

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

**Harlem School Districts No. 12**

Blaine County - Harlem, Montana

*June 30, 2014*



# Harlem School Districts No. 12

June 30, 2014

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# Harlem School Districts No. 12

*June 30, 2014*

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## ORGANIZATION

### BOARD OF TRUSTEES

Michele Lewis	Chairperson
Ralph Leo	Vice-Chairperson
Kathleen Adams	Trustee
Charles D. "Jack" Plumage	Trustee
Donald Horn	Trustee

### OFFICIALS

Rhonda Baker	Superintendent
Teresa Cornell	Business Manager
Terry Brockie	County Superintendent
Donald Ranstrom	County Attorney
Wenda Oehmcke	County Treasurer

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Harlem School Districts No. 12  
PO Box 339  
Harlem, MT 59526

### 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 Harlem School Districts No. 12, Blaine County, Harlem, Montana, (the Districts) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Districts' basic financial statements as listed in the table of contents.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

An audit 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 Districts' 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 Districts' 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 opinions.

### OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Districts, as of June 30, 2014, and the respective changes in financial position thereof 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 the management's discussion and analysis, budgetary comparison information and schedule of funding progress for the retiree health plan (as referenced 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 evidence sufficient 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 Districts' basic financial statements. The accompanying supplemental information on the Schedule of Reported Enrollment and Extracurricular Fund Schedule of Cash Receipts, Disbursements and Changes in Net Position (as referenced in the table of contents) are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The accompanying 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 basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

### OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014 on our consideration of the Districts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Districts' internal control over financial reporting and compliance.

  
Galusha, Higgins & Galusha, PC  
Havre, Montana  
December 17, 2014

## Harlem School Districts No. 12

# MANAGEMENT'S DISCUSSION AND ANALYSIS

as of June 30, 2014

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The Superintendent and Business Manager/Clerk of the Harlem School District No. 12 (the Districts) have provided this Management's Discussion and Analysis (MD&A) to give the reader of these statements an overview of the financial position and activities of the Districts for the year covered by this audit report.

### **Using this Financial Report**

The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). Components and purposes of the report are explained below. This report was developed in conjunction with the independent financial audit for the fiscal year ended June 30, 2014; please refer to the table of contents for references to statements mentioned.

### **Basic Financial Statements**

#### **Reporting the Districts as a whole**

The report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resource measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

The *Statement of Net Position* shows the "assets" (what is owned), "liabilities" (what is owed) and the "net position" (the resources that would remain if all obligations were settled) of the Districts. That statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Other assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as building, equipment and other long-lived property; and some assets are available to fund budgets in the following year.

The *Statement of Activities* show the amounts of program-specific and general school district revenues and associated expenses used to support the Districts' various functions. *Governmental activities* – These school functions include instruction, student services, administration, etc. Property taxes, state and federal revenues usually support all of these functions of the district.

#### **Reporting the Districts' most significant funds**

The fund statements provide detailed information about the funds used by the Districts. State law and accounting principles generally accepted in the United States of America (GAAP) establish the fund structure of the Districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant, or "major" funds separately and combine activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

*The Governmental Funds Balance Sheet and Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balance* are shown for governmental funds, such as the general fund, special revenue funds (for purposes such as transportation and school food services), and debt service and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the Districts' activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. Most significant differences result from the use of different presentation basis. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the district-wide statements but not in the fund statements.

Continued

## Harlem School Districts No. 12

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*as of June 30, 2014*

### **Reporting the Districts trust and fiduciary responsibilities**

The *Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position* include the student extracurricular fund, for which the Districts act as the trustee or fiduciary. The Districts are responsible for ensuring these assets are used for their intended purpose.

### **Budget to Actual Variances**

The budgetary comparison schedule shows how actual revenue and expenditures compared to the original and final budgeted revenue and expenditures for the general fund. No significant variances between the original and final budget and the final budget and actual exist.

### **Current Year Results in Comparison with Prior Year**

This section is an analysis of the district's financial activities using information from the district-wide financial statements. It is a discussion of the current year results in comparison with the prior year, with emphasis on the current year.

### **Analysis of Fund Balances / Net Position**

*Changes in Net Position:* Net position may serve over time as a useful indicator of a government's financial position. In the case of the Districts, assets exceeded liabilities by \$13,453,017 as of June 30, 2014. The table below presents a comparative summary of the Districts' net position for the fiscal years ended June 30, 2014 and 2013.

The net position of the Districts shows that the relative financial health of the school is extremely good. Current assets exceed current liability sixteen fold. Total assets exceed total liability nine fold.

### **Condensed Financial Information**

Condensed Statement of Net Position - Governmental Activities				
	FY 2013	FY 2014	Change	%
<b>Assets</b>				
Current and other assets	\$ 5,051,910	\$ 5,395,329	\$ 343,419	7%
Capital assets, net of accumulated depreciation	10,000,418	9,679,061	(321,357)	-3%
Total assets	15,052,328	15,074,390	22,062	0%
<b>Liabilities</b>				
Other liabilities	311,831	202,908	(108,923)	-35%
Long-term debt outstanding	1,434,662	1,418,465	(16,197)	-1%
Total liabilities	1,746,493	1,621,373	(125,120)	-7%
<b>Net Position</b>				
Net investment in capital assets	8,914,921	8,623,968	(290,953)	-3%
Restricted net position	2,019,209	507,297	(1,511,912)	-75%
Unrestricted net position	2,371,705	4,321,752	1,950,047	82%
Total net position	<u>\$ 13,305,835</u>	<u>\$ 13,453,017</u>	<u>\$ 147,182</u>	1%

Continued

## Harlem School Districts No. 12

### MANAGEMENT'S DISCUSSION AND ANALYSIS

*as of June 30, 2014*

Condensed Statement of Activities - Governmental Activities				
	FY 2013	FY 2014	Change	%
<b>Program Revenues:</b>				
Charges for services	\$ 12,072	\$ 11,571	\$ (501)	-4%
Operating grants and contributions	817,418	870,667	53,249	7%
<b>General Revenues:</b>				
Property taxes	362,227	363,501	1,274	0%
Local/County sources	678,656	711,169	32,513	5%
State sources	2,898,056	3,091,499	193,443	7%
Federal sources	3,709,678	3,105,879	(603,799)	-16%
Gain on sale of asset	2,454	-	(2,454)	-100%
Miscellaneous other revenue	-	-	-	0%
Investment earnings	23,305	14,190	(9,115)	-39%
<b>Total revenues</b>	<b>8,503,866</b>	<b>8,168,476</b>	<b>(335,390)</b>	<b>-4%</b>
<b>Program expenses</b>				
Instruction	3,503,170	4,189,117	685,947	20%
Student support	496,175	512,810	16,635	3%
Instructional support	317,188	364,260	47,072	15%
General administration	296,976	199,902	(97,074)	-33%
School administration	253,004	433,773	180,769	71%
Business services	295,840	316,088	20,248	7%
Operation and maintenance	784,036	791,393	7,357	1%
Student transportation	334,156	344,611	10,455	3%
School food services	461,140	508,634	47,494	10%
Extracurricular	269,384	275,397	6,013	2%
Unallocated depreciation	8,274	85,309	77,035	931%
<b>Total expenses</b>	<b>7,019,343</b>	<b>8,021,294</b>	<b>1,001,951</b>	<b>14%</b>
<b>Increase (decrease) in net position</b>	<b>\$ 1,484,523</b>	<b>\$ 147,182</b>	<b>\$ (1,337,341)</b>	<b>-90%</b>

The Districts total revenues for the fiscal year ending June 30, 2014 decreased \$335,390. The total cost of all programs and services increased \$1,001,951 which generated an increase in net position of \$147,182 more than fiscal year 2013. Operating grants and Federal revenue sources contributed to a large portion of the decrease in revenue. Increases in program expenses for instruction, student support, instructional support, school administration, and business services contributed to the increases in expenses. District taxpayers paid approximately \$363,501 of the \$8.1 million in revenues in the form of property taxes. The remainder was financed through charges for services, operating grants and contributions, capital grants and contributions, other county, state, and federal revenues, gain on sale of asset, and investment earnings.

