

# **Mountain Home School District No. 9**

**Baxter County, Arkansas**

## **General Purpose Financial Statements and Other Reports June 30, 2000**

LEGISLATIVE JOINT AUDITING COMMITTEE

---



MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
BAXTER COUNTY, ARKANSAS  
TABLE OF CONTENTS  
JUNE 30, 2000

Independent Auditor's Report  
Combined Report(s) on Compliance, Internal Controls and Other Matters

GENERAL PURPOSE FINANCIAL STATEMENTS

	<u>Exhibit</u>
Combined Balance Sheet - Governmental and Fiduciary Fund Types and Account Groups	A
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Types and Expendable Trust Fund	B
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Governmental Fund Types	C
Statement of Revenues, Expenses and Changes in Fund Balances - Fiduciary Fund Type - Nonexpendable Trust Fund	D
Statement of Cash Flows - Fiduciary Fund Type - Nonexpendable Trust Fund	E
Notes to Financial Statements	

SUPPORTING SCHEDULES

	<u>Schedule</u>
Expenditures of Federal Awards	1
Federal Award Programs - Findings and Questioned Costs	2
Federal Award Programs - Summary of Prior Audit Findings	3

Sen. Kevin A. Smith  
Senate Co-Chair  
Rep. Danny W. Ferguson  
House Co-Chair  
Sen. Henry "Hank" Wilkins, IV  
Senate Co-Vice Chair  
Rep. Tommy Roebuck  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the Mountain Home School District No. 9 (the "District"), as of and for the year ended June 30, 2000, as listed in the table of contents. These financial statements are the responsibility of district management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2001 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents, including the schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
January 25, 2001  
EDSD01400

Sen. Kevin A. Smith  
Senate Co-Chair  
Rep. Danny W. Ferguson  
House Co-Chair  
Sen. Henry "Hank" Wilkins, IV  
Senate Co-Vice Chair  
Rep. Tommy Roebuck  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### COMBINED REPORT(S) ON COMPLIANCE, INTERNAL CONTROLS AND OTHER MATTERS

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

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of the Mountain Home School District No. 9. This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), the United States Office of Management and Budget (OMB), the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. Section I of this letter is designed to satisfy certain requirements for compliance and internal control over financial reporting, whereas, Section II is designed to satisfy certain requirements for compliance requirements applicable to each major federal award program and internal control over compliance in accordance with OMB Circular A-133.

#### SECTION I: REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general purpose financial statements of the Mountain Home School District No. 9 (the "District"), as of and for the year ended June 30, 2000, and have issued our report thereon dated January 25, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, and federal contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the finding below to be a material weakness. Other matters involving compliance and/or internal control were reported to School District management in a separate letter.

## AUDIT FINDINGS

### Reportable Condition

The District had inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel.

SECTION II: REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

### Compliance

We have audited the compliance of the Mountain Home School District No. 9 (the "District") with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2000. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs - Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, district management, the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "William R. Baum". The signature is written in a cursive, flowing style.

William R. Baum, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
January 25, 2001

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 2000

Exhibit A

	Governmental Fund Types			Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt	
<b>ASSETS</b>							
Cash	\$ 1,739,378	\$ 156,126	\$ 753,012	\$ 260,007			\$ 2,908,523
Investments	11,171		143,113				154,284
Accounts receivable	25,717	85,288		374			111,379
Other current assets	16,138						16,138
Prepaid rent	40,000						40,000
Interfund receivable	2,252	6,580	12,023	2,900			23,755
Land					\$ 828,094		828,094
Buildings					21,808,472		21,808,472
Improvements other than buildings					1,526,062		1,526,062
Equipment					6,794,035		6,794,035
Amount to be provided for retirement of general long-term debt						\$ 13,283,890	13,283,890
<b>TOTAL ASSETS</b>	<b>\$ 1,834,656</b>	<b>\$ 247,994</b>	<b>\$ 908,148</b>	<b>\$ 263,281</b>	<b>\$ 30,956,663</b>	<b>\$ 13,283,890</b>	<b>\$ 47,494,632</b>
<b>LIABILITIES AND FUND EQUITY</b>							
Liabilities:							
Accounts payable	\$ 24,114	\$ 1,283	\$ 4,905	\$ 11,045			\$ 41,347
Due student groups				149,642			149,642
Interfund payable	18,603	5,152					23,755
Bonds payable						\$ 12,840,900	12,840,900
Postdated warrants						35,133	35,133
Capital leases						270,357	270,357
Note payable						137,500	137,500
<b>Total Liabilities</b>	<b>42,717</b>	<b>6,435</b>	<b>4,905</b>	<b>160,687</b>		<b>13,283,890</b>	<b>13,498,634</b>

