |
| Furniture and equipment | <u>(2,628,340)</u> | <u>(252,085)</u> | <u>-</u> | <u>(2,880,425)</u> |
| Total accumulated depreciation | <u>(18,294,976)</u> | <u>(915,396)</u> | <u>-</u> | <u>(19,210,372)</u> |
| Total capital assets, net | <u>\$ 13,860,614</u> | <u>\$ (763,675)</u> | <u>\$ -</u> | <u>\$ 13,096,939</u> |

Note 6 - Post-Retirement Healthcare Plan

Plan Description. The District provides comprehensive medical, vision and dental benefits to all District employees who retire and satisfy the eligibility requirements. This is a single employer defined benefit healthcare plan administered by Blue Cross of Idaho, Willamette, and VSP. To be eligible for the District's retiree group medical, dental and vision plans, a retiree must satisfy the PERSI retirement eligibility requirements of 55 years of age (or disability) and 5 years of service. Once a retiree becomes eligible for Medicare, the spouse can continue medical and dental coverage until the spouse is eligible for Medicare. Disabled members and their dependents can receive medical, dental, and vision benefits until they qualify for SSDI and Medicare. Surviving spouses are eligible for medical and dental benefits until the survivor is 65 and vision benefits for life.

Funding Policy. The contribution requirement of plan members is established by the District's insurance committee in conjunction with our insurance provider. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2012, the District contributed approximately \$211,105 to the plan or approximately 39 percent of estimated retiree costs. Plan members receiving benefits contributed approximately \$327,215 or approximately 61 percent of estimated retiree costs. Retirees are required to pay 100% of the premiums based on the combined active and retiree pool. Monthly contribution rates in effect for retirees under age 65 during fiscal year 2012, which represents the blending of the September 1, 2009 and September 1, 2010 rates, were as follows:

| Pre-65 rates | Medical Plan "A" Premium | Medical Plan "B" Premium | Dental Regence Premium | Dental Willamette Premium | Vision VSP Premium * |
|--------------------|--------------------------------|--------------------------------|------------------------------|---------------------------------|----------------------------|
| Retiree Only | \$ 362.11 | \$ 319.81 | \$ 42.25 | \$ 59.21 | \$ 10.24 |
| Retiree + Spouse | 790.61 | 697.91 | 72.30 | 84.37 | 14.82 |
| Retiree + Child | 554.26 | 489.36 | 72.30 | 84.37 | 14.82 |
| Retiree + Children | 642.36 | 567.06 | 105.10 | 130.33 | 26.47 |
| Retiree + Family | 912.41 | 805.36 | 105.10 | 130.33 | 26.47 |

* The vision plan is also for post 65 retirees.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the District's post retirement healthcare plan:

| | |
|--|--------------------------|
| Annual required contribution | \$ 294,453 |
| Interest on net OPEB obligation | 17,256 |
| Adjustment to annual required contribution | <u>(15,404)</u> |
| Annual OPEB cost (expense) | 296,305 |
| Contributions made | <u>(211,105)</u> |
| Increase in net OPEB obligation | 85,200 |
| Net OPEB obligation—beginning of year | <u>431,400</u> |
| Net OPEB obligation—end of year | <u><u>\$ 516,600</u></u> |

The three year disclosure of the District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation is shown below:

| Fiscal Year Ending | Annual OPEB Expense (AOE) | Estimated Contribution as a Percentage of AOE * | Net OPEB Obligation at End of Year ** |
|--------------------|---------------------------------|--|---|
| June 30, 2010 | \$ 367,725 | 55% | \$ 322,855 |
| June 30, 2011 | \$ 283,070 | 62% | \$ 431,400 |
| June 30, 2012 | \$ 296,305 | 71% | \$ 516,638 |

* Equals estimated actual incurred claims plus administration less retiree contributions as a percentage of AOE.