Spending Levels Compared to Resource Levels				
	FY 2012-2013		FY 2013-2014	
Expenditures supported with program revenues	\$ 829,490	10%	\$ 882,238	11%
Expenditures supported with general revenues				
(from taxes and other sources for general school use)	7,674,376	90%	7,286,238	89%
<b>Total expenditures related to governmental activities</b>	<b>\$ 8,503,866</b>	<b>100%</b>	<b>\$ 8,168,476</b>	<b>100%</b>

Continued

## Harlem School Districts No. 12

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*as of June 30, 2014*

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### **Changes in Finances Caused by Changes in Programs**

The Medicaid – CSCT program was unable to remain fully staffed for the fiscal year ended June 30, 2014 resulting in a decrease in revenues and expenditures of over \$79,000. Quality Schools Facility grant dollars were eliminated resulting in a decrease in grant revenue and expenditures by \$125,843. The Districts initiated a multi-district agreement with a neighboring district to share counseling services as part of a state incentive program. The inter-local agreement fund was initiated for this multi-district cooperative.

### **Identifying and Resolving Financial Difficulties**

One of the Districts' main sources of revenue is Impact Aid. This fund does not have an operating reserve limit requirement. Because revenue for this fund is not received until half way through the fiscal year or sometimes even into the next fiscal year, the Administration and Board of Trustees recognized a need to establish an operating reserve limit. During the adoption of the budgets for the fiscal year ended June 30, 2014, the Board of Trustees set an operating reserve limit for the Elementary Impact Aid fund of \$1,000,000 and an operating reserve limit for the High School Impact Aid fund of \$500,000. The Districts feel that this requirement by the local Board of Trustees will protect the Districts from possible future financial difficulties. The Districts have also tried not to fill vacated staff positions to protect from a drop in revenue because of potential decreased student enrollment.

### **Significant Events and Trends**

For the 2013-2014 school year the Districts operated with two Principals (one K-8 and one 9-12). In April 2013, the District hired four principals for the upcoming 2013-14 school year, adding an Assistant Principal to each building. For the 2012-13 school year the US Department of Education estimated we would only receive 45% of our total Impact Aid payment allocation. By May of 2013 we had received 80% (when the year was almost over). The 2013-14 school year saw the same scenario with the US DOE estimating we would only receive 50% but we have received 80%. The District made its first payments in 2012-13 on a fifteen year lease-purchase agreement with First Bank of Montana in Chinook for a Johnson Controls, Inc. Energy Performance Contract, which upgraded the boilers, HVAC, lighting and water systems at both schools. The District saw a significant increase (30) in student enrollment at the Elementary (K-8) level and a significant decrease (15) in enrollment at the High School level. The increase at the Elementary level qualified the District for a budget amendment and the receipt of an additional \$41,293 in State revenue.

Major purchases for the 2013-14 fiscal year included: volleyball standards, 1 route bus and 1 handicap accessible bus, Jr/Sr High secondary HVAC pumps, K-8 math textbooks, K-6 reading workbooks, lockers/desks, K-6 iPad cart, Jr/Sr High food service refrigerators and a milk cooler, refinish gym floors and upgrade outside lighting.

### **Analysis of Overall Financial Position and Results of Operations**

The following analysis is provided to help the reader understand the major operations of the school district, where the resources come from, what the resources are used for, and trends, decisions and events that are expected to affect the district's financial situation in the future. Historical information, where available, is shown to illustrate trends, problems, and achievement of the District's goals.

The most significant activity of the Districts is, of course, instruction of our most precious resource, the students. In conjunction with instructing these students we also spend a significant amount on transportation, food service, and extra-curricular activities. The Districts have the opportunity to participate in several state and federal programs including Medicaid CSCT, Title I Part A School-Wide Program, Title III Part A English Language Acquisition, Title VI Part B Small Rural Schools, USAC Internal Connections, Title VII – Indian Education, Title VI-Part B 21<sup>st</sup> Century Community Learning, Gear-Up, Carl Perkins, Triangle Communications Education Connection, Multidistrict Cooperatives, MNCESR Peer Coaching, Advancing Agriculture Education, and State Vo-Ed. Bear Paw Special Education Cooperative also provided funding for part of our school psychologist.

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## Harlem School Districts No. 12

### MANAGEMENT'S DISCUSSION AND ANALYSIS

as of June 30, 2014

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The Districts two main sources of revenue are Federal Impact Aid and State Equalization / Guaranteed Tax Base dollars. The Districts' boundaries include the Ft. Belknap Indian Reservation. Because all of the land on the Reservation is Federal land, the Districts do not have the ability to levy local property taxes on this land. This makes the Districts eligible for Federal Impact Aid to compensate for the loss of the ability to generate local property tax dollars. The Districts also have a high poverty level which qualifies it for several federal grants. Because of the low local tax base in the Districts, it is also hard for the Districts to generate money from local taxpayers for a building reserve fund. Therefore, the Districts must save Federal Impact Aid Dollars for any construction or remodel projects they plan to pursue.

#### **Capital Assets and Long-Term Debt Activity**

*Capital Assets:* As of June 30, 2014, the Districts had invested \$9.6 million in capital assets including land, buildings, and machinery and equipment. The net decrease of capital assets compared to the previous year including depreciation is \$321,356. The depreciation expense for the year was \$445,733.

*Debt Administration:* As of June 30, 2014, the Districts' long-term debt consists of compensated absences of \$270,833, capital lease of \$1,055,093 and OPEB liability of \$91,457. The compensated absence liability is the total amount the Districts would owe its employees for their unused leave if the Districts were to liquidate. This figure increased from FY2013. The Capital Lease is for the Energy Performance Contract with Johnson Controls Inc. and the Districts will use energy savings to help pay this lease which is for the replacement of boilers at the Jr/Sr High as well as upgrades to the HVAC, lighting, and water systems district-wide. There is a fifteen year lease agreement with First Bank of Montana in Chinook to pay for this project. The final lease payment will be 04/01/2027. The OPEB liability is required by GASB 45 and records the liability the Districts assume by allowing retirees to stay on the Districts health insurance plan.

#### **Known Impacts on Future Financial Position and/or Results of Operations**

The following will be major factors in the future of the Districts:

- The Districts have had an increase in high school student numbers, following record low enrollment, and will need to do a State unanticipated enrollment increase budget amendment at the high school level for the fiscal year ending June 30, 2014. We are anticipating a high number of Kindergarten students again in 2014-15 and may have to add classroom teachers at the elementary school. Coupled with the ever fluctuating enrollment is the increasing number of families moving off the reservation and into Harlem and a 20% decrease in Impact Aid appropriations. This perpetuates the loss of Impact Aid revenues.
- The Districts ratified agreements for both Unions. The new certified collective bargaining agreement is for 2012-2015 and the classified is for 2012-2016.
- The State legislature passed legislation (SB329) requiring all school districts to report all employee salaries and benefits and have it available to the public. The Montana Office of Public Instruction has taken on this requirement by having all districts complete a Teacher's Compensation Survey and Terms of Employment reports. Both of these reports require many reporting details and tie in with the new annual Data Collection Report (TEAMS).
- The Office of Public Instruction has added an additional student count day in December of each year to go along with the October and February counts already required. These counts determine the General Fund budgets for the ensuing year.

## Harlem School Districts No. 12

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*as of June 30, 2014*

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- With the Affordable Care Act the Districts are going to be required to track hours for all employees (everyone who receives a paycheck) to determine whether they have reached the 30 hour per week threshold. We will also have to track wages and premiums for all employees to determine whether or not they are subject to the Cadillac tax.
- In 2013-14 the Districts received an Impact Aid Construction Grant to repair the structure under the HVAC chiller at the Jr/Sr High.
- State HB377 requires any reserve in any district's retirement fund over 20% as of June 30, 2013 must be paid to the Teacher's Retirement System by October 1, 2013. This retirement fund bailout cost the District \$139,617. HB377 also limits retirement funds to 20% reserve in the future. The reserve limit was 35% before. In addition, the employer contribution rate will go up an additional 1% and districts have to start contributing on working retirees.
- The Districts went thru arbitration for the McCann Grievance on health insurance retirement benefit and the Districts won their case.

