



Financial Statements  
June 30, 2013

# Mountain Home School District #193

Independent Auditor’s Report..... 1

Management's Discussion and Analysis ..... 3

Financial Statements

    Statement of Net Position ..... 10

    Statement of Activities..... 11

    Balance Sheet - Governmental Funds..... 12

    Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position..... 13

    Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds..... 14

    Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities..... 16

    Statement of Fiduciary Net Position - Fiduciary Funds..... 17

    Notes to Financial Statements..... 18

Required Supplementary Information

    Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - General Fund ..... 34

    Notes to Required Supplementary Information ..... 36

Single Audit

Independent Auditor’s 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*..... 37

Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 ..... 39

    Schedule of Expenditures of Federal Awards..... 42

    Notes to Schedule of Expenditures of Federal Awards ..... 43

    Schedule of Findings and Questioned Costs..... 44



## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mountain Home School District #193 (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

### Opinion

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 District, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on 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.

### **Other Information**

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 not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering Mountain Home School District #193's internal control over financial reporting and compliance.



Boise, Idaho  
October 23, 2013

The discussion and analysis of the Mountain Home School District's financial performance provides an overall review of financial activities, with the focus on the District's financial activities for the 2012-2013 fiscal year, ending on June 30, 2013. 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 expenses exceeding revenues by \$961,658 or 4.8% of revenue. Total General Fund revenue was under budget by \$642,327 or 3.1%. Revenue from taxes was \$33,388 under budget or .5%. Impact Aid was \$946,834 under budget or 41.2%. State revenue was over budget by \$96,195 or 6.0%. Total expenses were over budget by \$460,497 or 1.7% of budget.
- Federal revenue from Impact Aid was \$1,353,166 and fell short of budget by \$946,834 or 41.2%. This program supplements educational expenses for children affiliated with the military. Payments received in FY 2013 included \$1,026,918 from FY 2012, \$106,025 from FY 2011, \$70,239 from FY 2010, and final payments of \$44,817 from FY 2009 and \$105,167 from FY 2008. On the FY 2013 application, students whose parents live and work on the base increased from 331 students to 357 for an increase of 26 students or 7.9%. Uniformed services living off the base were 572 on October 2011 and increased by 20 to 592 in October of 2012. Civilians working on Federal Property were 428 on the 2012 application and dropped to 386 on the 2013 application. Impact Aid in FY 2013 is 31.5% of what the District received in FY 2008 of \$4,298,396.
- District enrollment as of the middle of May increased by 12 students to 3,752 in fiscal year 2012-2013 from the previous year's end of school enrollment of 3,740. This is an increase over the prior fiscal year of 0.3%. The Base Primary school increased by 20 students from the prior year and West Elementary had an increase of 21 students while North showed the largest decline with a decrease of 51. Secondary enrollment increased a total of 7 students with Bennett Mountain High School showing an enrollment of 36 in its first year. High school seniors reflected the largest decline by grade, declining 21 students or 9.2% from the previous year. The third grade class increased 40 students from the prior year's class. Elementary enrollment was 2,204 and secondary enrollment was 1,587 for a total of 3,791 for FY 2013.

### 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 position and statement of activities) provides readers with a broad overview of the District's finances. The Statement of Net Position 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 Position* provides information on all of the assets and liabilities of the District, with the difference between the two providing the *net position*. Increases or decreases in the net position may indicate whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* shows how the net position of the District has changed throughout the fiscal year. Changes in the net position 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

	<b>2013</b>	2012	Change
Current and Other Assets	<b>\$ 5,242,060</b>	\$ 7,617,375	\$ (2,375,315)
Capital Assets	<b>13,319,811</b>	13,096,939	222,872
Total Assets	<b>18,561,871</b>	20,714,314	(2,152,443)
Long-Term Liabilities Outstanding	<b>1,585,000</b>	2,455,000	(870,000)
Other Liabilities	<b>4,746,317</b>	4,647,404	98,913
Total Liabilities	<b>6,331,317</b>	7,102,404	(771,087)
 Net Position			
Invested in Capital Assets, Net of Related Debt	<b>10,864,811</b>	9,801,939	1,062,872
Restricted	<b>1,239,488</b>	1,312,933	(73,445)
Unrestricted	<b>126,255</b>	2,497,038	(2,370,783)
Total Net Position	<b>\$ 12,230,554</b>	\$ 13,611,910	\$ (1,381,356)

Net position may serve as a useful indicator of a District's financial position. In the case of the District, total assets exceeded liabilities by \$12,230,554 at the close of the most recent fiscal year. This represents an overall decrease of \$1,381,356 from the prior year.