** Equals prior year Net OPEB obligation plus current year AOE less estimated current year contributions.

Funded Status and Funding Progress. As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$2,852,210. The District's plan is considered to be unfunded since there are no assets and retiree benefits are paid annually on a cash basis. Because the plan is unfunded, the AAL and UAAL are equal. The covered payroll (annual payroll of active employees covered by the plan) was \$15,373,251 and the ratio of the UAAL to the covered payroll was 19 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress is as follows:

| Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liabilities | Unfunded Actuarial Accrued Liabilities (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|-------------------|---------------------------------|-------------------------------------|---|-----------------|--------------------|---|
| July 1, 2008 | \$ - | \$ 3,262,393 | \$ 3,262,393 | 0% | \$ 16,137,829 | 20% |
| July 1, 2010 | \$ - | \$ 2,852,210 | \$ 2,852,210 | 0% | \$ 15,373,251 | 19% |

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the Projected Unit Credit (PUC) actuarial cost method is used. The actuarial assumptions included a 4.0 percent discount rate assuming the District will fund the retirement benefit on a pay-as-you-go basis. The valuation assumes that the probability of initial enrollment upon retirement of medical, dental, and vision is 75 percent, 95 percent, and 85 percent, respectively. The valuation also assumes that the percent of retirees who will enroll dependents in medical, dental, and vision is 15 percent, 25 percent, and 25 percent, respectively. Annual medical healthcare cost trend rates of 5.8 percent in the first year, 6.7 percent in the second year, and decreasing gradually per year until an ultimate rate of 4.9 percent, starting in 2084, are used. Annual dental trend rates of 0.0 percent in the first year, 3.7 percent in the second year, and 5.0 percent until 2084, at which time the rate reduces to 4.9 percent, are used. Annual vision trend rates of 0.6 percent in the first year, 4.2 percent in the second year, and 5.0 percent until 2084, at which time the rate reduces to 4.9 percent, are used. It was assumed salary increases will be 3.5 percent per annum. The UAAL is being amortized as a level percentage of projected payrolls over a rolling thirty year time period.

Note 7 - Long-Term Debt

A summary of activity in the long-term debt is as follows:

| | Balance at June 30, 2011 | Additions | Deletions | Balance at June 30, 2012 | Due within one year |
|-------------------------|-----------------------------|-----------|--------------|-----------------------------|------------------------|
| Governmental activities | | | | | |
| Bonds payable | | | | | |
| 2004 Refunding bond | \$ 4,085,000 | \$ - | \$ (790,000) | \$ 3,295,000 | \$ 840,000 |

General obligation bonds payable as of June 30, 2012, consist of the following:

| | |
|---|--------------|
| \$6,905,000 2005 refunding bonds maturing August 15, 2015. Principal payments are due annually on August 15, and interest is payable semiannually on February 15 and August 15 of each year. Interest ranges from 3.0% to 5.0%. | \$ 3,295,000 |
| Total | \$ 3,295,000 |

The annual requirements to pay principal and interest on outstanding general obligation bonds payable are as follows:

| Fiscal Year Ending June 30 | Series 2004 Refunding Bond Principal | Interest | Total |
|-------------------------------|--|------------|--------------|
| 2013 | \$ 840,000 | \$ 107,275 | \$ 947,275 |
| 2014 | 870,000 | 76,225 | 946,225 |
| 2015 | 915,000 | 42,813 | 957,813 |
| 2016 | 670,000 | 13,400 | 683,400 |
| | \$ 3,295,000 | \$ 239,713 | \$ 3,534,713 |

Total interest costs incurred during 2012 was \$140,675.

Note 8 - Pension Plan

The Public Employee Retirement System of Idaho (PERSI) Base Plan, a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The Plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website www.persi.idaho.gov.

The actuarially determined contribution requirements of the District and its employees are established and may be amended by the PERSI Board of Trustees. For the fiscal year ended June 30, 2012 the required contribution rate as a percentage of covered payroll for members was 6.23% for general members. The employer rate as a percentage of covered payroll was 10.39% for general members.

The District's employer contributions required and paid were \$1,426,400, \$1,524,773, and \$1,613,022 for the three fiscal years ended June 30, 2012, 2011, and 2010, respectively.

Note 9 - Deficit Fund Balances

Deficit fund balances are reported at June 30, 2012, in the following funds:

Title I
Title I-C
Title VI-B
Title VI-B Preschool
Title II-A Safe & Drug
Federal Special Project - Impact Aid
Food Service Fund
Capital Projects



Required Supplementary Information
June 30, 2012

Mountain Home School District #193

Mountain Home School District #193

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - General Fund
Year Ended June 30, 2012