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 2000

Exhibit A

	Governmental Fund Types			Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt	
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt	
LIABILITIES AND FUND EQUITY (Cont.)							
Fund Equity:							
Investment in general fixed assets					\$ 30,956,663		\$ 30,956,663
Fund balances:							
Reserved:							
Prepaid rent	\$ 40,000						40,000
Guy Berry Library Trust				\$ 3,315			3,315
Unreserved:							
Designated:							
Trust funds				99,279			99,279
Undesignated	1,751,939	\$ 241,559	\$ 903,243				2,896,741
Total Fund Equity	<u>1,791,939</u>	<u>241,559</u>	<u>903,243</u>	<u>102,594</u>	<u>30,956,663</u>		<u>33,995,998</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 1,834,656</u>	 <u>\$ 247,994</u>	 <u>\$ 908,148</u>	 <u>\$ 263,281</u>	 <u>\$ 30,956,663</u>	 <u>\$ 13,283,890</u>	 <u>\$ 47,494,632</u>

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



MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
 FOR THE YEAR ENDED JUNE 30, 2000

Exhibit B

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects Expendable Trust	
REVENUES					
Current taxes	\$ 7,514,560			\$ 368,009	\$ 7,882,569
Delinquent taxes and land redemption	231,638			11,343	242,981
State assistance	10,584,192	\$ 13,732			10,597,924
Federal assistance	56,873	1,554,278			1,611,151
Activity revenues	106,006				106,006
Meal sales		356,345			356,345
Interest on investments	183,991			19,425	203,416
Other revenues	471,725	53,834		\$ 66,820	592,379
<b>TOTAL REVENUES</b>	<b>19,148,985</b>	<b>1,978,189</b>		<b>66,820</b>	<b>21,592,771</b>
EXPENDITURES					
Regular programs	8,683,791	131,049		9,164	8,824,004
Special education	969,088	238,298			1,207,386
Vocational education	969,526	50,851			1,020,377
Adult education	16,569				16,569
Compensatory education	177,885	463,556			641,441
Other instructional programs	225,162				225,162
Support services	6,274,218	1,198,407		126,774	7,599,399
Community services		8,580			8,580
Non-program charges	18,336				18,336
Activity expenditures	99,306				99,306
Capital outlay				1,067,781	1,067,781
Debt service:					
Principal retirement	105,218		\$ 850,000		955,218
Interest and fiscal charges	17,822		578,550		596,372
Scholarships awarded				59,560	59,560
<b>TOTAL EXPENDITURES</b>	<b>17,556,921</b>	<b>2,090,741</b>	<b>1,428,550</b>	<b>1,203,719</b>	<b>22,339,491</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,592,064	(112,552)	(1,428,550)	7,260	(746,720)

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
 FOR THE YEAR ENDED JUNE 30, 2000