The largest portion of the District's net position (88.3%) 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 position uses a historical cost of school buildings that does not accurately reflect current replacement value.

Restricted net position decreased \$73,445 from the prior year. These resources are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the District's ongoing obligations to students, employees, and creditors.

Unrestricted net position decreased from the prior fiscal year of \$2,497,038 to a current year balance in FY 2013 of \$126,255. This decline was a result of the General Fund incurring a net loss of \$961,658 due primarily to Impact Aid revenue decrease from FY 2012. Other factors include the use of Plant Facility fund balance for roof construction.

The following statement for Changes in Net Position from Operating Results reflects fund level activity and includes all funds. Total revenue has decreased in FY 2013 over FY 2012 by \$1,475,715. The majority of this decrease is in Federal revenue. In FY 2013, Federal revenue from Impact Aid and other Federal sources was down \$1,016,903 or 35.35% from FY 2012. The Federal sequestration and continuing resolution in FY 2013 affected the apportionment of funds available to school districts. Elementary education showed the largest increase in expenses with an increase of \$398,527 over FY 2012. Maintenance services reflected the largest decrease of \$147,449 or a 6.8% decrease from FY 2012. In FY 2013, the District spent \$2,792,436 net of Medicaid

Mountain Home School District #193  
Management's Discussion and Analysis  
June 30, 2013

reimbursement from the General Fund for the 516 special needs students in our district in adherence to federally mandated requirements.

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

	<u>2013</u>	<u>2012</u>	<u>Change</u>
<b>REVENUES</b>			
Program Revenues			
Charges for Services	\$ 289,676	\$ 381,304	\$ (91,628)
Operating Grants and Contributions	4,188,744	4,341,560	(152,816)
General Revenues			
Property Taxes levied for General purposes	2,754,312	2,803,450	(49,138)
Property Taxes levied for Debt Services	759,978	855,894	(95,916)
Property Taxes levied for Capital Outlay	21,432	63,699	(42,267)
Revenue in lieu of taxes	15,459	19,324	(3,865)
State Revenues	14,220,168	14,321,203	(101,035)
Grants and Contributions not restricted to Specific Purposes			
Federal Impact Aid	1,455,194	2,169,138	(713,944)
Other federal revenue	394,135	697,094	(302,959)
Interest and Investment Earnings	1,465	14,072	(12,607)
Other Funds	4,097	-	4,097
Miscellaneous	304,997	218,634	86,363
Total Revenue	<u>24,409,657</u>	<u>25,885,372</u>	<u>(1,475,715)</u>
<b>EXPENSES</b>			
Instructional Services			
Elementary Programs	6,488,909	6,090,382	398,527
Secondary / Alternative Programs	5,411,727	5,545,214	(133,487)
Exceptional Child Programs	2,584,702	2,626,994	(42,292)
Other Programs	448,803	469,221	(20,418)
Support Services			
Student Services	1,983,286	1,859,770	123,516
Instructional Improvement	197,256	116,828	80,428
Educational Media	248,268	277,019	(28,751)
Administration	1,610,892	1,380,449	230,443
School Administration	1,514,945	1,455,427	59,518
Plant Services	2,015,519	2,162,968	(147,449)
Transportation	1,117,357	1,082,053	35,304
Non-Instructional Services			
Community Service Programs	-	435	(435)
School Lunch	1,250,214	1,173,744	76,470
Capital Outlays	33,289	93,078	(59,789)
Interest / Bond Issuance Cost on Long-Term Debt	65,875	94,699	(28,824)
Depreciation	819,971	915,398	(95,427)
Total Expenses	<u>25,791,013</u>	<u>25,343,679</u>	<u>447,334</u>
Change in Net Position	<u>\$ (1,381,356)</u>	<u>\$ 541,693</u>	<u>\$ (1,923,049)</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 2012-2013 fiscal year, this fund balance was \$(235,483), which is a decrease of \$961,658 from the fiscal year 2011-2012 ending balance of \$726,175. In the General Fund in FY 2013, 77.2% of the revenue comes from the State of Idaho, up from 74.2% in FY 2012. Federal sources provided 6.7% of revenue (11.0% in FY 2012), and support from the local community provides 13.6% of the revenue. The remainder of the revenue comes from other sources. General Fund expenses were 104.4% of revenue resulting in a decrease of the fund balance.

Actual revenues for General Fund totaled \$20,190,173. Total revenue funding was \$642,327 under the budgeted projection of \$20,832,500. Total Federal revenue was under budget by \$946,834 due to timing of the past years Impact Aid payments. Sequestration by Congress in FY 2013 has hindered payments of Impact Aid appropriations. State revenue was over budget by \$96,195 due to appropriations for specific programs being greater than anticipated.

