

**HARLOWTON SCHOOL DISTRICT NO. 16**

**WHEATLAND COUNTY  
HARLOWTON, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2014**

**Strom & Associates, P. C.**

**PO BOX 1980  
Billings, Montana 59103**

Harlowton School District No. 16  
Wheatland County  
Harlowton, Montana 59452

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Harlowton School District No. 16  
Wheatland County  
Harlowton, Montana 59452

ORGANIZATION

BOARD OF TRUSTEES

Ken Berg	Chair
Jodi Tierney	Vice Chair
John Dietrich	Trustee
James Lane	Trustee
Julie Power	Trustee
Travis Schuchard	Trustee
Wayne Butts	Trustee

OFFICIALS

Andrew Begger	Superintendent
Lynn Lewis	District Clerk
Susan Beley	County Superintendent
Linda Hickman	County Attorney

## Management's Discussion and Analysis

### Introduction

This section of the Harlowton School District Financial Statements presents the management's discussion and analysis of both districts (elementary and high school) financial performance during the fiscal year (FY) ending June 30, 2014. This narrative overview and analysis of the financial activities of the Harlowton District includes a comparison of prior year financial statements as per compliance with Governmental Accounting Standards Board Statement #34. Readers of the management's discussion and analysis are encouraged to consider the information presented in this section as well as other areas of the financial statements.

### Financial Highlights

- ✦ The Harlowton School District assets exceeded the district liabilities at the close of the FY 2014 by \$1,800,400. The district had \$1,659,813 of governmental assets and \$140,587 of business type assets.
- ✦ The overall revenues from all sources for the Harlowton School District for FY 2014 were \$3,847,910 which represented a .42% increase from the previous year.
- ✦ State sources of revenue increased 1.96% or \$25,664 in FY 2014 and remained the second largest source of revenue for the district.
- ✦ Property taxes collected at the local level increased by 7.09% or \$101,792 in FY 2014 and remained the largest source of revenue for the district.
- ✦ Revenue from operating grants and contributions was down 13.68% or \$91,667 for FY 2014 and remained the third largest source of revenue for the district.
- ✦ Approximately 34.7% of the total Harlowton School District revenue was collected from state aid in FY 2014 compared to 35.1% in FY 2013. Property taxes provided 39.9% of the district revenue in FY 2014 and 39.7% of the district revenue in FY 2013.
- ✦ The Harlowton School District expenses for FY 2014 were \$3,755,843 which represents a 1.22% increase from FY 2013.
- ✦ The Harlowton School District revenues exceeded expenses in FY 2014 by \$92,067 for governmental and business-type activities.
- ✦ The largest increases in district expenses were \$150,516 for food services and \$116,138 for instruction. The largest decreases were \$208,749 for operation & maintenance and \$91,583 for extracurricular activities.
- ✦ The district had total governmental fund balances of \$1,063,890 at the end of FY 2014 which was a 39% increase from FY 2013.

- ✦ The overall financial position of the Harlowton School District is very strong with continued improvement in FY 2014.

### **Overview of the Harlowton School District Financial Statements**

The management's discussion and analysis report is intended to serve as an introduction to the basic financial statements of the Harlowton K-12 Schools. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. It also, contains other supplementary information in addition to the basic financial statements.

### **Government-wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the Harlowton School District finances in a manner similar to a private-sector business. This broad overview will be accomplished using a *statement of net position* and a *statement of activities*. Each statement will distinguish between governmental and business type activities and between the total governmental and business type activities of the school district.

The *statement of net position* presents information on all of the assets and liabilities of the Harlowton School District, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Harlowton School District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Harlowton School District principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Most services normally associated with school government fall into the governmental activity category including instruction, support services, general, school and business administrative services, operation and maintenance, student transportation, community services, and other expenditures. The Harlowton School District does operate a business-type activity which is a movie theater.

### **Fund-based Financial Statements**

Fund-based financial statements, consisting of a series of statements, provide information about government's major and non-major governmental funds. These governmental fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The governmental fund statements consist of the balance sheet and statement of revenues, expenditures, and change in fund balance.

A *fund* is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The Harlowton District, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Harlowton District can be divided into three categories: governmental, proprietary, and fiduciary funds.

### **Governmental funds**

*Governmental funds* are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term *inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the near-term financing decisions of the Board of Trustees of the Harlowton Schools. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Harlowton Elementary and High School District are recognized by state law as separate entities, but for the purposes of this discussion are combined. Major governmental funds are reported separately and all other funds are combined for this report. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and High School Bus Depreciation Fund because they were the major funds for FY 2014. The other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Harlowton District adopts an annual appropriated budget for its general funds, select special revenue, debt service, and building reserve funds as required by state law. A budgetary comparison is provided for all budgeted funds later in this report.

### **Proprietary funds**

Proprietary funds statements offer short-term and long-term financial information about the activities the District may operate similar to business. Enterprise funds account for activities for which a fee is charged to external users and internal service funds account for activities that provide goods or services to other funds. The Harlowton District does have proprietary funds associated with the district's movie theater. The district operates a movie theater every other week which is staffed by students. Students are not paid for their work, but can apply for scholarships after graduation from the district. The movie theater generated \$20,921 in revenue along with

\$34,300 of expenses (a negative change of \$13,379) which caused the net position of the theater to decrease to \$140,587 in FY 2014.

### **Fiduciary funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds may include pension and employee benefit trust funds where resources are held in trust for employee benefit plans. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the programs of the Harlowton School District. Student activity accounts and scholarship trusts are the most common fiduciary funds in school district. The Harlowton School District has fiduciary funds in their Student Activity Account Fund and Private Purpose Trust Fund.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that can be very helpful to a full understanding of the data provided in the government-wide and fund financial statements and can be found later in this report.

### **Other information**

In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* concerning the official student enrollment and federal grant audit reports.

### **District-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the financial position of the district. In the case of the Harlowton School District, assets exceeded liabilities by \$1,800,400 at the close of FY 2014. Net position (governmental & business type activities) for the district at the end of FY 2014 showed a 6.37% increase from the close of FY 2013. Current and other assets increased by 1.75% while capital assets increased by 15.57% in FY 2014. Total liabilities increased by 1.2% due to an increase in long-term liabilities. The net position of the district increased 6.37% during FY 2014 after an asset increase of 5.85% and a liability increase of 1.2%. The charts on the following page present information on the district net position for FY 2013 and FY 2014.

### **Overall Financial Position of the District in FY 2014**

The overall financial position of the Harlowton School District at the end of FY 2014 was very strong and continued to show improvement. The total net position of the district including governmental and business type activities increased 6.37% during FY 2014 after an asset increase of 5.85% and a liability increase of 1.2%. The increase in assets was the result of an increase in capital assets of 15.7% and an increase in current assets of 1.75%. Capital assets increased \$86,911 after depreciation was subtracted and the current assets increased \$23,233. The district did add capital assets in the elementary district of \$9,865 which consisted of one half the cost of a plasma cutter & table along with capital assets in the high school of \$156,849 which consisted of one half the cost of the plasma cutter (\$9,865), a Blue Bird bus (\$128,750), sprinkler for the football field (\$6,789), a van for the food service (\$6,000), and ovens for the food service (\$5,444). The major funds of the of the district showed the following changes in FY 2014: the

General Fund balance increased \$247,252 or 136% and the High School Bus Depreciation Fund decreased \$24,664 or 14%. The overall fund balances in the district increased \$300,239 or 39% during FY 2014.