### **Contact for Further Information**

If you have questions about this report or need additional information, contact the Superintendent or the Business Manager at Harlem School District No. 12, PO Box 339, 610 1<sup>st</sup> Ave. SE, Harlem, MT 59526, 406-353-2289.

Harlem School Districts No. 12

DISTRICT-WIDE STATEMENT OF NET POSITION  
as of June 30, 2014

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ASSETS

Cash and cash equivalents	\$ 5,334,727
Property taxes receivables	27,827
Due from other governments	32,762
Other receivables	14
Capital assets, net of accumulated depreciation of \$4,784,327	9,679,061
Total assets	<u>15,074,391</u>

LIABILITIES

Accounts payable and accrued expenses	166,801
Advances from grantors	36,108
Compensated absences, current portion	11,754
Capital leases, current portion	34,193
Compensated absences	280,161
Capital leases	1,020,900
Other post employment benefits	71,457
Total liabilities	<u>1,621,374</u>

NET POSITION

Net investment in capital assets	8,623,968
Restricted for:	
Instruction	6,438
Operations and maintenance	8,046
Student transportation	217,623
Food services	23,576
Retirement	194,356
Capital projects	57,257
Unrestricted	4,321,752
Total net position	<u>\$ 13,453,017</u>

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

## Harlem School Districts No. 12

### DISTRICT-WIDE STATEMENT OF ACTIVITIES for the year ended June 30, 2014

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction	\$ 4,189,117	\$ 6,687	\$ 513,785	\$ (3,668,645)
Student support	512,810	-	-	(512,810)
Instructional support	364,260	-	-	(364,260)
General administration	199,902	-	-	(199,902)
School administration	433,773	-	-	(433,773)
Business services	316,088	-	-	(316,088)
Operations and maintenance	791,393	-	-	(791,393)
Student transportation	344,611	-	59,747	(284,864)
Food services	508,634	4,884	297,135	(206,615)
Extracurricular activities	275,397	-	-	(275,397)
Unallocated depreciation	85,309	-	-	(85,309)
Total governmental activities	<u>\$ 8,021,294</u>	<u>\$ 11,571</u>	<u>\$ 870,667</u>	<u>(7,139,056)</u>
<b>GENERAL REVENUES</b>				
Property taxes				363,501
Local sources				39,539
County sources				671,630
State sources				3,091,499
Federal sources				3,105,879
Investment earnings				14,190
Total general revenues				<u>7,286,238</u>
Change in net position				147,182
Net position, beginning				<u>13,305,835</u>
Net position, ending				<u>\$ 13,453,017</u>

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

## Harlem School Districts No. 12

### GOVERNMENTAL FUNDS BALANCE SHEET

*as of June 30, 2014*

	General Fund (including Impact Aid and Compensated Absences)			Elementary Miscellaneous	HS Miscellaneous	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 4,731,209	\$ 75,134	\$ 8,401	\$ 488,877	\$ 5,303,621		
Investments	-	-	-	31,106	31,106		
Property taxes receivable, net	17,530	-	-	10,297	27,827		
Due from other governments	-	4,376	25,007	3,379	32,762		
Other receivables	-	-	-	14	14		
Total assets	<u>\$ 4,748,739</u>	<u>\$ 79,510</u>	<u>\$ 33,408</u>	<u>\$ 533,673</u>	<u>\$ 5,395,330</u>		
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 63,625	\$ 47,016	\$ 29,794	\$ 26,366	\$ 166,801		
Advances from grantors	-	32,494	3,614	-	36,108		
Total liabilities	<u>63,625</u>	<u>79,510</u>	<u>33,408</u>	<u>26,366</u>	<u>202,909</u>		
<b>Deferred inflows of resources:</b>							
Unavailable tax revenues	17,530	-	-	10,297	27,827		
Total deferred inflows of resources	<u>17,530</u>	<u>-</u>	<u>-</u>	<u>10,297</u>	<u>27,827</u>		
<b>Fund balances:</b>							
<b>Restricted for</b>							
Instruction	-	-	-	6,273	6,273		
Operations and maintenance	-	-	-	8,046	8,046		
Student transportation	-	-	-	207,502	207,502		
Food services	-	-	-	23,576	23,576		
Retirement	-	-	-	194,356	194,356		
<b>Committed for:</b>							
Capital projects	-	-	-	57,257	57,257		
Compensated absences	31,425	-	-	-	31,425		
Unassigned	4,636,159	-	-	-	4,636,159		
Total fund balances	<u>4,667,584</u>	<u>-</u>	<u>-</u>	<u>497,010</u>	<u>5,164,594</u>		
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,748,739</u>	<u>\$ 79,510</u>	<u>\$ 33,408</u>	<u>\$ 533,673</u>	<u>\$ 5,395,330</u>		

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

**Harlem School Districts No. 12**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
DISTRICT-WIDE STATEMENT OF NET POSITION**  
*as of June 30, 2014*

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Total fund balance, governmental funds	\$ 5,164,594
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements. The cost of capital assets not reported above net of accumulated depreciation of \$4,784,327.	9,679,061
Property taxes receivable were assessed this year, but are not available to meet current obligations, and therefore are unavailable in the funds.	27,827
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of compensated absences of \$291,915, capital leases payable \$1,055,093, and other post employment benefits obligation of \$71,457.	<u>(1,418,465)</u>
Net Position of Governmental Activities in the Statement of Net Position	<u><u>\$ 13,453,017</u></u>

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

## Harlem School Districts No. 12

# GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

*for the year ended June 30, 2014*

	General Fund (including Impact Aid and Compensated Absences)			Elementary Miscellaneous	HS Miscellaneous	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Property taxes	\$ 231,954	\$ -	\$ -	\$ -	\$ 132,904	\$ 364,858	
Other local sources	17,268	5,477	191	28,174	51,110		
County sources	-	-	-	671,630	671,630		
State sources	3,392,530	173,358	5,701	94,521	3,666,110		
Federal sources	2,381,054	588,647	162,940	296,056	3,428,697		
Investment earnings	12,739	-	-	1,451	14,190		
Other revenue	-	-	-	-	-		
Total revenues	6,035,545	767,482	168,832	1,224,736	8,196,595		
<b>EXPENDITURES</b>							
Instruction	2,888,360	555,479	116,428	526,211	4,086,478		
Student support services	297,670	173,358	4,707	37,075	512,810		
Instructional support services	288,818	17,032	5,523	24,140	335,513		
General administration	170,261	-	2,368	27,273	199,902		
School administration	370,481	-	17,091	46,201	433,773		
Business services	261,570	21,613	3,215	29,690	316,088		
Operations and maintenance	645,097	-	-	38,527	683,624		
Student transportation	71,296	-	-	197,024	268,320		
Food services	147,134	-	-	357,995	505,129		
Extracurricular activities	233,353	-	-	20,492	253,845		
Debt service:							
Principal	30,404	-	-	-	30,404		
Interest and other charges	40,747	-	-	-	40,747		
Capital outlay	99,402	-	19,500	5,476	124,378		
Total Expenditures	5,544,593	767,482	168,832	1,310,104	7,791,011		
Excess (deficiency) of revenues over expenditures	490,952	-	-	(85,368)	405,584		
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	8,451	-	-	-	8,451		
Transfers out	(8,451)	-	-	-	(8,451)		
Total other financing sources and uses	-	-	-	-	-		
Net change in fund balances	490,952	-	-	(85,368)	405,584		
Fund balances, beginning	4,176,632	-	-	582,378	4,759,010		
Fund balances, ending	\$ 4,667,584	\$ -	\$ -	\$ 497,010	\$ 5,164,594		