Expenditures for general District purposes totaled \$21,085,456, an increase of \$353,956 or 1.7% from the 2012-2013 fiscal year budget of \$20,731,500. The instructional expenditures in FY 2013 of \$12,770,690 increased from FY 2012 by \$641,158. This category accounts for 60.3% of all general fund expenditures this year. Support services constitute 39.7% of general fund expenditures, with 23.7% or \$1,971,758 of total support services being maintenance and building improvement related. This category decreased from the FY 2012 level of \$2,099,786 by \$128,028 or 6.9%.

Purchases for capital assets in the general fund increased from the prior year by \$8,234. Total General Fund outlays for capital in FY 2013 were \$9,478.

*Federal Forest Fund* – This fund can be used for technology and textbook purchases. The main expenditures in the current year were \$120,899 for software, and \$30,017 for textbooks. Revenues of \$394,135 from the Department of Defense and Federal Forest funding exceeded budget of \$250,000 by \$144,135. From this Fund, in July 2013, we are purchasing 750 updated computers at a cost of \$544,000 to replace antiquated student hardware that is incapable of performing the mandated testing from the State Department of Education.

*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. The major purchases from this fund for the current fiscal year were: \$963,288 for replacement roofs on West Elementary and the senior hall of the High School. \$46,294 was spent on professional services related to building repairs. The \$373,962 balance in this fund will be prioritized for student safety and the preservation of resources.

### 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 \$33,350,154 in a broad range of capital assets over the years. The total accumulated depreciation on these assets at June 30, 2013 amounts to \$20,030,343.

- Asset additions for governmental activities totaled \$1,042,410 for the current fiscal year.
- The District did not have any asset disposals in FY 2013.

### LONG-TERM DEBT

At year-end, the District had \$2,455,000 in general obligation bonds, exclusive of deferred interest. Of this amount, \$870,000 will be retired within the next year and \$1,585,000 will be retired within 5 years. The District retired \$840,000 of outstanding bonds in fiscal year 2013. 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. Mandatory requirements by the State and Federal Government have increased the administrative burden to the District. Student achievement and academic growth will continue to be the focus of resource allocation in FY 2014. The District continues to face difficult choices over the allocation of available resources.

The District has seen an overall decline in enrollment for eight of the past eleven years but it appears to have leveled out in 2013. Since fiscal year 2000-2001, enrollment has dropped from a high of 4,454 enrolled students to 3,752 at the end of fiscal year 2012-2013. This past year showed a slight increase of 12 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 305. 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. In FY 2013, this levy accounts for 16.7% of total funding for the District General fund.

For the fiscal year 2013 budget, staffing was adjusted to reflect the student enrollment needs. Salary scales were frozen again for all staff and furlough days required of year around staff. Educational and experience advances were implemented due to funding by the State Legislature. Total salary funding from the State however remained behind with several areas of funding not reinstated from prior year cuts. There were several positions not filled or filled with classified para-professionals instead of certified staff.

The budget for FY 2014 reflects anticipated stabilization of student enrollment. 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. Funds have been withheld by the State Department of Education from discretionary use by the local board and dedicated to a state mandated pay for performance criteria and technology.

State funding continues to attempt to reach the levels of 2009 funding. Funding in FY 2013 for discretionary spending per support unit increased \$80 per support unit from \$19,626 to \$19,706. This 0.4% increase is still \$5,990 short of the 2009 support unit payment of \$25,696. Fiscal year 2013 saw cuts to all districts for Federal programs. Specifically, the governmental sequestration has impacted the payments to our District and caused a budgeted revenue shortage of \$946,834 from anticipated goals. The existing fund balance from FY 2012 has been exhausted and the Fund Balance is in a deficit position for FY 2013.

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. There has been a drop in students of civilians working on Federal property, if this trend continues; this will have a significant impact for funding from the Federal government.

Federal funding is uncertain from year to year especially with the recent sequestration, federal shutdown, and future sequestration mandates looming. Federal posturing on issues such as the debt ceiling, continuing resolutions, and federal programs will continue to raise concerns with adequate sustained Federal funds. One bill in particular that is in jeopardy or reauthorization is the Craig-Wyden Act that provides funding for the Federal Forest fund. In FY 2013, this Act provided close to \$220,000 for the Mountain Home School District that is being used for technology upgrades.