**Net Position of Governmental Activities**

	Governmental Activities			
Assets	FY 2013	FY 2014	Change	% Change
Current and Other Assets	\$1,198,080	\$1,274,339	\$76,259	6.37%
Capital Assets	\$531,530	\$578,993	\$47,463	8.93%
Total Assets	\$1,729,610	\$1,853,332	\$123,722	7.15%
Liabilities				
Current Liabilities	\$37,628	\$13,202	(\$24,426)	-64.91%
Non-Current Liabilities	\$153,408	\$180,317	\$26,909	17.54%
Total Liabilities	\$191,036	\$193,519	\$2,483	1.30%
Net Position				
Investment in Capital Assets Net of Related Debt	\$531,530	\$578,993	\$47,463	8.93%
Restricted	\$681,938	\$778,233	\$96,295	14.12%
Unrestricted	\$325,106	\$302,587	(\$22,519)	-6.93%
Total Net Position	\$1,538,574	\$1,659,813	\$121,239	7.88%

**Net Position of Business-type Activities (Theater)**

	Business-type Activities			
Assets	FY 2013	FY 2014	Change	% Change
Current and Other Assets	\$127,356	\$74,330	(\$53,026)	-41.64%
Capital Assets	\$26,809	\$66,257	\$39,448	147.14%
Total Assets	\$154,165	\$140,587	(\$13,578)	-8.81%
Liabilities				
Current Liabilities	\$200	\$0	(\$200)	-100.00%
Non-Current Liabilities	\$0	\$0	\$0	0%
Total Liabilities	\$200	\$0	(\$200)	-100.00%
Net Position				
Investment in Capital Assets Net of Related Debt	\$26,609	\$66,257	\$39,648	149.00%
Restricted	\$0	\$0	\$0	0%
Unrestricted	\$127,356	\$74,330	(\$53,026)	-41.64%
Total Net Position	\$153,965	\$140,587	(\$13,378)	-8.69%

### Net Position for Governmental and Business Activities FY 2014

	Governmental Activities	Business Activities	Total	Percent Change
	FY 2014	FY 2014	FY 2014	2013 to 2014
Current and Other Assets	\$1,274,339	\$74,330	\$1,348,669	1.75%
Capital Assets	\$578,993	\$66,257	\$645,250	15.57%
Total Assets	\$1,853,332	\$140,587	\$1,993,919	5.85%
Liabilities				
Current Liabilities	\$13,202	\$0	\$13,202	-65.10%
Long-term Liabilities	\$180,317	\$0	\$180,317	17.54%
Total Liabilities	\$193,519	\$0	\$193,519	1.19%
Net Position				
Investment in Capital Assets Net of Related Debt	\$578,993	\$66,257	\$645,250	15.61%
Restricted	\$778,233	\$0	\$778,233	14.48%
Unrestricted	\$302,587	\$74,330	\$376,917	-17.09%
Total net position	\$1,659,813	\$140,587	\$1,800,400	6.37%

A large portion of the net position of the Harlowton District at the close of FY 2014 (35.8%) reflects the investment by the school district in capital assets such as land, buildings, machinery, and equipment. The capital assets of the Harlowton District have no related debt. The Harlowton School District uses these capital assets to provide educational and related services to students; and as a result, these assets are not available for future spending.

Another portion of the net position of the Harlowton School District (20.9% or \$376,917) represents *unrestricted assets* which may be used to meet the ongoing obligations of the school district to citizens and creditors. The unrestricted funds decreased from FY 2013 to FY 2014 by 17.1% (\$75,545). The remaining portion of the District's net position represents *restricted assets* which can only be used for a specific purpose. The District's restricted assets increased by \$96,295 from FY 2013 to FY 2014. The Harlowton School District was able to report a positive balance for both the government as a whole, as well as for governmental activities and business type activities. The Harlowton School District's net position increased \$107,861 or 6.37% during FY 2014. This increase in net position positively impacts the already strong financial position of the district.

#### Governmental and Business Type activities

Governmental activities net position increased by 7.88% or \$121,239 during FY 2014. The district's business type activities (Movie Theater) decreased \$13,378 in FY 2014. The result was a 6.37% increase in net position for the District in FY 2014.

### District Wide - Statement of Activities

	Governmental & Business-type Activities		Change	% Change
	FY 2013	FY 2014		
Program revenues:				
Charges for Services	\$73,777	\$77,223	\$3,446	4.67%
Operating Grants & Contributions	\$670,251	\$578,584	(\$91,667)	-13.68%
General revenues				
Property taxes	\$1,435,073	\$1,536,865	\$101,792	7.09%
Interest	\$2,384	\$1,306	(\$1,078)	-45.22%
State	\$1,309,017	\$1,334,681	\$25,664	1.96%
County	\$273,891	\$273,310	(\$581)	-0.21%
Gain or Loss on Sale of Assets	\$0	\$5,059	\$5,059	100.00%
All other	\$67,264	\$40,882	(\$26,382)	-39.22%
<b>Total Revenues</b>	<b>\$3,831,657</b>	<b>\$3,847,910</b>	<b>\$16,253</b>	<b>0.42%</b>
Expenses:				
Instruction	\$1,989,532	\$2,105,670	\$116,138	5.84%
Administration	\$423,947	\$502,097	\$78,150	18.43%
Operation and Maintenance	\$539,323	\$330,574	(\$208,749)	-38.71%
Student Transportation	\$202,380	\$188,845	(\$13,535)	-6.69%
Food Services	\$122,203	\$272,719	\$150,516	123.17%
Extracurricular	\$260,899	\$169,316	(\$91,583)	-35.10%
Support Services	\$55,294	\$43,457	(\$11,837)	-21.41%
Other Current Charges	\$0	\$1,000	\$1,000	100.00%
Educational Media	\$88,577	\$107,865	\$19,288	21.78%
OPEB	\$11,419	\$0	(\$11,419)	-100.00%
Theater	\$17,065	\$34,300	\$17,235	101.00%
<b>Total expenses</b>	<b>\$3,710,639</b>	<b>\$3,755,843</b>	<b>\$45,204</b>	<b>1.22%</b>
Increase (Decrease) in net position	\$121,019	\$92,067	(\$28,952)	-23.92%
Prior Period Adjustment	(\$3,476)	\$15,795	\$19,271	-554.40%
Beginning Net Position	\$1,574,996	\$1,692,539	\$117,543	7.46%
Ending Net Position	\$1,692,539	\$1,800,401	\$107,862	6.37%

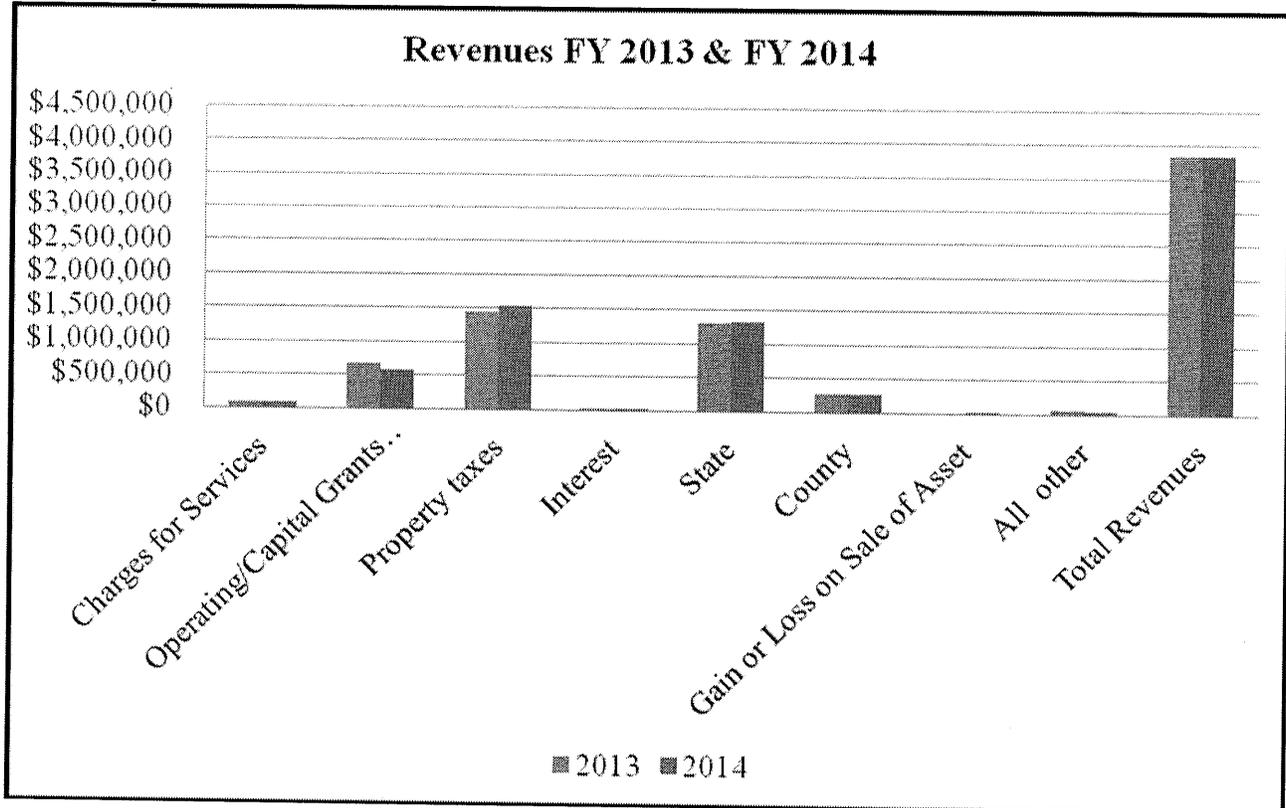
#### Changes in district wide activities from FY 2013 to FY 2014 include:

The highlights listed below are shown in the chart above.