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

## Harlem School Districts No. 12

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES *for the year ended June 30, 2014*

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Net change in fund balances - total governmental funds:	\$	405,584
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Amounts reported for Governmental Activities in the Statement of Activities are

Capital outlays are reported in the 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 capital outlays (\$124,378) were less than depreciation (\$445,734) in the current period. (321,356)

Some property taxes will not be collected for several months after the Districts' fiscal year ends, and therefore are not considered as "available" revenues in the governmental funds, and are instead reported as unavailable tax revenues. They are, however, recorded as revenues in the District-Wide Statement of Activities. (1,358)

Governmental funds report proceeds from capital leases as an other financing source and principal payments as an expenditure. In contrast, the Statement of Activities treats such transactions as long-term liabilities and payments as a reduction in long-term liabilities. This is the amount of principal payments (\$30,404) for capital leases. 30,404

In the statement of activities, certain operating expenses including compensated absences (vacations and sick leave) and other post employment benefits (retiree health insurance) 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 (essentially, the amounts actually paid). Vacation, sick leave benefits used was less than the amounts earned by \$21,082 and other post employment benefits obligations used was less than the amounts earned by \$54,990. 33,908

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Change in net position of governmental activities	\$	<u>147,182</u>
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The accompanying notes are an integral part of these financial statements.

Harlem School Districts No. 12

STATEMENT OF FIDUCIARY NET POSITION AND STATEMENT OF CHANGES IN  
FIDUCIARY NET POSITION  
*as of and for the year ended June 30, 2014*

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STATEMENT OF FIDUCIARY NET POSITION

	<u>Private-Purpose Trust Funds</u>
ASSETS	
Cash	\$ 60,741
Total assets	<u>60,741</u>
NET POSITION	
Held in trust for student activities	<u>\$ 60,741</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

	<u>Private-Purpose Trust Funds</u>
ADDITIONS	
Revenue from student activities	\$ 108,317
Total additions	<u>108,317</u>
DEDUCTIONS	
Expenses for student activities	<u>110,399</u>
Total deductions	<u>110,399</u>
Change in net position held in trust	(2,082)
Net position, beginning	<u>62,823</u>
Net position, ending	<u>\$ 60,741</u>

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

## Harlem School Districts No. 12

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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#### NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Harlem School District No. 12 (the Districts) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Districts' significant accounting policies are described below:

1. Reporting entity. The Districts are located in Blaine County. The Districts operate under a publicly elected Board of Trustees, which has financial accountability and control over all activities related to public school education in the Districts. The Districts receive funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds for which the Districts are financially accountable. The Districts have also considered all other potential organizations for which the nature and significance of their relationships with the Districts are such that exclusion would cause the Districts' financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body, and (1) the ability of the Districts to impose their will on that organization, or (2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the Districts. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

Blaine County provides substantial services to the Districts; tax billings, cash collections, and warrant redemption all flow through the office of the County Treasurer. This office also maintains the Districts' cash and invests funds at the direction of the Districts. The County Commissioners have the legal obligation to set levy amounts to finance the budget of the Districts, as directed by the Board of Trustees. Despite the degree of services rendered, the Districts do not meet the criteria set forth in the preceding paragraph to be considered a component unit of the County nor any other entity.

The Districts function in a fiduciary capacity relating to the Student Extracurricular Funds, reflected herein as a Private-Purpose Trust Fund.

2. District-wide financial statements. The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Districts. For the most part, the effect of material inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program or functions are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

Continued

## Harlem School Districts No. 12

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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#### NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

3. Fund financial statements. The Districts use funds to report on its financial position and results of its operations. The emphasis in fund financial statements is on the major funds in the governmental activities category. Non-major funds by category are summarized into a single column. GASB Cod. Sec. 2200.159, *Focus on Major Funds*, sets forth criteria (percentage of assets and deferred outflows for resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category) for the determination of major funds.
4. Fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Accounts of the Districts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net position, revenues, and expenditures or expenses, as appropriate. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is then divided into separate fund types as follows:

Governmental Funds: Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is on the sources, uses and balance of current financial resources. Governmental fund types are those funds through which most governmental functions typically are financed and consist of the general fund, special revenue funds, debt service funds, and capital projects funds.

The following comprise the Districts' major governmental funds:

General Fund is the general operating fund of the Districts and is authorized by section 20-9-301, MCA, for the purpose of financing general maintenance and operational costs of a district not financed by other funds. The Districts' general fund includes, for reporting purposes, the elementary and high school impact aid funds, and the elementary and high school compensated absences funds. The revenues of these funds are not derived from a specific revenue source requiring them to be restricted or committed, to expenditures for a specific purpose; therefore they do not meet the criteria to be reported as special revenue funds.

Elementary Miscellaneous Programs Fund is a special revenue fund authorized by section 20-9-507, MCA, for the purpose of accounting for local, state, or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of district programs are deposited in this fund.

High School Bus Depreciation Fund is a special revenue funds authorized by section 20-10-147, MCA, for the purpose of financing the replacement of buses and two-way radio equipment owned by the Districts.

Fiduciary Funds: Fiduciary funds are used to account for assets held in a trustee capacity or as an agent for others and are therefore not available to support programs. The reporting focus is on net position and changes in net position and are reported using generally accepted accounting principles similar to businesses in the private sector. Fiduciary funds consist of private-purpose trust funds, pension trust funds, investment trust funds and agency funds. The only fund of this type is the Student Extracurricular Fund which is used to account for various student activities and is reported as a private-purpose trust fund.

Continued

## Harlem School Districts No. 12

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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#### **NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**, continued

5. Measurement focus and basis of accounting. The financial statements of the Districts are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The Districts' reporting entity applies all relevant Governmental Accounting Standards Board standards as published in the Codification of Governmental Accounting and Financial Reporting Standards (GASB Cod.).

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied, while grants and similar items are recognized as revenue upon grantor eligibility requirements being met. Generally, the effect of material inter-fund activity has been removed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Districts consider revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Districts recognize property taxes as a receivable at the time an enforceable legal claim is established and considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Those revenues susceptible to accrual are property taxes, special assessments, grants, interest revenue and charges for services. Capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Districts report advances from grantors as liabilities on its district-wide statement of net position and on its governmental funds balance sheet. The Districts also report deferred inflows of resources resulting from unavailable tax revenues on its governmental funds balance sheet. These amounts arise when potential revenue does not meet both the 'measurable' and 'available' criteria for recognition in the current period or when resources are received by the Districts 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 both revenue recognition criteria are met, or when the Districts have a legal claim to the resources, the liability for deferred inflow of resources is removed from the balance sheet and revenue is recognized.

6. Cash and pooled cash investments. The Blaine County Treasurer holds all cash, except for the student activity checking account. Information regarding the cash of the Districts being insured and collateralized may be obtained from the Blaine County financial statements.

State Statutes authorize the Districts to invest in direct obligations of the United States government; in savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC, FSLIC, or NCUA located in the state, in a repurchase agreement or

Continued

Harlem School Districts No. 12

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

6. Cash and pooled cash investments, continued. Montana short-term investment pool (STIP). Interest income received as a result of pooling is distributed to the appropriate Districts utilizing a formula based on the respective Districts previous month’s ending balance of cash and cash equivalents. The Districts issue warrants in payment of their obligations. When the warrants are presented to the County Treasurer, the Districts’ cash balance is reduced to pay the warrant.

7. Property taxes receivable. Property taxes are recognized as a receivable at the time an enforceable legal claim is established. This is determined to occur when the budget is certified. The current tax receivable represents the levy based on the assessed valuations as of January 1 for all real property located in the Districts. Taxes are normally billed in October and are payable in two installments on November 30 and May 30. The County Treasurer maintains, bills, and collects property taxes for the Districts; the Districts record such cash receipts when reported by the County Treasurer.