#### 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 Position  
June 30, 2013

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 1,672,235
Investments	841,500
Property taxes receivable	1,587,100
State and federal receivables	1,031,826
Other receivables	36,061
Prepays	11,491
Inventories	49,300
Bond issuance costs (net of amortization)	12,547
Capital assets (not subject to depreciation)	481,372
Capital assets (net of depreciation)	12,838,439
Total assets	18,561,871
<b>Liabilities</b>	
Accounts payable	180,446
Accrued payroll and related liabilities	2,973,092
Interest payable	35,110
Premium on bonds	78,769
Other post employment benefits obligation	608,900
Long-term liabilities	
Due within one year	870,000
Due in more than one year	1,585,000
Total liabilities	6,331,317
<b>Net Position</b>	
Net investment in capital assets	10,864,811
Restricted expendable	1,239,488
Unrestricted	126,255
	\$ 12,230,554

Mountain Home School District #193  
Statement of Activities  
Year Ended June 30, 2013

Functions/Programs	Program Revenues			Net (expense) Revenue and Changes in Net Position	
	Expenses	Program Revenues	Operating Grants and Contributions		Capital Grants and Contributions
<i>Governmental activities</i>					
Instruction					
Elementary programs	\$ 6,488,909	\$ -	\$ 946,846	\$ -	\$ (5,542,063)
Secondary/alternative programs	5,411,727	-	201,978	-	(5,209,749)
Exceptional/preschool programs	2,584,702	-	589,538	-	(1,995,164)
Other instructional programs	448,803	-	6,965	-	(441,838)
Support services					
Student services	1,983,286	30,175	577,445	-	(1,375,666)
Instructional improvement	197,256	-	173,597	-	(23,659)
Educational media	248,268	-	-	-	(248,268)
Administration	1,610,892	-	4,811	-	(1,606,081)
School administration	1,514,945	-	-	-	(1,514,945)
Plant services	2,015,519	-	-	-	(2,015,519)
Pupil transportation services	1,117,357	-	824,530	-	(292,827)
Community service programs	-	-	995	-	995
Food services	1,250,214	259,501	862,039	-	(128,674)
Capital improvements	33,289	-	-	-	(33,289)
Interest on long-term debt	65,875	-	-	-	(65,875)
Depreciation-unallocated	819,971	-	-	-	(819,971)
<b>Total Governmental Activities</b>	<b>\$ 25,791,013</b>	<b>\$ 289,676</b>	<b>\$ 4,188,744</b>	<b>\$ -</b>	<b>(21,312,593)</b>
General revenues					
State revenue				14,220,168	
Taxes					
Property taxes, levied for general purposes				2,754,312	
Property taxes, levied for debt services				759,978	
Property taxes, levied for capital outlay				21,432	
State revenue in lieu of taxes				15,459	
Grants and contributions not restricted to specific programs					
Federal stimulus funds				-	
Federal impact aid				1,455,194	
Other federal revenue				394,135	
Interest and investment earnings general fund				1,465	
Other funds				4,097	
Miscellaneous				304,997	
<b>Total general revenues</b>				<b>19,931,237</b>	
Changes in Net Position				(1,381,356)	
Net Position, Beginning of Year				13,611,910	
Net Position, End of Year				<b>\$ 12,230,554</b>	

Mountain Home School District #193  
Balance Sheet - Governmental Funds  
June 30, 2013

	<u>General</u>	<u>Title I</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,671,660	\$ -	\$ 575	\$ 1,672,235
Investments	841,500	-	-	841,500
Property taxes receivable	1,247,100	-	340,000	1,587,100
State and federal receivables	102,415	703,113	226,298	1,031,826
Other receivables	25,411	-	10,650	36,061
Prepays	7,895	-	3,596	11,491
Interfund	-	-	2,040,329	2,040,329
Inventories	28,600	-	20,700	49,300
	<u>\$ 3,924,581</u>	<u>\$ 703,113</u>	<u>\$ 2,642,148</u>	<u>\$ 7,269,842</u>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities</b>				
Accounts payable	\$ 101,352	\$ -	\$ 79,094	\$ 180,446
Accrued payroll and related liabilities	2,460,550	86,284	226,020	2,772,854
Deferred property taxes	176,000	-	50,000	226,000
Interfund	1,422,162	618,167	-	2,040,329
	<u>4,160,064</u>	<u>704,451</u>	<u>355,114</u>	<u>5,219,629</u>
<b>Fund Balance</b>				
Nonspendable	28,600	-	20,700	49,300
Restricted for debt service	-	-	1,239,488	1,239,488
Assigned	-	-	1,026,846	1,026,846
Unassigned	(264,083)	(1,338)	-	(265,421)
	<u>(235,483)</u>	<u>(1,338)</u>	<u>2,287,034</u>	<u>2,050,213</u>
Total fund (deficit) balance	<u>(235,483)</u>	<u>(1,338)</u>	<u>2,287,034</u>	<u>2,050,213</u>
	<u>\$ 3,924,581</u>	<u>\$ 703,113</u>	<u>\$ 2,642,148</u>	<u>\$ 7,269,842</u>