- ✦ Total revenues for the district were up .42% or \$16,253.
- ✦ Total expenses for the district were up 1.22% or \$45,204.
- ✦ Revenue from property taxes increased by 7.09% or \$101,792.
- ✦ State revenue was up 1.96% or \$25,664 and county revenue was down .21% or \$581.
- ✦ Revenue from charges for services was up 4.67% or \$3,446 in FY 2014.

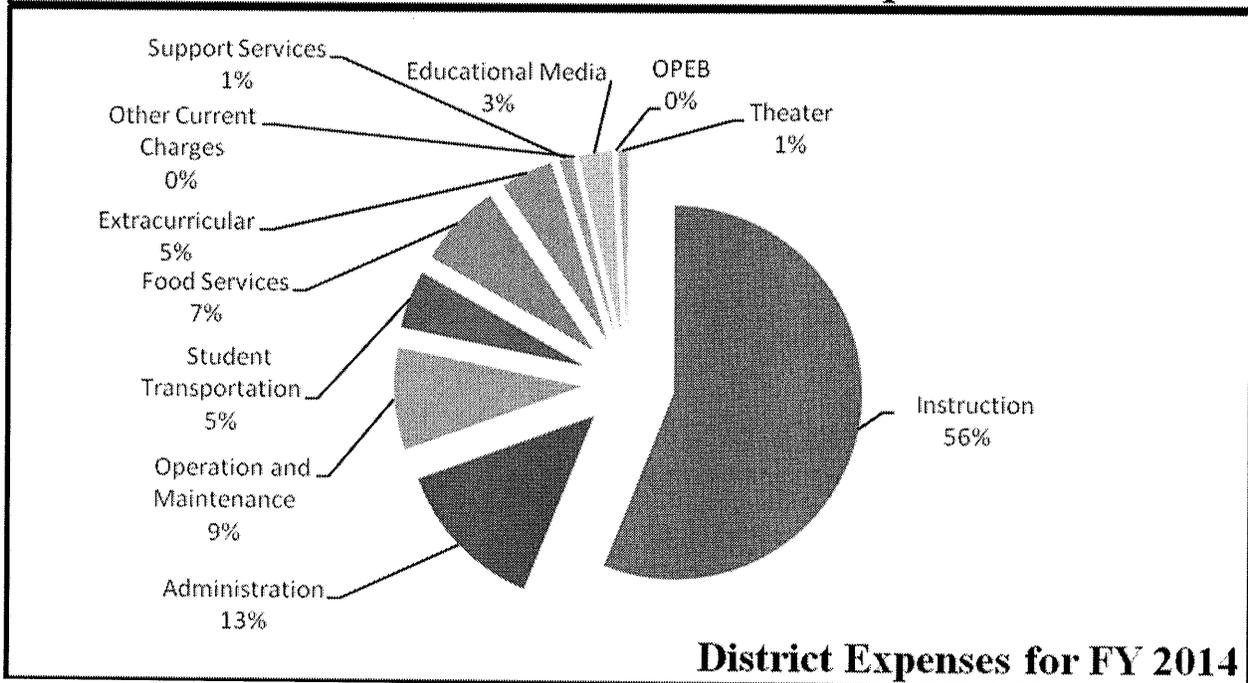
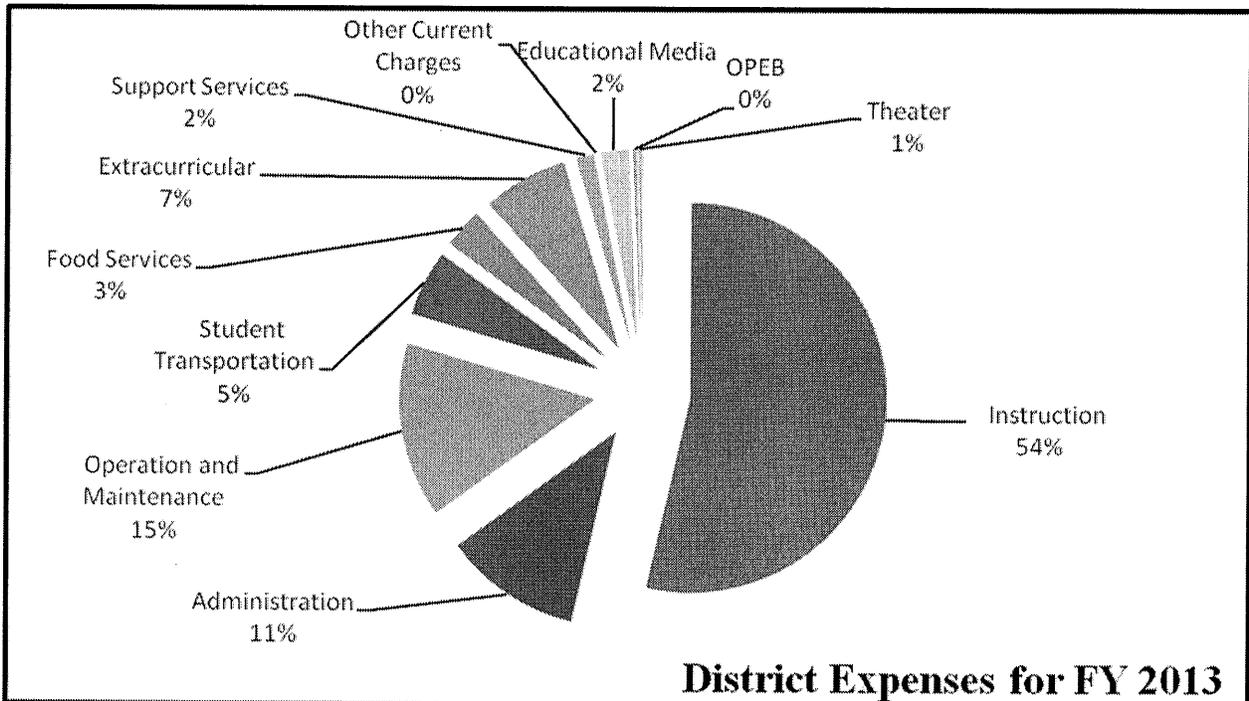
- ✚ Interest earnings decreased by 45.2% or \$1,078.
- ✚ The district instruction expenses were up 5.84% or \$116,138.
- ✚ Administration and business expenses were up 18.4% or \$78,150.
- ✚ Student Transportation expenses decreased by 6.7% or \$13,535.
- ✚ Operation and maintenance costs were down \$208,749 or 38.7%.
- ✚ Food services expenditures were up \$150,516 or 123%.
- ✚ Revenue from operating/capital grants and contributions were down 13.68% or \$91,667.
- ✚ Support service expenses were down 21.4% or \$11,837.
- ✚ Educational media expenses were up \$19,288 or 21.8%.
- ✚ Extracurricular expenses were down 35.1% or \$91,583.
- ✚ The district showed a positive balance of \$92,067 when expenses were subtracted from revenues.
- ✚ Net position for the district increased 6.37% in FY 2014 and was \$1,800,401.