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (negative) |
|------------------------------------|------------------|--------------|----------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Local revenues | | | | |
| Property taxes | \$ 2,860,000 | \$ 2,880,000 | \$ 2,842,264 | \$ (37,736) |
| Earnings on investments | 7,500 | 7,500 | 9,609 | 2,109 |
| Other | 69,500 | 49,000 | 33,571 | (15,429) |
| State revenue | 15,836,000 | 15,836,000 | 15,407,336 | (428,664) |
| Federal revenue | | | | |
| Other federal revenue | - | - | 209,479 | 209,479 |
| Impact aid | 2,300,000 | 2,300,000 | 2,073,046 | (226,954) |
| Other revenue | - | 500 | 177,933 | 177,433 |
| | | | | |
| Total revenue | 21,073,000 | 21,073,000 | 20,753,238 | (319,762) |
| Expenditures | | | | |
| Instructional | | | | |
| Elementary school program | 5,106,432 | 5,106,432 | 5,098,294 | 8,138 |
| Secondary school program | 5,497,924 | 5,497,924 | 4,971,438 | 526,486 |
| Exceptional school program | 1,591,603 | 1,591,603 | 1,410,112 | 181,491 |
| Preschool school program | 158,640 | 158,640 | 171,673 | (13,033) |
| Gifted and talented school program | 77,576 | 77,576 | 74,337 | 3,239 |
| Interscholastic school program | 584,728 | 584,728 | 398,715 | 186,013 |
| School activity program | 1,160 | 1,000 | 2,485 | (1,485) |
| Summer school program | - | - | 2,479 | (2,479) |
| | | | | |
| Total instructional | 13,018,063 | 13,017,903 | 12,129,533 | 888,370 |

Mountain Home School District #193
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - General Fund
Year Ended June 30, 2012

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (negative) |
|---|------------------|------------|----------------|---|
| | Actual Amounts | Final | | |
| Support Services | | | | |
| Attendance-Guidance | 359,885 | 359,885 | 485,639 | (125,754) |
| Educational services | 1,083,445 | 1,083,445 | 1,292,379 | (208,934) |
| Instructional improvement program | 47,392 | 47,392 | 104,365 | (56,973) |
| Educational media program | 259,475 | 259,475 | 275,619 | (16,144) |
| District administration program | 1,161,670 | 1,161,670 | 1,273,729 | (112,059) |
| School administration program | 1,317,456 | 1,317,456 | 1,358,651 | (41,195) |
| Maintenance and improvements buildings, grounds, and equipment | 2,372,614 | 2,372,614 | 2,099,786 | 272,828 |
| Pupil transportation | 1,330,000 | 1,330,000 | 1,079,419 | 250,581 |
| Total support services | 7,931,937 | 7,931,937 | 7,969,587 | (37,650) |
| Capital assets program | 10,000 | 10,000 | 1,244 | 8,756 |
| Total expenditures | 20,960,000 | 20,959,840 | 20,100,364 | 859,476 |
| Excess of Revenues over Expenditures | 113,000 | 113,160 | 652,874 | 539,714 |
| Other Financing Sources (Uses) | | | | |
| Operating transfer in | 35,000 | 35,000 | 91,180 | 56,180 |
| Operating transfer out | (113,000) | (113,000) | (448,251) | (335,251) |
| Changes in Fund Balance | \$ 35,000 | \$ 35,160 | 295,803 | \$ 260,643 |
| Fund Balance, Beginning of Year | | | 430,372 | |
| Fund Balance, End of Year | | | \$ 726,175 | |

Note 1 - Basis of Budgeting

Basis of Budgeting

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The District annually prepares a budget by estimating the probable amount of money necessary for all purposes for which an appropriation is to be made (including interest and principal due on the bonded debt) and by itemizing and classifying the proposed expenditures by department, fund or service as nearly as may be practicable. To support such proposed expenditures, the District prepares an estimate of the total revenue anticipated during the ensuing fiscal year for which a budget is being prepared and classifies such receipts by source as nearly as may be possible and practicable.
2. The proposed budget is published in the local newspaper.
3. A public hearing is conducted to obtain citizen comments.
4. The budget is formally adopted through approval by the board of trustees and published in the local newspaper.
5. The District may, after school starts and actual enrollments figures are known, amend the budget using the same procedure that was used in adopting the original budget. A budget may be amended downward in any instance. However, amendment to a greater amount than adopted can only happen if the District receives additional revenues in that fiscal year as a result of an increase in non-property tax related receipts. Once the change is justified, the process for formal adoption is as described above. The original budget was not amended for the fiscal year ended June 30, 2012.
6. Formal budgetary integration is employed as a management control device during the year for all funds. Legal budgetary control is established based upon total revenues and expenditures.
7. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The level of control (level at which expenditures may not exceed budget) is the fund.
8. All annual appropriations lapse at fiscal year end.