Mountain Home School District #193  
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2013

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Total fund balances - governmental funds		\$ 2,050,213
<p>The cost of capital assets purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Position 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	33,350,154	
Depreciation expense to date	<u>(20,030,343)</u>	13,319,811
<p>Elimination of interfund assets and liabilities</p>		
Interfund assets	(2,040,329)	
Interfund liabilities	<u>2,040,329</u>	-
<p>Property taxes receivable, as recorded in the Statement of Net Position, 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>		
		226,000
<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, 2013 are:</p>		
Capitalized debt issuance costs	62,986	
Amortization of debt issuance costs to date	(50,439)	
Premium on bonds issued	(395,391)	
Amortization of bond premium to date	<u>316,622</u>	(66,222)
<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 Position. Balances at June 30, 2013 are:</p>		
Bonds payable in less than one year	(870,000)	
Bonds payable in more than one year	(1,585,000)	
Interest payable	(35,110)	
Compensated absences payable	(200,238)	
Other post employment benefits obligation	<u>(608,900)</u>	<u>(3,299,248)</u>
Net Position		<u>\$ 12,230,554</u>

Mountain Home School District #193  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
Year Ended June 30, 2013

	Governmental Fund Types			Total Governmental Funds
	General	Title I	Non Major Funds	
<b>Revenues</b>				
Local revenues				
Property taxes	\$ 2,746,612	\$ -	\$ 781,410	\$ 3,528,022
Earnings on investments	1,465	-	4,097	5,562
Other	305,844	-	285,177	591,021
State revenue	15,583,695	-	186,797	15,770,492
Federal revenue				
Impact aid	1,353,166	-	102,028	1,455,194
Other	-	787,113	2,265,400	3,052,513
Other revenue	199,391	-	-	199,391
<b>Total revenue</b>	<b>20,190,173</b>	<b>787,113</b>	<b>3,624,909</b>	<b>24,602,195</b>
<b>Expenditures</b>				
Instructional				
Elementary school program	5,731,534	632,883	90,292	6,454,709
Secondary school program	5,033,267	107,802	256,758	5,397,827
Exceptional school program	1,391,901	-	966,523	2,358,424
Preschool school program	164,785	-	45,793	210,578
Gifted and talented school program	74,340	-	-	74,340
Interscholastic school program	370,400	-	-	370,400
School activity program	1,910	-	-	1,910
Summer school program	2,553	-	-	2,553
<b>Total instructional</b>	<b>12,770,690</b>	<b>740,685</b>	<b>1,359,366</b>	<b>14,870,741</b>
Support Services				
Attendance-guidance	497,837	-	72	497,909
Educational services	1,435,560	-	47,417	1,482,977
Instructional improvement program	158,272	6,594	30,590	195,456
Educational media program	246,868	-	-	246,868
District administration program	1,459,977	-	147,915	1,607,892
School administration program	1,418,274	87,771	-	1,506,045
Maintenance and improvements buildings, grounds, and equipment	1,971,758	-	36,861	2,008,619
Pupil transportation	1,116,742	-	615	1,117,357
<b>Total support services</b>	<b>8,305,288</b>	<b>94,365</b>	<b>263,470</b>	<b>8,663,123</b>

Mountain Home School District #193  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
Year Ended June 30, 2013

	<u>General</u>	<u>Title I</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
Community services program	-	-	-	-
Food services program	-	-	1,245,714	1,245,714
Capital assets program	9,478	-	1,066,654	1,076,132
Debt services program				
Principal	-	-	840,000	840,000
Interest	-	-	107,275	107,275
Total debt service program	-	-	947,275	947,275
Total expenditures	<u>21,085,456</u>	<u>835,050</u>	<u>4,882,479</u>	<u>26,802,985</u>
Excess of (Deficiency) Revenues over Expenditures	<u>(895,283)</u>	<u>(47,937)</u>	<u>(1,257,570)</u>	<u>(2,200,790)</u>
Other Financing Sources (Uses)				
Interfund transfers in	400	-	66,775	67,175
Interfund transfers out	<u>(66,775)</u>	<u>-</u>	<u>(400)</u>	<u>(67,175)</u>
Total other financing source (uses)	<u>(66,375)</u>	<u>-</u>	<u>66,375</u>	<u>-</u>
Changes in Fund Balance	(961,658)	(47,937)	(1,191,195)	(2,200,790)
Fund Balance, Beginning of Year	<u>726,175</u>	<u>46,599</u>	<u>3,478,229</u>	<u>4,251,003</u>
Fund (Deficit) Balance, End of Year	<u>\$ (235,483)</u>	<u>\$ (1,338)</u>	<u>\$ 2,287,034</u>	<u>\$ 2,050,213</u>