Exhibit B

	Governmental Fund Types			Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
OTHER FINANCING SOURCES (USES)					
Transfers in			\$ 1,428,550	\$ 149,668	\$ 1,578,218
Transfers out	\$ (1,714,483)				(1,714,483)
Sale of fixed assets	15,010				15,010
Compensation for loss of assets	41,362				41,362
Value of note payable				137,500	137,500
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,658,111)</b>		<b>1,428,550</b>	<b>287,168</b>	<b>57,607</b>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(66,047)	\$ (112,552)		(517,774)	\$ 7,260
FUND BALANCES - JULY 1	1,857,986	217,846		1,421,017	92,019
FUND BALANCES - JUNE 30	\$ 1,791,939	\$ 105,294	\$ 0	\$ 903,243	\$ 99,279
					\$ 2,899,755

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

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 2000

Exhibit C

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Current taxes	\$ 5,993,462	\$ 7,882,569	\$ 1,889,107
Delinquent taxes and land redemption	175,000	242,981	67,981
State assistance	10,452,082	10,597,924	145,842
Federal assistance	951,090	1,611,151	660,061
Activity revenues		106,006	106,006
Meal sales		356,345	356,345
Interest on investments	170,000	203,416	33,416
Other revenues	122,880	525,559	402,679
	17,864,514	21,525,951	3,661,437
TOTAL REVENUES			
EXPENDITURES			
Regular programs	8,638,014	8,824,004	(185,990)
Special education	1,232,984	1,207,386	25,598
Vocational education	953,644	1,020,377	(66,733)
Alternative education	10,000	16,569	(6,569)
Compensatory education	624,644	641,441	(16,797)
Other instructional programs	404,443	225,162	179,281
Support services	6,746,320	7,599,399	(853,079)
Community services	1,600	8,580	(6,980)
Non-program charges	15,400	18,336	(2,936)
Activity expenditures		99,306	(99,306)
Capital outlay	1,015,000	1,067,781	(52,781)
Debt service:			
Principal retirement	906,307	955,218	(48,911)
Interest and fiscal charges	591,392	596,372	(4,980)
	21,139,748	22,279,931	(1,140,183)
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,275,234)	(753,980)	2,521,254

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 2000

Exhibit C

	Budget	Actual	Variance Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 149,625	\$ 1,578,218	\$ 1,428,593
Transfers out	(285,890)	(1,714,483)	(1,428,593)
Sale of fixed assets		15,010	15,010
Compensation for loss of assets		41,362	41,362
Value of note payable		137,500	137,500
	(136,265)	57,607	193,872
 TOTAL OTHER FINANCING SOURCES (USES)	 (136,265)	 57,607	 193,872
 EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	 (3,411,499)	 (696,373)	 2,715,126
 FUND BALANCES - JULY 1	 3,304,114	 3,496,849	 192,735
 FUND BALANCES - JUNE 30	 \$ (107,385)	 \$ 2,800,476	 \$ 2,907,861

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

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 FIDUCIARY FUND TYPES - NONEXPENDABLE TRUST FUND  
 FOR THE YEAR ENDED JUNE 30, 2000

Exhibit D

	Guy Berry Library Trust
OPERATING REVENUES	
Interest	\$ 112
FUND BALANCE, JULY 1	3,203
FUND BALANCE, JUNE 30	\$ 3,315

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

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 STATEMENT OF CASH FLOWS - FIDUCIARY FUND TYPES - NONEXPENDABLE TRUST FUND  
 FOR THE YEAR ENDED JUNE 30, 2000

Exhibit E

	Totals (Memorandum Only)
Cash flows from operating activities:	
Interest on investments	\$ 112
CASH - JULY 1	<u>3,203</u>
CASH - JUNE 30	<u><u>\$ 3,315</u></u>

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

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
BAXTER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Board of Education, a seven (7) member group, is the level of government which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Mountain Home School District (District). The District is a member of the North Arkansas Educational Cooperative located in Melbourne, Arkansas.

The District's financial statements reflect all funds and accounts directly under the control of the District. There are no component units.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The following types of funds and account groups are recognized in the accompanying financial statements.

Governmental Funds

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the entity in a trustee capacity or as an agent for individuals, other governmental units, and other funds. These include Expendable and Nonexpendable Trust Funds and Agency Funds.