Property taxes receivable at June 30, 2014, consist primarily of delinquent property taxes from prior years’ levies and are offset by deferred revenue in the fund financial statements. The Districts do not record an allowance for uncollectible taxes because it is considered to be immaterial.

8. Capital assets. Capital assets, including land, buildings, improvements, and equipment assets, are reported in the district-wide financial statements. Capital assets are defined by the Districts as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Interest incurred during construction is not capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, improvements, and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Assets:</u>	<u>Years</u>
Buildings	20 - 75
Equipment	5 - 20
Vehicles	8

9. Compensated absences. The Districts’ employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. For governmental fund types, the amount of accumulated unpaid vacation and sick leave which is payable from available resources is recorded as a liability only if they have matured, for example, as a result of employee retirements and resignations.

The Districts, in accordance with State Law (MCA 20-9-512), can appropriate end-of-year fund balance of the General Fund and establish a Compensated Absence Liability Fund through an operating transfer from the General Fund. The purpose of this fund is to pay any accumulated sick leave and vacation leave that a non-teaching or administrative employee is entitled to upon termination of employment. Because there is not a restriction on the source of revenue for this fund it is combined with the general fund for reporting purposes.

Continued

## Harlem School Districts No. 12

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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#### NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

9. Compensated absences, continued. Such reserve may be used only for the purpose stated above (or transferred back to the general fund) and may not exceed 30% of the Districts recorded liability for accumulated sick leave, and 30% of accumulated vacation leave for non-teaching or administrative employees as of June 30, 2014. Accordingly the total reserve balance is reported as committed in the governmental funds balance sheet general fund equity section.
10. Long-term obligations. Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable, available financial resources is reported as a fund liability of a governmental fund. The entire portion of such obligation is reported in the district-wide financial statements.
11. Deferred inflows of resources. In addition to liabilities, the governmental funds balance sheet may report a separate section for deferred inflows of resources. This is a separate financial statement element representing an acquisition of net position that applies to a future period(s) and thus will not be recognized as an inflow of resources (revenue) until that time. Unavailable tax revenue is the only item the Districts have of this type. Accordingly, unavailable tax revenue, which arises only under the modified accrual basis of accounting, is reported as deferred inflows of resources on the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period the amounts become available.
12. Fund balances. The GASB Cod. 1800.165-179 *Fund Balance Reporting* defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

In the governmental fund financial statements, fund balances are reported in five classifications:

Nonspendable: Amounts that cannot be spent because they are either (1) not in spendable form (e.g. inventories and prepaid amounts) or (2) legally or contractually required to be maintained intact (e.g. the corpus or principal of a permanent fund).

Restricted: Amounts that can only be spent for specific purposes either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by constitutional provisions or enabling legislation.

Committed: Amounts that can be used only for the specific purposes pursuant to a resolution (formal action) of the School Districts' Board of Trustees (the Districts' highest level of decision-making authority) and does not lapse at year end.

Assigned: Amounts intended to be used by the government for specific purposes, under the direction of the District Clerk by authority granted by the Board of Trustees, but do not meet the criteria to be classified as restricted or committed.

Continued

## Harlem School Districts No. 12

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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#### NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

##### 12. Fund Balances, continued.

Unassigned: The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned

It is the Districts' policy, for purposes of fund balance classification, when restricted, committed, assigned or unassigned funds are available, expenditure will first be made from restricted, then from committed, then from assigned and lastly from unassigned fund balances

13. Net position. Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net investment in capital assets, represents net position in the form of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the use of assets either through enabling legislation adopted by the Districts or through external restrictions imposed by creditors, grantors, laws or regulations of other governments reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability, if the liability will be liquidated with the restricted assets reported. The Districts' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

14. Risk management. The Districts are exposed to a considerable number of risks of loss, including: (1) damage to and loss of property and contents, (2) employee torts, (3) professional liability (e.g. errors and omissions), (4) environmental damage, (5) workers' compensation, (e.g. employee injuries), (6) and medical insurance costs of employees. Commercial policies transferring the risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional liabilities. Given the lack of coverage available, the Districts have no coverage for potential losses from environmental damages.

Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

The Districts are participants in the Montana Schools Group Insurance Authority (MSGIA), Workers' Compensation Risk Retention Program, a public entity risk pool governed by schools for the benefit of schools and educational cooperatives located within the State of Montana. The Districts pay premiums on an experience-rated basis calculated actuarially to spread and moderate the costs of claims loss to each member of the pool. If the MSGIA experiences an unusually large number of losses under the workers' compensation programs during a policy year, such that notwithstanding reinsurance coverage for large individual losses, the joint insurance funds for the program may be exhausted before the next annual premiums are due, the Board of Trustees may, upon consultation with an actuary, impose premium surcharges on all participating entities, which, in total amount, will assure adequate funds to the MSGIA for the payment of all such losses.

The Districts are also participants in the Montana Schools Unemployment Insurance Program (MSUIP),

Continued

## Harlem School Districts No. 12

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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#### NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

14. Risk management, continued. sponsored by the Montana School Boards Association and the Montana Association of School Business Officials, for the benefit of schools and cooperatives located within the State of Montana. The program was created pursuant to the Montana Interlocal Cooperation Act by execution of an Interlocal Agreement. The program is responsible for reimbursing the Department of Labor for all valid unemployment benefit claims of the member school districts. Each member of the program is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program.

15. Management estimates. The preparation of financial statements in accordance with generally accepted accounting principles requires the Districts to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenditures during the reporting period. Significant estimates include the actuarial assumptions made in determining the other post-employment liability recorded under GASB 45. Actual results could vary from the estimates that were used.

#### NOTE B CASH AND CASH EQUIVALENTS

Student Extracurricular Trust funds are deposited with a local banking institution in an interest bearing checking account. At June 30, 2014, the carrying amount of the Districts' bank deposits for the fund was \$60,741, and the bank balance was \$61,674. The entire bank balance was insured by the FDIC.

The Districts utilize claims and payroll warrants clearing funds for outstanding warrants which are not reported on the financial statements due to having a zero net balance. The cash balance in these funds at June 30, 2014 was \$199,342.

#### NOTE C PROPERTY TAXES

The Districts' real property tax is levied on the assessed value listed as of January 1 for all real property located in the Districts. Assessed value is established by the State Department of Revenue based on market value. A reevaluation of all property is required to be completed on a periodic basis. Taxable value is defined by State statute as a fixed percentage of assessed value. The Districts are permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The taxes levied by the Districts for the year ended June 30, 2014, were within the legal limits.

The tax levies for the fiscal year ending June 30, 2014 were based on the taxable values of \$3,188,619 for the Elementary District and \$3,839,400 for the High School District. All property taxes are recognized in compliance with GASB Cod. P70 *Property Taxes*, which states that such revenue is recorded when it becomes measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Continued

**Harlem School Districts No. 12**

**NOTES TO THE FINANCIAL STATEMENTS**

*June 30, 2014*

**NOTE D CAPITAL ASSETS**

Capital assets balances and activity for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities				
Land & improvements	368,531	\$ -	\$ -	368,531
Buildings & improvements	11,995,923	75,027	-	12,070,950
Machinery & equipment	1,974,557	29,850	-	2,004,407
Construction in progress	-	19,500	-	19,500
Totals at historical cost	<u>14,339,011</u>	<u>124,377</u>	<u>-</u>	<u>14,463,388</u>
Less accumulated depreciation:				
Land & improvements	107,052	16,215	-	123,267
Buildings & improvements	3,059,424	287,656	-	3,347,080
Machinery & equipment	1,172,117	141,862	-	1,313,980
Total accumulated depreciation	<u>4,338,593</u>	<u>445,733</u>	<u>-</u>	<u>4,784,327</u>
Total Capital Assets, Net	<u>\$ 10,000,418</u>	<u>\$ (321,356)</u>	<u>\$ -</u>	<u>\$ 9,679,062</u>

Depreciation expense was charged as follows:

Governmental Activities	
Instruction	\$ 163,308
Instructional support services	28,747
Operations and maintenance	67,022
Student transportation	76,291
Food services	3,505
Student extracurricular	21,552
Depreciation - Unallocated	85,309
Total Depreciation	<u>\$ 445,734</u>

Continued

## Harlem School Districts No. 12

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

#### NOTE E NON-CURRENT LIABILITIES

In fiscal year 2014, the Districts entered into a capital lease agreement for an upgrade to the Districts' facilities.