### Revenue by Source – Governmental Activities



The bar graph presented above shows that property taxes were the largest source of revenue for the Harlowton district in FY 2014 followed by revenue from state sources and operating grants & contributions. The major changes from FY 2013 to FY 2014 were increases in property tax revenue, state revenue, and charges for services revenue along with decreases in operating grants and contributions, county revenue, all other revenue, and interest revenue. Total revenue increased in FY 2014 for the district. Generally, since state law requires levied fund budgets to be “balanced,” the changes in expenditures matched the changes in the revenues of these funds.

**District Expenses** - The following charts present the district expenses by category.



The pie graphs (shown above) for district expenses show the allocation of resources for specific purposes in FY 2013 and FY 2014. The graphs illustrates the major expenditure areas, with instruction costs accounting for 54% & 56% of the district expenses, operation & maintenance accounting for 15% and 9%, administration was 11% and 13%, food services 3% and 7%, extracurricular was 7% and 5%, and student transportation 5% and 5% of the district expenses. The major changes for FY 2014 were instruction up 2%, operation & maintenance down 6%, extracurricular was down 2%, food service up 4%, and administration up 2%.

## **Financial Analysis of the Government's Funds**

Fund accounting is mandated by Montana State law and is used by the Harlowton School District to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental funds**

The focus of the *governmental funds* of the Harlowton School District is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the financial requirements of the school district. In particular, *unassigned fund balance* may serve as a useful measure of the net resources available for spending at the end of the year. At the end of FY 2013, the governmental funds of the school district reported a combined ending fund balance of \$763,651 and at the end of FY 2014 the fund balance was \$1,063,890 which represents a 39% increase. Approximately 36.3% of this total amount constitutes *unassigned fund balance*, which is available for spending at the discretion of the Board of Trustees. The general fund is the main operating fund of the Harlowton School District. At the end of FY 2013, the General Fund had a balance of \$181,731 and at the close of FY 2014 the balance was \$428,983 which was a 136% increase. The General Fund unassigned balance was \$388,984 for FY 2014. The total fund balances in the district increased \$300,239 from the end of fiscal year 2013 to the end of the fiscal year 2014 which was a 39% increase.

### **Governmental Fund Financial Statements**

Fund-based financial statements, consisting of a series of statements, provide information about the government's major and non-major funds. Governmental fund financial statements were prepared using the current financial resources measurement focus and modified accrual basis of accounting. The governmental funds balance sheet for FY 2014 is comprised of major funds and all other funds. The General Fund and High School Bus Depreciation Fund were the major funds in FY 2014. The Other Funds category includes the remainder of the governmental district funds. The governmental balance sheet for FY 2014 demonstrates that the Harlowton School District is in excellent financial condition. The district has considerable amounts of cash and investments in the general fund and the other major fund which make up 55% of the total fund balances in FY 2014. The district has a minimal amount of liability attached to these same funds. The Harlowton District fund balances would seem to be strong enough to resolve any reasonable financial situation that might occur.

### **Statement of Revenues, Expenditures, and Changes in Fund Balances**

The statement of revenues, expenditures, and changes in fund balances presents revenue and expenditures in each of the major fund categories. The major fund categories in FY 2014 were the General Fund and High School Bus Depreciation Fund. The other funds category includes all the remaining governmental funds that the district is utilizing. State Aid is the major revenue source for the district general fund category at 52% (56.1% in FY 2013) followed by the property tax revenue at 48% (43.6% in FY 2013) in FY 2014. The major expenditure in the general fund is instruction. Instruction expenditures make up 59% (59.2% in FY 2013) of the general fund total cost for FY 2014. Administration followed by operation and maintenance rank 2 & 3 for general fund expenditures in FY 2014. The total fund balances in the district increased 39% from FY 2013 to FY 2014.

### General Fund Budgetary Highlights

The general fund budgetary highlights for the elementary and high school district in FY 2014 included more revenue and lower expenditures than was expected in the original budget for both district. The elementary district received \$79,420 and the high school \$60,167 more in total revenue in the general fund than was expected in the original budget. The district levies were largely responsible for the additional revenue actually collected over the original and final budget (\$81,594 more in the elementary district and \$62,432 more in the high school district). Actual expenditures were \$68,316 less than was expected in the original/final budget with \$41,499 less in the elementary and \$26,819 less in the high school. The difference in actual revenue over expenditures was positive \$120,558 in the elementary and a positive \$86,986 in the high school district which resulted in a positive increase of \$207,965 in the general fund.

### Capital Asset and Debt Administration Capital assets

The investment by the Harlowton School District in capital assets for governmental and business-type activities as of June 30, 2014, was \$645,250 after depreciation was subtracted. This investment in capital assets included land, building improvements, buildings, furniture, and equipment. The value of the capital assets for the Harlowton District showed a 15.5% increase for FY 2014 when compared to FY 2013. The district did add capital assets in the elementary district of \$9,865 which consisted of one half the cost of a plasma cutter & table along with capital assets in the high school of \$156,849 which consisted of one half the cost of the plasma cutter (\$9,865), a Blue Bird bus (\$128,750), sprinkler for the football field (\$6,789), a van for the food service (\$6,000), and ovens for the food service (\$5,444). The district also had \$66,257 of capital assets associated with the movie theater business type activity. The table below shows the value and details of the district capital assets from FY 2013 through FY 2014.

### Capital Assets of the Harlowton School District

Capital Assets	Governmental Activities		Business Activities		
	Balance June 30, 2013	Balance June 30, 2014	Balance June 30, 2014	Total Capital Assets June 30, 2014	Percent Change
Land	\$41,098	\$41,098		\$41,098	0.00%
Buildings & Improvements	\$1,068,164	\$1,068,164		\$1,068,164	0.00%
Machinery/Equipment	\$1,019,005	\$1,185,720		\$1,185,720	16.36%
Totals at Historical Cost	\$2,128,267	\$2,294,982	\$66,257	\$2,294,982	7.83%
Total Accumulated Depreciation	(\$1,596,737)	(\$1,715,989)		(\$1,715,989)	7.47%
Capital Assets net of Depreciation	\$531,530	\$578,993	\$66,257	\$645,250	15.5%

### **Long-term debt**

At the end of FY 2014, the Harlowton School District had no bonded debt outstanding. The district did have liabilities of \$136,424 for compensated absences of employees and Other Post-Employment Benefits of \$57,095.

### **Economic Factors and Fiscal Year Budgets for 2013 & 2014**

- ✦ The population of Wheatland County decreased 1.6% or about 34 residents from April 1, 2010 to July 1, 2013. This compares to the Montana average of a 2.6% increase.
- ✦ Residents of Wheatland County under the age of 18 made up 23.3% of the population in 2013 compared to Montana's 22.1% in 2013.
- ✦ Student enrollment numbers are converted to "Average Number (of students) Belonging" and are used to fund the District. Overall enrollment numbers were the same for the Harlowton District from 2012-13 to 2013-14. Grades K-6 increased 3 students, grades 7-8 decreased 5 students, and grades 9-12 increased 2 students.
- ✦ The unemployment rate for Wheatland County was 2.9% in June 2014. This compares to the Montana rate of 4.5%.
- ✦ The poverty rate for Wheatland County was 11.2% for 2009-2013, when Montana was at 15.2%.
- ✦ The median household income in Wheatland County was \$31,867 compared to Montana at \$46,230 in 2013.
- ✦ State funding for most Montana schools increased for FY 2013 & FY 2014.

All of these and other factors were considered in preparing the FY 2013 & FY 2014 budgets for the Harlowton School District.

### **Requests for Information**

The information and data included in this management's discussion and analysis report is designed to provide a general overview of the finances of Harlowton School District for all those with an interest in the government's finances. Questions concerning any of the information contained in this report should be addressed to the Harlowton administration and business office located in Harlowton, Montana.