Account Groups

General Fixed Assets - This group of accounts is established to account for all fixed assets of the entity.

General Long-term Debt - This group of accounts is established to account for all long-term debt of the entity.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
BAXTER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of Accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. All governmental funds, expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are generally recognized under the modified accrual basis when the related fund liability is incurred. Exceptions to the general rule include: (1) principal and interest on general long-term debt which is recognized when due; and (2) prepaid expenses, which are not recorded. Federal grants and entitlements are recognized as revenues when received, with the unearned, unexpended balance recognized as a fund balance for financial statement presentation purposes, except for federal grants that are recognized as revenues when earned. The accrual basis of accounting is followed in all nonexpendable trust funds. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred.

D. General Fixed Assets

General fixed assets purchased are recorded as expenditures at the time of purchase. Such assets are capitalized at cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs and installation costs) in the general fixed assets group of accounts. Gifts or contributions are generally recorded in the general fixed assets group of accounts at fair market value at the time received. Library holdings and textbooks are not capitalized by the District. No depreciation has been provided on general fixed assets. Interest costs incurred during the period of construction were not capitalized by the District.

E. Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. No accrual or recognition of taxes receivable is reflected in the financial statements as the amount measurable and available is considered to be immaterial.

F. Investments

Investments consist of certificates of deposits classified as nonparticipating contracts and are reported at cost.

G. Inventories

Inventory items are considered expenditures when purchased. This is an acceptable alternative due to the insignificant amounts involved.

H. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.



MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
BAXTER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Liability for Compensated Absences

Generally accepted accounting principles require an employer to accrue a liability for employees' rights to receive compensation for future absences if certain conditions are met. The accompanying financial statements do not provide for this liability as the small number of district personnel eligible for compensated absences indicates an immaterial obligation on the part of the District.

J. Fund Equity

Fund Balance -

1. Reserved Fund Balance represents that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use.
2. Designated Fund Balance represents tentative managerial plans or intent that are subject to change.
3. Undesignated Fund Balance indicates that portion of fund equity not reserved or designated.

K. Budget and Budgetary Accounting

The District is required by the State Department of Education to prepare a budget. The budget is prepared on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles. The District also is required to budget certain portions of local taxes, which are collected in the succeeding fiscal year. This procedure, while not in accordance with generally accepted accounting principles, does not have a material effect on the financial statements taken as a whole.

The following policies and procedures are established by the State Department of Education for preparing and utilizing the annual budget:

1. Prior to September 15, the District is required to submit a proposed budget for the upcoming year.
2. Upon approval by the State Department of Education, the District adopts the budget and integrates it into their accounting and reporting system as a management control device.
3. The District is legally required to have a budget although it is not intended to be legally restrictive.
4. Budget amendments are not required to be submitted for approval to the Department of Education.
5. The District is not required to budget the revenues and expenditures of the food services funds and the activity funds. Certain transfers among funds are also not budgeted.

L. Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods or services. The District does not record encumbrances in its accounting system and none are recorded in the accompanying financial statements.

NOTE 2: Memorandum Totals

Combined financial statements of fund types and account groups have a "total" column that aggregates the columnar statements by fund type and account group. The total column is captioned "Memorandum Only" because the total column on a combined financial statement is not comparable to a consolidation.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2000

NOTE 3: Commitments

The District was contractually obligated for the following at June 30, 2000:

Operating Lease (noncapital leases with initial or remaining noncancellable lease terms in excess of one year)

General description of lease and leasing arrangements:

During the 1996/97 fiscal year, the District entered into two noncancellable maintenance/lease agreements with Century Telephone Company, Inc. for maintenance and rental of two telephone systems. Terms of the leases are \$145 per month for sixty (60) months and \$199 per month for sixty (60) months, respectively.

On December 3, 1999, the District entered into a noncancellable maintenance agreement with Copy Products, Inc. for maintenance of twenty-two (22) copiers. Terms of the lease are \$3,000 per month for sixty (60) months.