Non-Current liability balances and activity for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Capital lease payable	\$ 1,085,497	\$ -	\$ 30,404	\$ 1,055,093
Compensated absences	270,833	21,082	-	291,915
Other post-employment liabilities	126,447	-	54,990	71,457
Total non-current liabilities	\$ 1,482,777	\$ 21,082	\$ 85,394	\$ 1,418,465

At June 30, 2014 the annual cash flow requirement of the lease principal and interest are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 34,193	\$ 39,566	\$ 73,759
2016	51,218	38,114	89,332
2017	56,410	36,130	92,540
2018	60,159	33,962	94,121
2019	65,881	31,635	97,516
Thereafter	787,232	139,559	926,791
Total	\$ 1,055,093	\$ 318,966	\$ 1,374,059

The accumulated compensated absences liabilities and capital lease payments will be liquidated by several of the governmental funds. Employees are allowed to accrue compensated absences indefinitely, subject to dollar limits set by state statute, and use it at their discretion.

#### NOTE F DUE FROM OTHER GOVERNMENTS

Intergovernmental balances as of June 30, 2014 were recorded as follows:

	Elementary Miscellaneous Programs Fund	High School Miscellaneous Programs Fund	Other Governmental Funds	Total
Due From:				
State of Montana	\$ -	\$ -	\$ -	\$ -
Federal agencies	4,376	25,007	3,379	32,762
Total	\$ 4,376	\$ 25,007	\$ 3,379	\$ 32,762

The amounts due from State and Federal Agencies relate primarily to grant reimbursements from award agencies.

Continued

Harlem School Districts No. 12

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE G ANALYSIS OF INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014 were made up of the following amounts:

	Transfers from:
	<u>General Fund</u>
Transfers to:	
Compensated Absences Fund (reported in General Fund)	\$ 8,451
	<u>\$ 8,451</u>

The amount transferred represented the amount appropriated to pay any accumulated sick leave and vacation leave that a non-teaching or administrative employee is entitled to upon termination of employment.

NOTE H RETIREMENT AND PENSION PLANS

The Districts participate in two multiple employer cost-sharing, defined benefit retirement plans, which cover all employees. The Teachers' Retirement System covers teaching employees, including principals and superintendents, and the Public Employees' Retirement System covers non-teaching employees. The plans are established by State law and are administered by the Department of Administration of the State of Montana.

Teachers' Retirement System (TRS)

TRS is a statewide retirement plan established by the State of Montana in 1937 and governed by Title 19, Chapter 20 of the Montana Code Annotated providing retirement services to all persons in Montana employed as teachers of professional staff of any public elementary or secondary school, college of technology or unit of the university system. TRS is a mandatory multiple-employer, cost-sharing plan administered by the Teachers' Retirement Board.

TRS provides retirement benefits and death and disability benefits. Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to 1/60 times creditable service years times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire between the ages 50 and 60 and receive reduced retirement benefits.

Funding is provided by participating units of government and their employees. The Districts' contribution to this plan for the year ended June 30, 2014 was \$277,750 (8.47% of payroll). The State of Montana contributes 2.49% of the TRS employees' monthly compensation, which is considered to be an "on behalf" payment. These payments amounted to \$81,752 for the year ended June 30, 2014, which was not recorded by the Districts. Although generally not a significant amount, the contribution is a part of the TRS funding policy. The Districts' contribution represented less than 1% of total contributions required of all participating employers. Required employee contributions to this plan were \$267,256 (8.14% of payroll). Total payroll for teaching employees was \$3,283,211. One hundred percent of the required contributions were made for the current year and the preceding two years. They were \$545,006, \$472,247, and \$448,592, for the fiscal years ending June 30, 2014, 2013, and 2012, respectively.

Continued

## Harlem School Districts No. 12

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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#### **NOTE H RETIREMENT AND PENSION PLANS, continued**

The TRS financial information is reported in the Teachers' Retirement Board's Actuarial Valuation for the fiscal year end. It is available from TRS, 1500 E. Sixth Avenue, PO Box 200139, Helena, MT 59620-0139, (406) 444-3134.

#### Public Employees' Retirement System (PERS)

PERS is a statewide retirement plan established in 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Member's rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

Funding is provided by participating units of government and their employees. The Districts' contribution to this plan for the year ended June 30, 2014 was \$57,274 (7.80% of payroll). The State of Montana contributes .37% of the PERS employees' monthly compensation, which is considered to be an "on-behalf" payment. These payments amounted to \$2,717 for the year ended June 30, 2014, which was not recorded by the Districts. Although not a significant amount, the contribution is part of the PERS funding policy. The Districts' contribution represented less than 1% of total Contributions required of all participating employers. Required employee contributions to this plan were \$58,009 (7.90% for all employees). Total payroll for employees covered by PERS was \$734,289. One hundred percent of required contributions were made for the current and preceding two years. They were \$115,283, \$105,872, and \$104,541, for fiscal years ending June 30, 2014, 2013 and 2012 respectively.

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year-end. It is available from the PERD at 100 N Park Avenue, Suite 220, PO Box 200131, Helena, MT 59620-0131, (406) 444-3154.

The Districts have adopted a 403(b) salary deferral plan (the plan) covering all eligible employees. Employees are eligible to join the plan on the date of hire. The plan allows employees to elect to have a portion of their compensation paid into the plan, there are no employer contributions. Contributions are funded monthly and the amount contributed by each employee is limited to \$17,500. For the year ended June 30, 2014, employee contributions were \$35,791.

Continued

## Harlem School Districts No. 12

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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#### **NOTE I DEFERRED COMPENSATION**

Employees of the Districts may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service For State and Local Governments).

The deferred compensation plan is available to regular employees of the Districts. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination,

retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by Security Benefit Group. In July 1998 the plan was restated to place it in compliance with The Small Business Protection Act of 1996. After that time, the assets of the plan are held by the plan trust for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of the Districts' creditors. Plan assets cannot be used by the Districts for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

#### **NOTE J NONMONETARY TRANSACTIONS**

The Districts received \$17,921 in USDA Commodities during the 2013 - 2014 fiscal year. The commodities received are valued at the average wholesale price as determined by the distributing agency. All commodities received by the Districts were treated as revenue and expense of the fund receiving the commodities.

#### **NOTE K POSTEMPLOYMENT HEALTHCARE PLAN**

The Districts provide continuation of medical coverage to its retiring employees. A retiree who retires with the Teachers' Retirement System (TRS) or the Public Employees' Retirement System (PERS) is eligible to keep the Districts' health insurance as a retiree until age 65 or until the retiree is eligible for coverage under Medicare. Retirement eligibility is determined based on a minimum of reaching age 50 with at least 5 years of membership with a TRS or PERS employer. The retiree is on the same medical plan as the Districts' active employees. There are several Retirement Incentive Programs agreements where the Districts will contribute a cap amount on behalf of the retiree if they have met the years of service agreement. Other postemployment benefits arises from these contributions and the difference in the Districts' medical insurance cost the retirees are incurring and what they would otherwise be paying on the open market for a similar plan. As required by Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the Districts have calculated and reported a postemployment benefit liability.

Plan description. The Districts' employee group benefits plan is a single-employer defined benefit healthcare plan administered by Montana Schools Health & Welfare Plans (MSHWP). MSHWP provides medical and prescription drug insurance benefits along with dental and vision insurance benefits to eligible retirees and their eligible dependents.