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Harlowton School District No. 16  
Wheatland County  
Harlowton, Montana 59452

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlowton School District No. 16 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, the business-type activities, each major fund, and the aggregate remaining fund information of Harlowton School District No. 16 as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows 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 that the management's discussion and analysis (pages 3 - 14) and the schedule of funding for other post-employment benefits other than pensions (pages 37) and budgetary comparison information (pages 38 - 42) 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 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlowton School District No. 16's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 43) and schedule of reported enrollment (page 44) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of revenues, expenses and balances student activity funds and schedule of reported enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of revenues, expenses and balances student activity funds and schedule of reported enrollment are fairly stated, in all material respects, in relation to the basic 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 May 5, 2015 on our consideration of Harlowton School District No. 16 internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Harlowton School District No. 16 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC  
Billings, Montana  
May 5, 2015

STATEMENT OF NET POSITION  
as of June 30, 2014

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 887,216	\$ 74,330	\$ 961,546
Taxes Receivable	210,449	-	210,449
Due From Other Governments	176,675	-	176,675
Total Current Assets	<u>1,274,340</u>	<u>74,330</u>	<u>1,348,670</u>
Capital Assets:			
Land	41,098	-	41,098
Net Depreciable Assets	532,442	66,257	598,699
Total Noncurrent Assets	<u>573,540</u>	<u>66,257</u>	<u>639,797</u>
Total Assets	<u>\$ 1,847,880</u>	<u>\$ 140,587</u>	<u>\$ 1,988,467</u>
<b>LIABILITIES:</b>			
Current Liabilities			
Current Portions Compensated Absences	\$ 13,202	\$ -	\$ 13,202
Total Current Liabilities	<u>13,202</u>	<u>-</u>	<u>13,202</u>
Noncurrent Liabilities:			
Long-Term Obligations	57,095	-	57,095
Compensated Absences	123,222	-	123,222
Total Noncurrent Liabilities	<u>180,317</u>	<u>-</u>	<u>180,317</u>
Total Liabilities	<u>193,519</u>	<u>-</u>	<u>193,519</u>
<b>NET POSITION:</b>			
Net investment in capital assets	573,540	66,257	639,797
Restricted	774,074	-	774,074
Unrestricted (Deficit)	306,747	74,330	381,077
Total Net Position	<u>1,654,361</u>	<u>140,587</u>	<u>1,794,948</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 1,847,880</u>	<u>\$ 140,587</u>	<u>\$ 1,988,467</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
<b>GOVERNMENT OPERATIONS</b>						
Instructional Services	\$ 2,105,667	\$ 3,194	\$ 331,927	\$ (1,770,546)		\$ (1,770,546)
Support Services	43,458	-	-	(43,458)		(43,458)
Educational Media Services	107,866	-	-	(107,866)		(107,866)
General Administrative Services	502,097	-	-	(502,097)		(502,097)
Operation & Maintenance Services	330,573	-	-	(330,573)		(330,573)
Transportation Services	188,845	-	69,733	(119,112)		(119,112)
School Food Services	272,719	57,034	173,089	(42,596)		(42,596)
Extracurricular	169,317	-	-	(169,317)		(169,317)
Other Current Charges	1,000	-	-	(1,000)		(1,000)
Total Governmental Activities	<u>3,721,542</u>	<u>60,228</u>	<u>574,749</u>	<u>(3,086,565)</u>		<u>(3,086,565)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Theater Fund	\$ 34,300	\$ 16,995	\$ 3,835		\$ (13,470)	(13,470)
Total Business-type activities	<u>34,300</u>	<u>16,995</u>	<u>3,835</u>		<u>(13,470)</u>	<u>(13,470)</u>
Total Primary Government	<u>\$ 3,755,842</u>	<u>\$ 77,223</u>	<u>\$ 578,584</u>	<u>\$ (3,086,565)</u>	<u>\$ (13,470)</u>	<u>\$ (3,100,035)</u>
<b>GENERAL REVENUES</b>						
District Levies				1,536,866	-	1,536,866
State Equalization				949,433	-	949,433
Other State Revenues				385,248	-	385,248
County				273,310	-	273,310
Interest				1,213	92	1,305
Other				40,881	-	40,881
Gain (loss) on Sale of Assets				(394)	-	(394)
Total General Revenues				<u>3,186,557</u>	<u>92</u>	<u>3,186,649</u>
Change in Net Position				99,992	(13,378)	86,614
<b>Net Position</b>						
Beginning of the Year				1,538,574	153,965	1,692,539
Prior Period Adjustments				15,795	-	15,795
End of the Year				<u>\$ 1,654,361</u>	<u>\$ 140,587</u>	<u>\$ 1,794,948</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET  
GOVERNMENTAL FUNDS  
as of June 30, 2014

	MAJOR			
	General	Bus Depreciation (HS)	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 428,983	\$ 151,012	\$ 307,221	\$ 887,216
Taxes Receivable	154,961	12,508	42,980	210,449
Due From Other Governments	-	-	176,675	176,675
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>\$ 583,944</b>	<b>\$ 163,520</b>	<b>\$ 526,876</b>	<b>\$ 1,274,340</b>
<b>LIABILITIES:</b>				
Current Liabilities				
Total Liabilities	-	-	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Property Taxes Receivable	154,961	12,508	42,980	210,449
<b>Total Deferred Inflows of resources</b>	<b>154,961</b>	<b>12,508</b>	<b>42,980</b>	<b>210,449</b>
<b>FUND BALANCE:</b>				
Fund Balances:				
Restricted	-	151,012	486,877	637,889
Assigned	35,839	-	-	35,839
Unassigned:	393,144	-	(2,981)	390,163
<b>Total Fund Balance</b>	<b>428,983</b>	<b>151,012</b>	<b>483,896</b>	<b>1,063,891</b>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 583,944	\$ 163,520	\$ 526,876	\$ 1,274,340

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 1,063,891
Governmental Capital Assets	573,540
Long-term Liabilities	
Long-Term Obligations	(57,095)
Compensated Absences	(136,424)
Unavailable Property Taxes Receivable	210,449
<b>Net Position of Governmental Activities</b>	<b>\$ 1,654,361</b>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	MAJOR		Other Governmental Funds	Total Governmental Funds
	General	Bus Depreciation (HS)		
<b>REVENUES:</b>				
District Levies	\$ 1,271,854	\$ 101,115	\$ 365,529	\$ 1,738,498
Interest	507	297	409	1,213
Charges for Services	-	-	60,228	60,228
Other	5,263	5,600	30,018	40,881
County	-	-	307,579	307,579
State	1,371,013	-	78,731	1,449,744
Federal	-	-	425,417	425,417
Total Revenues	<u>2,648,637</u>	<u>107,012</u>	<u>1,267,911</u>	<u>4,023,560</u>
<b>EXPENDITURES:</b>				
Current				
Instructional Services	1,427,755	-	623,449	2,051,204
Support Services	38,638	-	4,820	43,458
Educational Media Services	95,061	-	11,674	106,735
General Administrative Services	352,634	-	157,187	509,821
Operation & Maintenance Services	301,693	-	15,425	317,118
Transportation Services	-	2,926	113,895	116,821
School Food Services	34,783	-	229,701	264,484
Extracurricular	149,583	-	17,235	166,818
Other Current Charges	-	-	1,000	1,000
Capital Outlay	6,789	128,750	31,176	166,715
Total Expenditures	<u>2,406,936</u>	<u>131,676</u>	<u>1,205,562</u>	<u>3,744,174</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>241,701</u>	<u>(24,664)</u>	<u>62,349</u>	<u>279,386</u>
<b>OTHER FINANCING SOURCES/USES</b>				
Sale of Capital Assets	<u>420</u>	<u>-</u>	<u>4,639</u>	<u>5,059</u>
Total Other financial Sources/Uses	<u>420</u>	<u>-</u>	<u>4,639</u>	<u>5,059</u>
<b>NET CHANGES IN FUND BALANCES</b>				
	<u>242,121</u>	<u>(24,664)</u>	<u>66,988</u>	<u>284,445</u>
<b>FUND BALANCE:</b>				
Beginning of the Year	181,731	175,676	406,244	763,651
Prior Period Adjustments	5,131	-	10,664	15,795
End of the Year	<u>\$ 428,983</u>	<u>\$ 151,012</u>	<u>\$ 483,896</u>	<u>\$ 1,063,891</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Harlowton School District No. 16  
Wheatland County  
Harlowton, Montana 59036