On December 3, 1999, the District entered into a noncancellable lease agreement with Copelco Capital, Inc. for rental of twenty-two (22) copiers. Terms of the lease are \$3,199 per month for sixty (60) months.

1. Future minimum rental payments (aggregate) at June 30, 2000: \$341,783
2. Future minimum rental payments for the five (5) succeeding years:

Year Ended June 30,	Amount
2001	\$ 78,516
2002	77,302
2003	74,386
2004	74,386
2005	37,193

NOTE 4: Budget Versus Actual - Exhibit C

Exhibit C includes revenues and expenditures of the activity and food services funds and certain transfers among funds. However, the District does not budget these activities.

NOTE 5: Public Fund Deposits

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

	Carrying Amount	Bank Balance
Insured (FDIC/FSLIC)	\$ 215,789	\$ 215,789
Uninsured, Collateralized	2,691,734	3,405,365
Total Deposits	\$ 2,907,523	\$ 3,621,154

The above total deposits do not include cash on hand in the amount of \$1,000.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2000

NOTE 6: Public Fund Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

Type of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Certificate of Deposit	\$ 154,284	\$ 0	\$ 0	\$ 154,284	\$ 154,284

Of the above investments, \$3,113 was uninsured and uncollateralized at June 30, 2000.

NOTE 7: Changes in General Fixed Assets

A summary of changes in general fixed assets is as follows:

	Balance July 1, 1999	Additions	Deletions	Reclassi- fications	Balance June 30, 2000
Land	\$ 286,990	\$ 552,035	\$ 10,931		\$ 828,094
Buildings and Improvements	21,692,065	116,407			21,808,472
Improvements other than buildings	961,384	498,508		\$ 66,170	1,526,062
Equipment	6,660,222	621,180	487,367		6,794,035
Construction in progress	66,170			(66,170)	0
<b>Totals</b>	<b>\$ 29,666,831</b>	<b>\$ 1,788,130</b>	<b>\$ 498,298</b>	<b>\$ 0</b>	<b>\$ 30,956,663</b>

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2000

NOTE 8 : Long-term Debt Issued and Outstanding

Long-term liabilities are payable out of future income of the District. In order to liquidate the principal and interest on the bonded debt, the District has pledged 6.3 mills of the total 31.3 mill tax levy of the District. The District is presently paying on the following long-term debt:

Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2000	Maturities To June 30, 2000
12/01/10	5.450 to 6.375	\$ 275,200	\$ 200,000	\$ 75,200
12/01/10	6.0 to 6.375	208,100	150,000	58,100
12/01/10	3.650 to 4.6	2,727,931	2,100,000	627,931
12/01/16	4.125 to 5.1	1,774,000	1,620,000	154,000
12/01/03	3.177	1,007,710	1,007,710	
06/17/17	3.85 to 4.3	8,043,190	7,763,190	280,000
11/01/00	5.988	166,300	35,133	131,167
12/16/00	6.84	83,524	16,320	67,204
02/12/09	3.901	277,196	254,037	23,159
07/01/03	None	137,500	137,500	
		<u>\$ 14,700,651</u>	<u>\$ 13,283,890</u>	<u>\$ 1,416,761</u>

NOTE 9: Changes in Long-term Debt

The changes in long-term debt are as follows:

	Balance July 1, 1999	Issued	Retired	Balance June 30, 2000
Bonds payable	\$ 13,690,900		\$ 850,000	\$ 12,840,900
Postdated warrants	68,281		33,148	35,133
Capital leases	342,427		72,070	270,357
Note payable		\$ 137,500		137,500
Totals	<u>\$ 14,101,608</u>	<u>\$ 137,500</u>	<u>\$ 955,218</u>	<u>\$ 13,283,890</u>

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
BAXTER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000