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, 2013

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Total net change in fund balances - governmental funds \$ (2,200,790)

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	(819,971)	
Capital outlays	<u>1,042,843</u>	222,872

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	840,000	
Amortization issuance costs	(5,905)	
Amortization of premium	<u>37,068</u>	871,163

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.

7,700

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.

(92,300)

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.

10,237

In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This year, vacation amounts earned is more than the amounts used.

(200,238)

Change in net assets of governmental activities.

\$ (1,381,356)

Mountain Home School District #193  
Statement of Fiduciary Net Position - Fiduciary Funds  
June 30, 2013

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	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 274,278
Investments	<u>263,729</u>
Total assets	<u><u>\$ 538,007</u></u>
 Liabilities	
Due to student groups	<u>\$ 538,007</u>
Total liabilities	<u><u>\$ 538,007</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 Position 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 position at the fund financial statement level.

The Statement of Net Position 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 Position 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, and 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 Position**

For the government-wide statement of net position, net position is reported as restricted when constraints placed on net position 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, 2013.
- **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, 2013.

- **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 Position 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 government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "Accrued payroll and related liabilities" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported.

**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, 2013, the District's cash and cash equivalents consisted of the following:

	Governmental Funds	Agency Funds
Bank balance		
Insured	\$ 250,000	\$ -
Uninsured	1,950,215	286,602
Bank deposit balance	\$ 2,200,215	\$ 286,602
Carrying amount	\$ 1,672,235	\$ 274,278

**Note 3 - Investments**

At June 30, 2013, the District's investments consisted of the following:

	Fair Value	Cost
State Treasurer's investment pool	\$ 841,500	\$ 841,056
State Treasurer's investment pool - Agency	\$ 263,729	\$ 263,281

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, 2013.

### **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, 2013.

### **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, 2013.

### **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, 2013, 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, 2013, the General Fund has an outstanding interfund payable to the Non Major funds of \$2,040,329 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, 2013, the General Fund transferred \$66,775 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 \$400 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, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Governmental activities				
Capital assets				
Land	\$ 481,372	\$ -	\$ -	\$ 481,372
Land improvements	1,827,622	-	-	1,827,622
Buildings	26,213,106	976,168	-	27,189,274
Furniture and equipment	<u>3,785,211</u>	<u>66,675</u>	-	<u>3,851,886</u>
Total capital assets	<u>32,307,311</u>	<u>1,042,843</u>	-	<u>33,350,154</u>
Less accumulated depreciation for				
Land improvements	(1,488,874)	(88,237)	-	(1,577,111)
Buildings	(14,841,073)	(587,221)	-	(15,428,294)
Furniture and equipment	<u>(2,880,425)</u>	<u>(144,513)</u>	-	<u>(3,024,938)</u>
Total accumulated depreciation	<u>(19,210,372)</u>	<u>(819,971)</u>	-	<u>(20,030,343)</u>
Total capital assets, net	<u>\$ 13,096,939</u>	<u>\$ 222,872</u>	<u>\$ -</u>	<u>\$ 13,319,811</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 2013, the District contributed approximately \$173,114 to the plan or approximately 37 percent of estimated retiree costs. Plan members receiving benefits contributed approximately \$297,440 or approximately 63 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 2013, 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 Blue Cross and Delta Dental Premium	Dental Willamette Premium	Vision Blue Cross and LifeMap Premium *
Retiree Only	\$ 437.79	\$ 450.32	\$ 36.55	\$ 40.84	\$ 7.56
Retiree + Spouse	959.45	986.90	68.15	69.92	14.14
Retiree + Child	671.67	690.89	68.15	69.92	14.14
Retiree + Children	778.93	801.21	100.20	101.65	23.23
Retiree + Family	1,107.70	1,139.39	100.20	101.65	23.23

\* 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	\$ 264,821
Interest on net OPEB obligation	17,566
Adjustment to annual required contribution	<u>(17,011)</u>
Annual OPEB cost (expense)	265,376
Contributions made	<u>(173,114)</u>
Increase in net OPEB obligation	92,262
Net OPEB obligation—beginning of year	<u>516,638</u>
Net OPEB obligation—end of year	<u><u>\$ 608,900</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, 2011	\$ 283,070	62%	\$ 431,400
June 30, 2012	\$ 296,305	71%	\$ 516,638
June 30, 2013	\$ 265,406	65%	\$ 608,900