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

Net Changes in Fund Balance		\$	284,445
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			(201,632)
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(119,252)		
(Increase) decrease in Other Post Employment Benefits	(11,419)		
Loss on Asset	(5,453)		
(Increase) decrease in compensated absence liability	<u>(13,412)</u>		(149,536)
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Capital outlays			<u>166,715</u>
Change in net position reported on the Statement of Activity		\$	<u>99,992</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 as of June 30, 2014

	<u>MAJOR</u>
	<u>Theater Fund</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 74,330
Total Current Assets	<u>74,330</u>
Capital Assets:	
Net Depreciable Assets	<u>66,257</u>
Total Noncurrent Assets	<u>66,257</u>
Total Assets	<u>\$ 140,587</u>
LIABILITIES:	
Total Liabilities	<u>-</u>
NET POSITION:	
Net investment in capital assets	66,257
Unrestricted (Deficit)	<u>74,330</u>
Total Net Position	<u>140,587</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 140,587</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 For the Year Ended June 30, 2014

	<u>MAJOR</u>
	<u>Theater Fund</u>
OPERATING REVENUES:	
Charges for Services	16,995
Revenue/Contributions from Local Sources	<u>3,835</u>
Total Operating Revenues	<u>20,830</u>
OPERATING EXPENSES:	
Supplies	10,379
Purchased services	14,471
Depreciation	7,162
Other	<u>2,288</u>
Total Operating Expense	<u>34,300</u>
OPERATING INCOME (LOSS)	<u>(13,470)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	<u>92</u>
Total nonoperating revenue (expenses)	<u>92</u>
CHANGE IN NET POSITION	(13,378)
NET POSITION:	
Beginning of the Year	<u>153,965</u>
End of the Year	<u>\$ 140,587</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2014

Business-type Activities - Enterprise Funds

	<u>MAJOR</u>
	<u>Theater</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 16,995
Payments to Suppliers	(10,379)
Purchased Services	(14,471)
Other Expenses	(2,288)
Other Receipts (Payments)	<u>3,835</u>
Net Cash Provided (Used) by Operating Activities	<u>(6,308)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of Capital Assets	<u>(46,610)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(46,610)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and Dividends	<u>92</u>
Net Cash Provided (Used) by Investing Activities	<u>92</u>
Net Increase (Decrease) In Cash and Cash Equivalents	<u>(52,826)</u>
BALANCE:	
Beginning of the Year	<u>127,156</u>
End of the Year	<u>\$ 74,330</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ (13,470)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	<u>7,162</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (6,308)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 as of June 30, 2014

	Private Purpose	
	Trust Funds	Agency Funds
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 117,266	\$ 197,227
Total Assets	<u>117,266</u>	<u>197,227</u>
<b>LIABILITIES:</b>		
Current Liabilities		
Warrants Payable	-	179,791
Due to Others	-	17,436
Total Liabilities	<u>-</u>	<u>197,227</u>
<b>NET POSITION:</b>		
Restricted for Endowment	2,847	
Restricted for Student Activities	114,419	
Total Net Position	<u>\$ 117,266</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET  
 FIDUCIARY FUNDS  
 For the Year Ended June 30, 2014

	Private Purpose
	Trust Funds
<b>ADDITIONS:</b>	
Revenues from Student Activities	\$ 154,748
Contributions to Endowment	935
Total Additions	<u>155,683</u>
<b>DEDUCTIONS:</b>	
Expenses of Student Activities	126,215
Instructional	88
Total Deductions	<u>126,303</u>
CHANGE IN NET POSITION	29,380
<b>NET POSITION:</b>	
Beginning of the Year	87,886
End of the Year	<u>\$ 117,266</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS  
Fiscal Year-Ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Harlowton School District No. 16 (School District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the School District adopted the following

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the School District.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The School District has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the School District assessment of effects to the financial statements.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the School District to expand its pension foot note disclosures. The School District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2015. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The School District is not merging with another School District or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The School District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

The School District consists of two legally separate entities, an elementary district which provides education for kindergarten through eighth grade and a high school district which provides education for ninth through twelfth grade. For financial reporting purposes the two School Districts are combined because they are controlled by the same central board of trustees and managed by the same administration. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. GAAP requires only one general fund for each reporting entity so the elementary and high school general funds are combined in the accompanying financial statements.

The criteria for including organizations as component units within the School District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the School District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the School District. Based on those criteria this School District has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise fund. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include:

- Charges for services such as school lunch fees and facility rental fees and
- Operating grants that are restricted to a particular functional program.

Property taxes, investment earnings, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues.

1. b. 2 FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. The student activity fund and endowment fund are displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for School District operations, they are not included in the entity-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statement of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period anything collected after June 30 are generally not material. Unavailable income are recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred except for compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary, trust and agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the theater fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Resources received for capital acquisition or construction are reported as separate items.

GASB Statement No. 34 requires the general fund be reported as a major fund and that only one general fund be reported so the elementary and high school general funds have been combined as one major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users may be reported as a major fund.

The School District reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the School District and accounts for all revenues and expenditures of the School District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. On the GASB 34 financial statements the general fund also includes the activities of the inter-local agreement fund and the flexibility fund since the restrictions on those funds are similar to the general fund.
- High School Bus Depreciation Fund – This fund is used to account for financing the replacement of yellow school buses and two-way radio equipment owned by a school. Deposits made to the fund are limited by depreciation percentages of current busses and two-way radio equipment owned by the School District.

The School District reports the following major enterprise funds:

Theater Fund – This fund is used to account for financing the activities of the School District's movie theater operations.

1. b. 3 OTHER FUND TYPES

Private-Purpose Trust Funds – Accounts for the receipt and disbursement of monies from student activity organizations, as well as any donated scholarship funds. These organizations exist with the explicit approval of and are subject to revocation by the School District's Board of Trustees. This accounting reflects the School District's trust relationship with the student activity organizations and any scholarship commitments.

Agency Funds – Account for assets that the School District holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

Information regarding the collateral and security for cash is not available to the School District. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Wheatland County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

For purposes of the statement of cash flows, the School District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

1. c. 2 TAXES

Property taxes are collected by the County Treasurer who credits to the School District funds their respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The School District receives its share of the sale proceeds of any such auction.

1. c. 3 INVENTORIES

Materials, supplies and food inventory at year end was not material. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

1. c. 4 CAPITAL ASSETS

The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The School District considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Land and construction in progress are not depreciated. Depreciation on the other capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	20 – 50 years
Machinery and Equipment	5 – 25 years

1. c. 5 DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable from one sources: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

1. c. 6 VACATION AND SICK LEAVE

Classified School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Classified School District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Classified School District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay.

Certified School District employees shall accrue 15 days of sick leave each year. Unused sick leave will be accruable to 80 days. Upon termination, all payments are made at the substitute pay of \$60 per day.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$13,202 and it is generally paid out of the general fund.

1. c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

- Restricted - Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Assigned – the executing a purchase order for a specific purpose such as an encumbrance.
- Unassigned - Amounts that are available for any purpose; these amounts are reported only in the general fund or funds that have negative fund balances.

As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

<u>Purpose</u>	<u>Restricted</u>	<u>Assigned</u>
Instructional - Regular	\$ 50,998	\$ 35,839
Student Transportation	249,639	0
School Food	43,407	0
Third Party Grantor Restrictions	134,382	0
Employer Retirement Benefits	81,110	0
Future Technology	48,677	0
Future Capital Costs	29,676	0
Total	<u>\$ 637,889</u>	<u>\$ 35,839</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When an expenditure is incurred and assigned or unassigned fund balances are available, the School District considers amounts to have been spent first out of assigned and then unassigned funds as needed, unless the board of trustees has provided otherwise.