Continued

**Harlem School Districts No. 12**

**NOTES TO THE FINANCIAL STATEMENTS**

*June 30, 2014*

**NOTE K POSTEMPLOYMENT HEALTHCARE PLAN, continued**

Funding policy. The contribution requirement of plan members is established by the Districts' insurance committee in conjunction with our insurance provider. The required contribution is based on projected pay-as-you-go financing requirements.

Annual OPEB cost and net OPEB obligation. The Districts' annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Districts have elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Districts' annual OPEB cost for the year, the amount actually

contributed to the plan, and changes in the Districts' net OPEB obligation to the Districts' Post-Retirement Healthcare Plan:

Annual required contribution	\$ 123,924
Interest on net OPEB obligation	5,374
Adjustment to annual required contribution	<u>(5,330)</u>
 Annual OPEB cost (expense)	 123,968
Contributions made	<u>(178,958)</u>
 Decrease in net OPEB obligation	 (54,990)
Net OPEB obligation - beginning of year	<u>126,447</u>
 Net OPEB obligation - end of year	 <u>\$ 71,457</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost (AOE)</u>	<u>Estimated Contribution as a Percentage of AOE*</u>	<u>Net OPEB Obligation at End of Year**</u>
6/30/2012	\$ 136,734	75.5%	\$ 155,099
6/30/2013	\$ 134,764	121.3%	\$ 126,447
6/30/2014	\$ 123,968	144.4%	\$ 71,457

\* 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.

Continued

## Harlem School Districts No. 12

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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#### **NOTE K POSTEMPLOYMENT HEALTHCARE PLAN, continued**

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 \$1,314,393. The Districts' 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 \$4,232,652 and the ratio of the UAAL to the covered payroll was 29.2%.

The projection of future benefit payments for an ongoing plan involves 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, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 methods and assumptions used included 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 4.25% discount rate assuming the Districts will fund the retirement benefit on a pay-as-you-go basis. The valuation assumes that 45% of future retirees will elect medical coverage. The annual healthcare cost trend rate of 9.5% for medical and prescription drugs, decreasing approximately .5% per year until reaching an ultimate rate of 5.0%. It was assumed salary increases will be 2.5% annum. The UAAL is being amortized as a level percentage of projected payrolls over a thirty year time period.

#### **NOTE L SUBSEQUENT EVENTS**

Management has performed an analysis of the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclose within the audited financial statements for the year ended June 30, 2014. Management has performed this analysis through December 17, 2014, the date the financial statements were available to be issued. No additional disclosures were required.

Concluded

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REQUIRED SUPPLEMENTARY INFORMATION

## Harlem School Districts No. 12

### BUDGETARY COMPARISON SCHEDULE for the year ended June 30, 2014

GENERAL FUND				
	Original	Final	Actual Amounts	Variances
<b>REVENUES</b>				
Property taxes	\$ 243,501	\$ 243,501	\$ 231,954	\$ (11,547)
State sources	3,365,596	3,391,659	3,392,530	871
Investment earnings	1,655	1,655	911	(744)
Total revenues	3,610,752	3,636,815	3,625,395	(11,420)
<b>EXPENDITURES</b>				
Instruction	2,446,504	2,472,567	2,473,155	588
Student support services	227,939	227,939	227,971	32
Instructional support services	171,010	171,010	171,169	159
General administration	118,124	118,124	118,101	(23)
School administration	291,347	291,347	291,668	321
Business services	95,009	95,009	94,366	(643)
Operations and maintenance	59,499	59,499	59,293	(206)
Food services	69,519	69,519	69,916	397
Extracurricular activities	120,669	120,669	121,615	946
Capital outlay	6,158	6,158	4,979	(1,179)
Total expenditures	3,605,778	3,631,841	3,632,233	392
Excess (deficiency) of revenues over expenditures	4,974	4,974	(6,838)	(11,812)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	(8,951)	(8,951)	(8,451)	500
Total other financing sources and uses	(8,951)	(8,951)	(8,451)	500
Net change in fund balance	\$ (3,977)	\$ (3,977)	(15,289)	\$ (11,312)
Fund balance, beginning, general fund only			299,810	
Fund balance, ending, general fund only			284,521	
Elementary compensated absences fund balance			21,566	
High school compensated absences fund balance			9,859	
Elementary impact aid fund balance			3,219,887	
High school impact aid fund balance			1,131,751	
Total non-budgeted fund balances, reported in general fund			4,383,063	
Total reported in general fund			\$ 4,667,584	

**Harlem School Districts No. 12**

**NOTES TO BUDGETARY COMPARISON SCHEDULE**

*June 30, 2014*

**NOTE A BUDGETED FUNDS**

State Law requires that Harlem School Districts No. 12 (the Districts) adopt budgets for certain funds, generally those supported by property taxes. Budgeted and non-budgeted funds are as follows:

<u>Fund</u>	<u>Budgeted</u>	<u>Non-Budgeted</u>
Comprise General Fund for Reporting Purposes		
General	X	
Compensated Absences		X
Impact Aid		X
Special Revenue:		
Transportation	X	
Bus Depreciation	X	
Retirement	X	
Tuition	X	
Adult Education	X	
Technology	X	
Flexibility	X	
Food Services		X
Miscellaneous Programs		X
Traffic Education		X
Lease Rental		X
Debt Service:		
Debt Service	X	
Capital Projects:		
Building Reserve	X	
Fiduciary Fund Types		
Student Extracurricular Fund		X

**NOTE B BUDGETARY BASIS**

The Districts' budgets are prepared on the budget basis (modified accrual basis, including encumbrances) of accounting, which results in accounting for certain transactions on a basis other than generally accepted accounting principles (modified accrual). The Districts' accounting records are maintained on the basis of cash receipts and disbursements during the year. At year-end, certain adjustments are made to the Districts' accounting records to reflect the basis of accounting described above. Reported budget amounts represent the originally adopted budget and the final budget, which includes amendments (of which the Districts has none). Total fund expenditures may not legally exceed the budgeted expenditures. The budget lapses at the end of each year. Results of operations, on the budget basis of accounting, are presented for budgeted major funds in the budgetary comparison schedule, to provide a meaningful comparison of actual results with the budget.

General fund budgets are based on the State of Montana's Foundation Program, which is based primarily on enrollment. Budgets of other funds are based on expected receipts and expenditures. Budgeted fund expenditures are limited by State law to budgeted amounts, which may be amended for emergencies as defined by State law.

Continued

**Harlem School Districts No. 12**

**NOTES TO BUDGETARY COMPARISON SCHEDULE**

*June 30, 2014*

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**NOTE B BUDGETARY BASIS, continued**

Budget authority may be transferred between expenditure classifications within the same fund.

The Districts' general fund includes, for GAAP reporting purposes, the Elementary and High School Impact Aid funds and the Elementary and High School Compensated Absences funds. Because the revenues of these funds are not restricted or committed to any specific function, they can be used in general for most education costs. However, these funds are not budgeted funds and are excluded from the General Fund Budgetary Comparison Schedule.

On the second Monday in August, the Board of Trustees must meet to legally adopt the final budget. Upon adoption of the final budget, expenditures and operating transfers are limited to the total fund budget. Unexpended and unencumbered appropriations lapse at year-end. Under State Law and Districts Policy, management may amend the budget without seeking Board approval as long as the total individual fund budget is not exceeded. Individual fund budgets may only be increased with Board approval, in a manner prescribed by State Law (MCA 20-9-161).