Single Audit
June 30, 2012

Mountain Home School District #193



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*

To the Board of Trustees
Mountain Home School District #193
Mountain Home, Idaho

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mountain Home School District #193 (the District), as of and for the year ended June 30, 2012, which collectively comprise the Mountain Home School District #193's basic financial statements and have issued our report thereon dated October 10, 2012. 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 Mountain Home School District #193, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mountain Home School District #193's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mountain Home School District #193's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mountain Home School District #193'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 entity's financial statements will not be prevented, or detected and 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 above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain Home School District #193's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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 management, others within the entity Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the printed text of the firm's name and location.

Boise, Idaho
October 10, 2012

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

To the Board of Trustees
Mountain Home School District #193
Mountain Home, Idaho

Compliance

We have audited Mountain Home School District #193's (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. 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 in order 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 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 management, the Board of Trustees, others within the entity, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Boise, Idaho
October 10, 2012

Mountain Home School District #193
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

| | Federal CFDA Number | Federal Grant Number | Expenditures |
|---|---------------------------|---|--------------|
| <u>U.S. Department of Education</u> | | | |
| Passed Through State | | | |
| Education Jobs Fund | 84.410 | S410A100013 | \$ 194,479 |
| Title I, Part A Local Program | 84.010 | S010A100012 S010A110012 | 1,349,649 |
| Title I, Part A ARRA | 84.389A | S389A090012 | 109,975 |
| Title VI-B | 84.027 | H027A090088 H027A100088 H027A110088 | 861,612 |
| Title VI-B Preschool | 84.173 | H173A110030 | 42,204 |
| Title II-A Improving Teacher Quality | 84.367 | S367A090011 S367A110011 | 181,730 |
| Carl Perkins | 84.048 | V048A100012 | 45,524 |
| English Language Acquisition | 84.365 | S365A100012 S365A110012 | 16,804 |
| Migrant Education | 84.011 | S011A100012 | 83,003 |
| Total U.S. Department of Education | | | 2,884,980 |
| <u>U. S. Department of Agriculture</u> | | | |
| Passed through State | | | |
| Commodities | 10.550 | N/A | 66,396 |
| School Breakfast Program | 10.553 | 2011IN109947 2012IN109947 | 128,730 |
| School Lunch Program | 10.555 | 2011IN109947 2012IN109947 | 623,972 |
| Summer Food Service Program for Children | 10.559 | 2011IN109947 | 11,924 |
| Total U. S. Department of Agriculture | | | 831,022 |
| <u>Other Federal Financial Assistance</u> | | | |
| Federal Forest | 10.665 | N/A | 487,615 |
| Total Other Financial Assistance | | | 487,615 |
| Total Federal Financial Assistance | | | \$ 4,203,617 |

Note 1 - Basis of Presentation

The Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the District. The reporting entity is defined in Note 1 to the District's basic financial statements.

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting as described in Note 1 to the District's basic financial statements.

Note 2 - Major Programs

The following programs have been identified as major programs for the year ended June 30, 2012:

| <u>Program</u> | <u>CFDA Number</u> |
|--------------------------|--------------------|
| Title I-A | 84.010 |
| Title I-A – ARRA | 84.389A |
| School Breakfast Program | 10.553 |
| School Lunch Program | 10.555 |
| Summer Food for Children | 10.559 |
| Education Jobs Fund | 84.410 |

The following programs have been clustered for the determination of Type A or Type B programs for the year ended June 30, 2012:

Child Nutrition Cluster
Title I-A programs

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting
 Material weakness identified No
 Significant deficiency None reported

Noncompliance material to financial
 statements noted No

Federal Awards

Internal control over major programs
 Material weakness identified No
 Significant deficiency 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 Circular
 A-133, Section .510(a) No

Identification of major programs

| <u>CFDA number</u> | <u>Name of Federal Program or Cluster</u> |
|------------------------|---|
| 84.010 | Title I-A |
| 84.389A | Title I-A – ARRA |
| 10.553, 10.555, 10.559 | Child Nutrition Cluster |
| 84.410 | Education Jobs Fund |

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

Auditee qualified as low-risk auditee No

Section II - Financial Statements

No findings

Section III - Federal Awards

No findings