1. d. OTHER

1. d. 1 USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.d. 2 County Provided Services

The School District is provided various financial services by Wheatland County. The County also serves as cashier and treasurer for the School District for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in Wheatland County. The collections made by the County on behalf of the School District are accounted for in an agency fund in the School District's name and are periodically remitted to the School District by the Wheatland County Treasurer. No service charges have been recorded by the School District or Wheatland County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2014, the summary of cash, cash equivalents for governmental and business-type activities, and fiduciary funds is as follows:

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 887,216	\$ 74,330	\$ 314,493	\$ 1,276,039

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

The carrying amount of cash on hand, deposits and investments at June 30, 2014, is as follows:

	<u>Amount</u>
Demand Accounts	\$ 115,268
County Investment Pool	1,160,771
Total	<u>\$ 1,276,039</u>

Cash resources of the School District are held and managed by the Wheatland County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within Wheatland County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of certificates of deposit and STIP and are carried at fair value. The School District's exposure to credit risk is not available to the School District. Risk in the event of loss is unclear in state law, but appears to be the liability of the Wheatland County government. Because of the custodial involvement of the Wheatland County government, and the commingling of cash in County deposits in the name of the Wheatland County Treasurer, full risk classifications according to GASB 40 are available in the Wheatland County's annual report. There is no known maturity and credit rating of the Wheatland County Investment Pool.

The cash of the extracurricular funds is held separately by the School District, not at the Wheatland County. As of June 30, 2014, \$114,419 was exposed to custodial credit risk and was covered by FDIC insurance.

NOTE 3. TAXES RECEIVABLE

The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$8,225,863 for the Elementary School District and \$11,548,953 for the High School District. The tax rates assessed for the year ended June 30, 2014 to finance School District operations and applicable taxes receivable for the elementary and high School Districts follows:

	<u>Mill Levies</u>	<u>Taxes Receivable</u>
<u>Elementary Fund</u>		
General*	74.80	\$ 74,264
Transportation	9.67	9,242
Tuition	4.49	1,101
Adult Education	3.66	2,302
Technology	2.65	3,080
Building Reserve	0.00	5,012
<u>High School Fund</u>		
General*	44.37	80,697
Transportation	8.36	13,162
Bus Depreciation*	8.33	12,508
Tuition	1.19	1,135
Adult Education	2.71	4,107
Technology	1.79	3,580
Building Reserve	0.00	259
Total	<u>162.02</u>	<u>\$ 210,449</u>

\* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
Retirement	\$ 21,602	Wheatland County	FY14 payment still due
Transportation	314	Wheatland County	FY14 County reimbursement
<u>High School Fund</u>			
Transportation	2,667	Wheatland County	FY14 County reimbursement
School Food Services	16,604	State of MT	June summer food program
School Food Services	527	State of MT	FY14 matching payment
Retirement	15,804	Wheatland County	FY14 payment still due
Miscellaneous	70,822	State of MT	Title I Part A Grant receivable
Miscellaneous	32,539	State of MT	Title IV Part B Grant receivable
Miscellaneous	6,635	State of MT	Title III Part A Grant receivable
Miscellaneous	4,262	State of MT	Carl Perkins Grant receivable
Miscellaneous	2,130	State of MT	Title II Part A Grant receivable
Miscellaneous	1,311	State of MT	MOST Grant receivable
Traffic Education	1,458	State of MT	Per pupil reimbursement
Total	<u>\$ 176,675</u>		

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

5. a. At June 30, 2014, the schedule of changes in general capital assets follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Non-depreciable:</u>				
Land	\$ 41,098	\$ 0	\$ 0	\$ 41,098
<u>Depreciable:</u>				
Buildings	\$ 1,068,165	\$ 0	\$ 0	\$ 1,068,165
Major Equipment	1,019,004	166,715	26,699	1,159,020
Total Depreciable	\$ 2,087,169	\$ 166,715	\$ 26,699	\$ 2,227,185
<u>Accumulated Depreciation:</u>				
Buildings	\$ (929,984)	\$ (9,244)	\$ 0	\$ (939,228)
Major Equipment	(666,753)	(110,008)	(21,246)	(755,515)
Total Depreciation	\$ (1,596,737)	\$ (119,252)	\$ (21,246)	\$ (1,694,743)
Net Depreciable Assets	490,432	47,463	5,453	532,442
Net Governmental Capital Assets	\$ 531,530	\$ 47,463	\$ 5,453	\$ 573,540

5. b. General capital asset depreciation expense was charged to governmental functions as follows:

<u>Function</u>	<u>Amount</u>
Instructional	\$ 24,864
School Administration	1,251
Operation & Maintenance	14,179
Transportation	70,851
School Food	5,607
Extracurricular	2,500
Total Depreciation Expense	\$ 119,252

5. c. At June 30, 2014, the schedule of changes in enterprise fund capital assets follows:

<u>Enterprise Activities:</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Depreciable:</u>			
Buildings	\$ 51,676	\$ 0	\$ 51,676
Major Equipment	0	46,610	46,610
Total Depreciable	\$ 51,676	\$ 46,610	\$ 98,286
<u>Accumulated Depreciation:</u>			
Buildings	\$ (24,868)	\$ (2,501)	\$ (27,369)
Major Equipment	0	(4,661)	(4,661)
Total Depreciation	\$ (24,868)	\$ (7,162)	\$ (32,030)
Net enterprise Capital Assets	\$ 26,808	\$ 39,448	\$ 66,256

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a. At June 30, 2014, the schedule of changes in general Long-Term debt follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Other Liabilities:</u>				
Compensated Absences	\$ 123,012	\$ 13,412	\$ 136,424	\$ 13,202
Other Post-Employment Benefits (OPEB)	45,676	11,419	57,095	0
Total Other Liabilities	\$ 168,688	\$ 24,831	\$ 193,519	\$ 13,202
Total Governmental Activities				
- Long-Term Debt:	\$ 168,688	\$ 24,831	\$ 193,519	\$ 13,202

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 7. DEFERRED INFLOWS OF RESOURCES

7. a. PROPERTY TAXES

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 74,264	Taxes Receivable
Transportation	9,242	Taxes Receivable
Tuition	1,101	Taxes Receivable
Adult Education	2,302	Taxes Receivable
Technology	3,080	Taxes Receivable
Building Reserve	5,012	Taxes Receivable
<u>High School Fund</u>		
General*	80,697	Taxes Receivable
Transportation	13,162	Taxes Receivable
Bus Depreciation*	12,508	Taxes Receivable
Tuition	1,135	Taxes Receivable
Adult Education	4,107	Taxes Receivable
Technology	3,580	Taxes Receivable
Building Reserve	259	Taxes Receivable
Total	<u>\$ 210,449</u>	

\* Denotes Major Funds

NOTE 8. DEFICIT FUND BALANCES

<u>Elementary Fund</u>	<u>Amount</u>	<u>How to Correct</u>
Tuition	\$ (1,706)	Additional levy
<u>High School Fund</u>		
Tuition	<u>(1,275)</u>	Additional levy
Total	<u>\$ (2,981)</u>	

\* Denotes Major Funds

NOTE 9. PRIOR PERIOD ADJUSTMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ 4,160	To show elementary flexibility fund in the general fund
Flexibility	(4,160)	To show elementary flexibility fund in the general fund
Miscellaneous	6,579	Loss in high school miscellaneous fund
Miscellaneous	15,769	Prior year deferred revenue that was actually earned
<u>High School Fund</u>		
General*	120	To show high school flexibility fund in the general fund
Flexibility	(120)	To show high school flexibility fund in the general fund
General*	851	To show high school inter-local fund in the general fund
Inter-local	(851)	To show high school inter-local fund in the general fund
Miscellaneous	(4,978)	Title III prior year offset in elementary misc. fund
Miscellaneous	(1,117)	Title II prior year offset in elementary misc. fund
Miscellaneous	(366)	Title IV prior year offset in elementary misc. fund
Miscellaneous	(118)	Carl Perkins prior year offset in elementary misc. fund
Miscellaneous	26	Prior year revenue adjustment
Total	<u>\$ 15,895</u>	

\* Denotes Major Funds

NOTE 10. EMPLOYEE RETIREMENT SYSTEM

The School District participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all School District employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including administrators and aides. The Public Employee Retirement System (PERS) covers nonteaching employees. The plans are established under State law and are administered by the State of Montana.