\* 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, 2012, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$2,967,519. 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 \$13,821,703 and the ratio of the UAAL to the covered payroll was 21 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%
July 1, 2012	\$ -	\$ 2,967,519	\$ 2,967,519	0%	\$ 13,821,703	21%

*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, 2012 actuarial valuation, the Projected Unit Credit (PUC) actuarial cost method is used. The actuarial assumptions included a 3.4 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, 80 percent, and 75 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 -5.7 percent in the first year, 4.2 percent in the second year, 6.2 percent in the third year and decreasing gradually per year until an ultimate rate of 5.0 percent, starting in 2088, are used. Annual dental trend rates of 2.4 percent in the first year, 5.2 percent in the second year, and 5.0 percent thereafter. Annual vision trend rates of -8.1 percent in the first year, 4.2 percent in the second year, and 5.0 percent thereafter. 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, 2012	Additions	Deletions	Balance at June 30, 2013	Due within one year
Governmental activities					
Bonds payable					
2004 Refunding bond	\$ 3,295,000	\$ -	\$ (840,000)	\$ 2,455,000	\$ 870,000

General obligation bonds payable as of June 30, 2013, 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%.	<u>\$ 2,455,000</u>
Total	<u><u>\$ 2,455,000</u></u>

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
2014	\$ 870,000	\$ 76,225	\$ 946,225
2015	915,000	42,813	957,813
2016	670,000	13,400	683,400
	<u>\$ 2,455,000</u>	<u>\$ 132,438</u>	<u>\$ 2,587,438</u>

Total interest costs incurred during 2013 was \$107,275.

**Note 8 - Deficit Fund Balances**

Deficit fund balances are reported at June 30, 2013, in the following funds:

- Title I
- Title I-C
- Title I-D
- Title VI-B
- Title VI-B Preschool
- Title II-A Safe & Drug
- Food Service Fund

The District intends to reduce expenses and/or transfer funds to remediate deficit fund balances.

**Note 9 - 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 standalone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website [www.persi.idaho.gov](http://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, 2013 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 \$1,455,249, \$1,426,400, and \$1,524,773, for the three fiscal years ended June 30, 2013, 2012, and 2011, respectively.



Required Supplementary Information  
June 30, 2013

# 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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (negative)
	Original	Final		
<b>Revenues</b>				
Local revenues				
Property taxes	\$ 2,780,000	\$ 2,780,000	\$ 2,746,612	\$ (33,388)
Earnings on investments	7,500	7,500	1,465	(6,035)
Other	49,000	49,000	305,844	256,844
State revenue	15,487,500	15,487,500	15,583,695	96,195
Federal revenue				
Other federal revenue	-	-	-	-
Impact aid	2,300,000	2,300,000	1,353,166	(946,834)
Other revenue	-	208,500	199,391	(9,109)
Total revenue	20,624,000	20,832,500	20,190,173	(642,327)
<b>Expenditures</b>				
Instructional				
Elementary school program	5,328,187	5,328,187	5,731,534	(403,347)
Secondary school program	5,161,771	5,161,771	5,033,267	128,504
Exceptional school program	1,503,943	1,503,943	1,391,901	112,042
Preschool school program	180,738	180,738	164,785	15,953
Gifted and talented school program	77,526	77,526	74,340	3,186
Interscholastic school program	546,184	546,184	370,400	175,784
School activity program	1,160	1,000	1,910	(910)
Summer school program	3,000	3,000	2,553	447
Total instructional	12,802,509	12,802,349	12,770,690	31,659