NOTE 9: Changes in Long-term Debt (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2001	\$ 918,207	\$ 553,944	\$ 1,472,151
2002	930,018	514,682	1,444,700
2003	1,103,504	476,153	1,579,657
2004	632,028	443,015	1,075,043
2005	671,265	415,194	1,086,459
To Maturity	<u>9,028,868</u>	<u>2,355,002</u>	<u>11,383,870</u>
Totals	<u>\$ 13,283,890</u>	<u>\$ 4,757,990</u>	<u>\$ 18,041,880</u>

NOTE 10 : Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2000
(9) Ricoh copiers with 60 payments of \$5,771 each.	\$ 277,591
(1) Energy Management System with 6 payments of \$17,437 each.	83,524
(1) Excel Lighting System with 20 payments of \$16,872 each.	<u>277,196</u>
Total	<u>\$ 638,311</u>
	<u>June 30, 2000</u>
Total Minimum Lease Payments	\$ 321,128
Less: Amount Representing Interest	<u>50,771</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 270,357</u>

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
BAXTER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000

NOTE 11: Retirement Plans

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salary. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 12%. Effective July 1, 1996, the District paid the employer contribution rate for any eligible employee in accordance with rules and regulations established by the Teacher Retirement Board of Directors. The District's contribution to ATRS for nonfederally funded employees for the years ended June 30, 2000, 1999 and 1998 were \$1,197,447, \$1,143,401 and \$1,075,892, respectively. The District's contributions to ATRS for federally funded employees for the years ended June 30, 2000, 1999, and 1998 were \$74,089, \$61,149 and \$60,402, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salary. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2000, 1999 and 1998 were \$11,247, \$13,450 and \$14,958, respectively, equal to the required contributions for each year.

NOTE 12: Cash Equivalents

For purposes of the statement of cash flows for nonexpendable trust funds, all highly liquid investments (including restricted assets) with a maturity of three (3) months or less when purchased are considered to be cash equivalents.

NOTE 13: Other Asset

The District's Industrial Arts Class each year purchases a lot in order to construct a home with the intent to sell it at a later date. At June 30, 2000 a lot valued at \$16,138 was recorded as an other asset in the general fund.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
BAXTER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000

NOTE 14: Prior Year Restatement

Prior year fund balances of the Trust and Agency Fund and the Nonexpendable Trust Fund were reduced by \$135 and 1,791, respectively and Special Revenue prior year fund balance increased by \$1,611. These adjustments caused a corresponding net increase in the Operating Fund of \$315. In addition, the Operating Fund prior year fund balance was restated to include a \$500 change fund.

NOTE 15: Nonexpendable Trust Fund

Guy Berry Library Trust-On December 31, 1985, grantors, Guy W. Berry and Kathleen F. Berry, established the Guy W. and Kathleen F. Berry Public School Library Improvement Fund. The principal and income of all property received and accepted was to be held in trust. The trustee may make payment or distribution from income to the Guy Berry Middle School for the sole purpose of improving the Guy Berry Middle School Library.

NOTE 16: Expendable Trust Funds

Dunbar Trust – The James C. Dunbar Trust makes annual payments of the entire net income of the trust to Mountain Home High School. This trust was established on May 3, 1989. The funds are being used to provide scholarships to Mountain Home High School students, but there are no specific restrictions relative to the use of these funds.

Smith Scholarship Trust – The Smith Memorial Scholarship Trust, established by Kirby and Bertha Smith, is to be used as scholarships for graduates of Mountain Home High School to assist them in their undergraduate studies in teacher education.

Mountain Home Scholarship Fund, Inc. – The Mountain Home Scholarship Fund, Inc. was established on January 30, 1998, for the purpose of soliciting and collecting funds to be used to provide scholarships to Mountain Home High School students.

NOTE 17: Prepaid Rent

During the year ended June 30, 1997, the City of Mountain Home and the District entered into a joint agreement to lease the Cooper Park Baseball Field to the District for a period of fifteen years. The District paid the City \$50,000, which was established as prepaid rent to be amortized over the fifteen year term of the lease. The agreement was finalized on July 28, 1997. Maintenance of the baseball field is the responsibility of the District. Overall control including the paying of utilities remains that of the city with the District receiving top priority concerning the usage of the baseball field. The balance of prepaid rent at June 30, 2000 is \$40,000.