**Harlem School Districts No. 12**

**SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN**  
*June 30, 2014*

Fiscal Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial (AAL) - Simplified Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2012	July 1, 2009	\$ -	\$1,470,668	\$ 1,470,668	0.0%	\$ 4,057,232	36.2%
June 30, 2013	July 1, 2012	\$ -	\$1,314,393	\$ 1,314,393	0.0%	\$ 4,104,460	32.0%
June 30, 2014	July 1, 2012	\$ -	\$1,235,150	\$ 1,235,150	0.0%	\$ 4,017,499	30.7%

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SUPPLEMENTAL INFORMATION

**Harlem School Districts No. 12**

**SCHEDULE OF REPORTED ENROLLMENT**  
*for the year ended June 30, 2014*

	<u>Per Enrollment Reports</u>	<u>Per Audit of District Records</u>
<b>FALL ENROLLMENT - October, 2013</b>		
<u>Elementary School District:</u>		
K-5:		
Kindergarten	60	60
Grades 1-6	276	276
	<u>336</u>	<u>336</u>
Grades 7-8	90	90
Total	<u>426</u>	<u>426</u>
<u>High School District:</u>		
Grades 9-12	<u>157</u>	<u>157</u>
<b>WINTER ENROLLMENT - December, 2013</b>		
<u>Elementary School District:</u>		
K-5:		
Kindergarten	61	61
Grades 1-6	277	277
	<u>338</u>	<u>338</u>
Grades 7-8	90	90
Total	<u>428</u>	<u>428</u>
<u>High School District:</u>		
Grades 9-12	<u>155</u>	<u>155</u>
<b>SPRING ENROLLMENT - February, 2014</b>		
<u>Elementary School District:</u>		
K-5:		
Kindergarten	61	61
Grades 1-6	277	277
	<u>338</u>	<u>338</u>
Grades 7-8	90	90
Total	<u>428</u>	<u>428</u>
<u>High School District:</u>		
Grades 9-12	<u>157</u>	<u>157</u>

**Harlem School Districts No. 12**

**EXTRACURRICULAR FUND-SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN NET POSITION**  
*for the year ended June 30, 2014*

	Balance			Transfers	Balance
	July 1, 2013	Receipts	Disbursements	In (Out)	June 30, 2014
21st Century	\$ 90	\$ 1,127	\$ (965)	\$ -	\$ 252
American Indian Bus. Leaders	130	-	-	-	130
Annual	1,429	2,157	(1,856)	-	1,730
Athletics	14,722	32,116	(39,894)	-	6,944
Cheerleaders	1,534	111	-	-	1,645
Class of 2014	4,126	41	(2,945)	-	1,222
Class of 2015	3,520	5,526	(5,064)	-	3,982
Class of 2016	1,254	2,900	(330)	-	3,824
Class of 2017	248	-	(50)	-	198
Class of 2018	100	3,208	(2,890)	-	418
Class of 2019	-	4,328	(3,369)	-	959
Elementary Student Association	3,277	4,394	(4,920)	-	2,751
Elementary Box Tops	713	446	-	-	1,159
FCCLA	196	2,027	(2,088)	-	135
FFA	3,200	7,318	(7,706)	-	2,812
Greenhouse	6,944	5,491	(6,445)	-	5,990
H-Club	4,947	12,169	(7,963)	-	9,153
Honor Society	75	630	(499)	-	206
Indian Club	3,788	8,635	(8,815)	-	3,608
Music	248	4,254	(4,032)	-	470
Student Council	2,771	1,669	(905)	-	3,535
TSA	7,983	8,319	(9,398)	-	6,904
Wildcat Dance Troupe	1,528	1,451	(265)	-	2,714
	<u>\$ 62,823</u>	<u>\$ 108,317</u>	<u>\$ (110,399)</u>	<u>\$ -</u>	<u>\$ 60,741</u>

**Harlem School Districts No. 12**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*for the year ended June 30, 2014*

	<u>Program Number</u> <u>(if available)</u>	<u>Federal</u> <u>CFDA</u>	<u>Total</u> <u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
<i>Passed through the Montana Office of Public Instruction:</i>			
Food Donation (School Food Commodity Program)		10.555	\$ 17,921
School Lunch Program		10.555	298,630
Total Child Nutrition Cluster			<u>316,551</u>
Fresh Fruit and Vegetable Program		10.582	20,339
Total U.S. Department of Agriculture			<u>336,890</u>
<u>U.S. Department of Education</u>			
<i>Direct Programs:</i>			
Title VIII: Impact Aid - PL-874	36-MT-20XX-0717	84.041	1,319,724
Title VIII: Impact Aid - PL-874	36-MT-20XX-0718	84.041	579,924
Title VIII: Impact Aid, Discretionary Construction Program	S041C1300009	84.041C	19,500
Total Impact Aid Cluster		84.041	<u>1,919,148</u>
ESEA Title VII, Part A, Subpart 1: Indian Education	S060A120694	84.060A	123,444
ESEA, Title X, Small Rural Schools	S358A123737	84.358A	9,472
<i>Subtotal - Total Direct Programs</i>			<u>2,052,064</u>
<i>Passed through the Montana Office of Public Instruction:</i>			
ESEA Title I, Part A: Schoolwide 13-14	0300303214	84.010A	290,883
Total Title I, Part A Cluster			<u>290,883</u>
ESEA Title III, Part A English Language Acquisition	0300303214	84.365A	49,433
ESEA Title II, Part A Improving Teacher Quality	0300303214	84.367	63,274
Title VI, Part B, 21st Century Community Learning Centers	300311714	84.287	51,749
Carl D. Perkins Basic Grants	300318114	84.048A	14,607
<i>Passed through Bear Paw Cooperative:</i>			
IDEA Part B: Handicapped		84.027A	40,000
<i>Passed through the office of the commissioner of Higher Education of the Montana University System</i>			
Gaining Early Awareness & Readiness Undergraduate Programs (Gear-Up)	610-014	84.334	56,418
Gaining Early Awareness & Readiness Undergraduate Programs (Gear-Up)	Summer School	84.334	7,979
Total Gear-Up			<u>64,397</u>
<i>Subtotal -Pass-through Programs</i>			<u>574,343</u>
Total U.S. Department of Education			<u>2,626,407</u>
Total Federal Award Programs			<u>\$ 2,963,297</u>

## Harlem School Districts No. 12

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2014

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#### **NOTE A BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Harlem School Districts No. 12 (the Districts) and is presented on the modified accrual basis of accounting including encumbrances, of which the Districts have none. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations.*" Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

#### **NOTE B NONMONETARY TRANSACTIONS**

Nonmonetary assistance is reported for the U.S.D.A. Commodities Program at the fair market value of \$17,921 commodities received, which is established by the Montana Office of Public Instruction. The Districts held an undetermined amount of these commodities in inventory at June 30, 2014.

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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*

Board of Trustees  
Harlem School Districts No. 12  
PO Box 339  
Harlem, MT 59526

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harlem School District No. 12 (the Districts) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Districts' basic financial statements as referenced in the table of contents, and have issued our report thereon dated December 17, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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. We did not identify any deficiencies in internal control. 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.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Districts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing*

*Standards.*

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 Districts' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Districts' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Galusta, Higgins & Galusta, PC". The signature is written in a cursive, flowing style.

Havre, Montana  
December 17, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees  
Harlem School Districts No. 12  
PO Box 339  
Harlem, MT 59526

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Harlem School District No. 12's (the Districts) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Districts' major federal programs for the year ended June 30, 2014. The Districts' 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 each of its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Districts' 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 U.S. Office of Management and Budget 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 Districts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Districts 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, 2014.

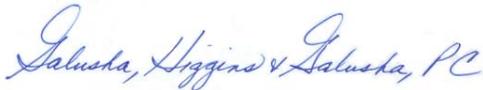
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Districts is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the Districts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing our 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 Districts' 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



Havre, Montana  
December 17, 2014

Harlem School Districts No. 12

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2014

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
Significant deficiencies identified that are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

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 section 510(a) of Circular A-133? Yes No

Identification of major programs:

Table with 2 columns: CFDA Number and Name of Federal Program or Cluster. Rows include 10.555 Child Nutrition Cluster and 84.041 Impact Aid Cluster.

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

Auditee qualified as low-risk auditee? Yes No

**Harlem School Districts No. 12**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

*June 30, 2014*

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**Section II Findings Reported in Accordance with GAGAS**

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**None**

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**Section III Federal Award Findings and Questioned Costs**

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**None**

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**Schedule of Prior Year Findings**

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2013-001 Internal controls over recording of capital lease and related capital asset acquisitions

Resolved.