**Mountain Home School District #193**

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - General Fund  
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (negative)</u>
	<u>Actual Amounts</u>	<u>Final</u>		
Support Services				
Attendance-Guidance	487,209	487,209	497,837	(10,628)
Educational services	1,008,735	1,008,735	1,435,560	(426,825)
Instructional improvement program	34,023	34,023	158,272	(124,249)
Educational media program	265,893	265,893	246,868	19,025
District administration program	1,118,095	1,118,095	1,459,977	(341,882)
School administration program	1,424,063	1,424,063	1,418,274	5,789
Maintenance and improvements buildings, grounds, and equipment	2,190,593	2,190,593	1,971,758	218,835
Pupil transportation	1,280,000	1,280,000	1,116,742	163,258
Total support services	<u>7,808,611</u>	<u>7,808,611</u>	<u>8,305,288</u>	<u>(496,677)</u>
Capital assets program	<u>14,000</u>	<u>14,000</u>	<u>9,478</u>	<u>4,522</u>
Total expenditures	<u>20,625,120</u>	<u>20,624,960</u>	<u>21,085,456</u>	<u>(460,496)</u>
Excess of (Deficiency) Revenues over Expenditures	(1,120)	207,540	(895,283)	(1,102,823)
Other Financing Sources (Uses)				
Operating transfer in	35,000	35,000	400	(34,600)
Operating transfer out	(40,000)	(40,000)	(66,775)	(26,775)
Changes in Fund Balance	<u>\$ (6,120)</u>	<u>\$ 202,540</u>	(961,658)	<u>\$ (1,164,198)</u>
Fund Balance, Beginning of Year			<u>726,175</u>	
Fund (Deficit), End of Year			<u>\$ (235,483)</u>	

## **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, 2013.
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, 2013

# Mountain Home School District #193



**Independent Auditor's 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mountain Home School District #193 (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 23, 2013.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

## **The District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho  
October 23, 2013



**Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited Mountain Home School District #193 (the District)’s 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, 2013. 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.

**Management’s Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on compliance for each of the District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District’s compliance.

**Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of 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, 2013.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-1. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be significant deficiencies.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Eide Bailly LLP*

Boise, Idaho  
October 23, 2013

Mountain Home School District #193  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2013

	Federal CFDA Number	Federal Grant Number	Expenditures
<u>U.S. Department of Education</u>			
Passed Through State			
Title I, Part A Local Program	84.010	S010A110012	\$ 796,874
Title VI-B	84.027	H027A120088	756,697
		H027A110088	
Title VI-B Preschool	84.173	H173A120030	41,848
Title II-A Improving Teacher Quality	84.367	S367A120011	180,021
Migrant Education	84.011	S011A100012	19,899
			1,795,339
Total U.S. Department of Education			
<u>U. S. Department of Agriculture</u>			
Passed through State			
Commodities	10.550	N/A	82,205
School Breakfast Program	10.553	2012IN109947	124,124
School Lunch Program	10.555	2012IN109947	616,662
Summer Food Service Program for Children	10.559	2012IN109947	39,053
			862,044
Total U. S. Department of Agriculture			
<u>Other Federal Financial Assistance</u>			
Federal Forest	10.665	N/A	394,135
			394,135
Total Other Financial Assistance			
			\$ 3,051,518

**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, 2013:

<u>Program</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
School Lunch Program	10.555
Summer Food Service Program	10.559
Title I-A	84.010
Federal Forest	10.665

The following programs were clustered for the determination of Type A and Type B programs for the year ended June 30, 2013.

Child Nutrition Cluster

**Section I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	10.553, 10.555, 10.559
Title I-A	84.010
Federal Forest	10.665

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	No

<b>Section II - Financial Statement Findings</b>	None
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### Section III - Federal Award Findings and Questioned Costs

#### **2013-1 Annual Certification – A child’s eligibility for free or reduced price meals**

**Criteria:**

Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child’s household to published income eligibility guidelines. In accordance with OMB Circular A-133, Attachment E, paragraph 1.b(1).

**Condition:**

Two of the applicants were erroneously classified as able to receive free or reduced meals.

**Questioned costs:**

Reviewed sixty students out of the total population of students and had two exceptions with an error of \$4.78.

**Effect:**

Potential expenditure of federal reimbursement funds on free/reduced meals for students who did not qualify for meal assistance.

**Cause:**

The two applicants noted are military personnel who in addition to base pay receive BAH (housing allowance), BAS (food allowance), special duty pay, and a clothing allowance. Per USDA guidelines all of the above noted items are included in income. Staff members in charge of entering the applicant’s information into the system were unaware of the additional income criteria. Therefore, the staff did not enter the proper income amount into the system which led to the false classification and receipt of free/reduced meals for these two applicants.

**Recommendation:**

- Implementation of the online application forms, which should greatly reduce the amount of manual entries performed by staff.
- Management should perform a sample review of manual entry applications each year, verifying that data has been properly entered into the system by staff.
- Management should perform a complete review of the income verification process.
- Additional training of meal program personnel with regards to federal regulations.

**Management’s Response and Corrective Action Plan:**

Mealtime on-line has been implemented as a control device and time saving module. This should greatly reduce the possibility of errors in the classification of eligibility status.

Management has scheduled an in-house audit for application review and classification of eligibility. The eligibility criteria will be reviewed with staff during a training session at the beginning of each school year.