NOTE 18: Exclusive Soft Drink Agreement

On February 23, 1999, the District executed an exclusive soft drink agreement with the Pepsi Cola Company for a period of ten (10) years. The agreement stipulated the District will receive a yearly guaranteed minimum commission of \$120,000, various promotional items, yearly free product, and soft drink equipment.

NOTE 19: Escrow Fund

As of June 30, 2000, the escrow fund established during the 1998/99 fiscal year to provide the retirement of the 1995 Series Bonds being refunded had a balance of \$7,377,035. The remaining principal amount of the outstanding bonds considered defeased was \$7,355,000. All the 1995 Series Bonds have been presented for retirement and the paying agent's account closed as of December 1, 2000.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2000

Schedule 1

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
<b>CHILD NUTRITION CLUSTER</b>			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	03-03	\$ 99,636
National School Lunch Program	10.555	03-03-000	390,543
Total State Department of Education			490,179
Passed Through State Department of Human Services:			
National School Lunch Program (Note 2)	10.555	03-03	71,044
TOTAL CHILD NUTRITION CLUSTER			561,223
 <b>OTHER PROGRAMS</b>			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants - LEA	84.010	03-03	529,489
Special Education - Grant to States	84.027	03-03	228,108
Vocational Education - Basic Grants to States	84.048	03-03	50,851
Safe and Drug Free School and Communities- Professional Development	84.186	03-03	3,045
Education for Homeless Children and Youth	84.196	03-03	8,580
Eisenhower Professional Development State Grants	84.281	03-03	15,471
Innovative Education Program Strategies	84.298	03-03	22,850
Goals 2000 - State and Local Educational Systemic Improvement Grants	84.276	03-03	46,934
Class Size Reduction	84.340	03-03	87,887
Total U. S. Department of Education			993,215
 <u>Other Federal Assistance</u>			
ROTC	12.Unknown	Note 3	43,162
TOTAL OTHER PROGRAMS			1,036,377
TOTAL FEDERAL ASSISTANCE			\$ 1,597,600



MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
BAXTER COUNTY, ARKANSAS  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2000

Schedule 1

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Mountain Home School District No. 9 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits to States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.
- Note 2: Nonmonetary assistance is reported at the approximate value as provided by the Arkansas Department of Human Services.
- Note 3: Federal CFDA Number - The Federal CFDA Number or other identifying number was not available.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
 BAXTER COUNTY, ARKANSAS  
 FEDERAL AWARD PROGRAMS-  
 FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2000

Schedule 2

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes no
- Report condition(s) identified that are not considered to be material weakness(es)? yes  none reported

Noncompliance material to financial statements noted yes  no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? yes  no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes  none reported

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs \$300,000.00

Auditee qualified as low-risk auditee? yes  no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

REPORTABLE CONDITIONS

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
BAXTER COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS-  
FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000

Schedule 2

00-1. SEGREGATION OF DUTIES

Specific Requirement - Duties pertaining to cash transactions should be adequately segregated to reduce the opportunities for any individual in the normal course of his/her duties to both perpetuate and conceal errors or irregularities.

Condition - Duties pertaining to cash transactions were not adequately segregated. This condition could be applicable to the District's federal programs.

Effect - The District had inadequate control over cash transactions.

Cause - Duties pertaining to cash transactions were not adequately segregated due to a limited number of personnel.

Recommendations - Segregation of duties relating to cash transactions should be established to the extent possible.

Response - We concur with the recommendations.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No findings and questioned costs noted.

MOUNTAIN HOME SCHOOL DISTRICT NO. 9  
BAXTER COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS  
SUMMARY OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000

Schedule 3

There are no findings in the prior audit.