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Both plans issue publicly available annual reports that include financial statements and required supplemental in-formation for the plans. Those reports may be obtained from the following:

Teachers Retirement System  
P.O. Box 200139  
1500 Sixth Avenue  
Helena, MT 59620-0139  
Phone: 406-444-3134  
www.trs.doa.state.mt.us

Public Employees Retirement System  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, MT 59620-0131  
Phone: 406-444-3154  
www.state.mt.us/doa/perb/prb.htm

The PERS defined benefit contribution rates for employees was 7.9%. The PERS rate for the State was set at .37%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 7.8%. The TRS rates for employees was 8.15% and the State was set at 2.49%. The TRS rate for employers was 8.47%. The State's contribution to the retirement system qualifies as an on-behalf payment and has not been reported in the School District's financial statements.

Contribution rates for both plans are required and determined by State law. The amounts contributed to the plans during the years ended June 30, 2012, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by the State, School District and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$ 255,415	\$ 261,920	\$ 291,243
PERS	26,415	31,231	43,040
Total	<u>\$ 281,830</u>	<u>\$ 293,151</u>	<u>\$ 334,283</u>

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The implicit subsidy is \$8,136 per member and \$16,308 per member and spouse. The School District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 10% of plan participants would elect to continue coverage after retirement. Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established. Funding status and progress as of June 30, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 90,666
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>90,666</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,914,051
UAAL as a percentage of covered payroll	5%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2014.

Annual Required Contribution (ARC)	\$ 11,419
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	11,419
Contribution made	<u>0</u>
Increase in net OPEB obligation	11,419
Net OPEB obligation - beginning of year	<u>45,676</u>
Net OPEB obligation - end of year	<u>\$ 57,095</u>

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Actuarial Methods and Assumptions - The following actuarial methods and assumptions were used:

Actuarial Cost Method	Unit Credit Cost Method
Average age of retirement (based on historical data)	67
Discount rate (average anticipated rate)	3.5%
Average Salary Increase	1.0%
Health care cost rate trend	
Year	% Increase
2015 and after	3.0%

NOTE 12. OTHER COMMITMENTS

12. a. 1 ENCUMBRANCES

The School District's encumbrance policy is for fiscal year end encumbrances exceeding \$100 to be considered significant encumbrances. All encumbrances are classified as assigned or restricted in the funds noted below:

<u>Elementary Fund</u>	<u>Amount</u>
Transportation	\$ 521
Adult Education	1,086
Technology	3,295
<u>High School Fund</u>	
General*	35,839
Transportation	234
Miscellaneous	1,742
Total	<u>\$ 42,717</u>

\* Denotes Major Funds

NOTE 13. RISK MANAGEMENT

The School District is exposed to various types of risk of loss, including: a) damage to and loss of property and contents; b) employee torts; c) professional liability, i.e. errors and omissions; d) environmental damage; e) workers' compensation, i.e. employee injuries and f) medical insurance costs of employees. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage, employee torts, professional liabilities, and employee medical insurance. The School District has joined with other School Districts throughout the state into an interlocal common risk pool to insure workers compensation for all participating School Districts in a self-insurance pool. The Workers Compensation Risk Retention Program is managed by a board of directors elected annually. Members are responsible for fully funding the Workers Compensation Risk Retention Program through the payment of annual premiums accessed. There is no other liability to the School District other than timely payments of premiums. The School District can withdraw from the Workers Compensation Risk Retention Program with 60 days' notice at any time. The School District has no coverage for potential losses from environmental damages.

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTE 14. COOPERATIVE

14. a. SPECIAL EDUCATION

The Harlowton School District No. 16 is a member of the Central Montana Learning Resource Center Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of Harlowton School District No. 16, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the School District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Fergus County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member School District's budgeted costs for contracted special education services. All capital assets of the Cooperative are included in the Cooperative's financial statements.

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

A Joint Board of Directors governs the Cooperative. The Joint Board has the power to set policies, enter into contracts, review the performance of the Cooperative annually, review the financial management of the Cooperative annually, and set and approve the annual fiscal budget of the Cooperative.

NOTE 15. JOINT VENTURE AGREEMENTS

Joint ventures are legal entities or other organizations that result in a contractual arrangement and that are owned, operated, or governed by two or more participants. Each participant retains both an ongoing financial interest and an ongoing financial responsibility.

Joint ventures are legal entities or other organizations that result in a contractual arrangement and that are owned, operated, or governed by two or more participants. Each participant retains both an ongoing financial interest and an ongoing financial responsibility.

15 a. MULTIDISTRICT COOPERATIVE

The School District has entered into an agreement with Lewistown Elementary, Fergus High School, Denton Elementary, Denton High School, Grass Range Elementary, Grass Range High School, Harlowton Elementary School, Harlowton High School, Ayers Elementary, Roy K-12 Schools, Winifred K-12 Schools, Moore Elementary, Moore High School, Deerfield Elementary, Spring Creek Colony Elementary, King Colony Elementary, Hobson K-12 Schools, Judith Gap Elementary, Judith Gap High School, Stanford K-12 Schools and the Central Montana Learning Resource Center Cooperative to provide technology services to each participating School District.

Section 20-3-363, MCA allows for the creation of a multidistrict cooperative between any School District and other public entity under Title 20, Chapter 9 Part 7, MCA. The parties in a multidistrict cooperative may mutually agree to perform any services, activities, and undertakings of the participants and provide for the joint funding and operation and maintenance of all participants in the agreement.

Fergus High School is the designated prime agency and is responsible for the financial administration of the multidistrict cooperative. The activity of the multidistrict cooperative is accounted for in fund 82 of the Fergus High School. During fiscal year ended June 30, 2014 Harlowton School District paid Fergus High School \$20,989 for its share of the annual technical support fee.

HARLOWTON SCHOOL DISTRICT NO. 16

SCHEDULE OF FUNDING PROGRESS  
 Other Post-Employment Benefits Other Than Pensions (OPEB)  
 Fiscal Year-Ended June 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u>
7/1/2012	0	90,666	90,666	0	1,914,051	5%

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
(Budget and Actual)  
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	General (Elem)			Bus Depreciation (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ 615,332	\$ 615,332	\$ 696,926	\$ 96,215	\$ 96,215	\$ 101,115
Interest	300	300	165	-	-	297
Other	2,549	2,549	150	-	-	5,600
State	912,480	912,480	912,840	-	-	-
<b>Total Revenues</b>	<b>1,530,661</b>	<b>1,530,661</b>	<b>1,610,081</b>	<b>96,215</b>	<b>96,215</b>	<b>107,012</b>
<b>EXPENDITURES:</b>						
<b>Current</b>						
Instructional Services			1,031,468	-	-	-
Support Services			13,853	-	-	-
Educational Media Services			56,361	-	-	-
General Administrative Services			201,566	-	-	-
Operation & Maintenance Services			138,667	-	-	-
Transportation Services			-	2,926	2,926	2,926
School Food Services			18,432	-	-	-
Extracurricular			29,176	-	-	-
Capital Outlay			-	268,965	268,965	128,750
<b>Total Expenditures</b>	<b>1,531,021</b>	<b>1,531,021</b>	<b>1,489,523</b>	<b>271,891</b>	<b>271,891</b>	<b>131,676</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(360)</b>	<b>(360)</b>	<b>120,558</b>	<b>(175,676)</b>	<b>(175,676)</b>	<b>(24,664)</b>
<b>OTHER FINANCING SOURCES/USES</b>						
Sale of Capital Assets	-	-	-	-	-	-
<b>Total Other financial Sources/Uses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(360)</b>	<b>(360)</b>	<b>120,558</b>	<b>(175,676)</b>	<b>(175,676)</b>	<b>(24,664)</b>
<b>FUND BALANCE:</b>						
Beginning of the Year			92,104			175,676
End of the Year			<u>\$ 212,662</u>			<u>\$ 151,012</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
(Budget and Actual)  
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	General (HS)			Flexibility Fund (Elem.)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ 512,496	\$ 512,496	\$ 574,928	\$ -	\$ -	\$ -
Interest	273	273	235	-	-	-
Other	2,340	2,340	113	-	-	-
State	458,173	458,173	458,173	-	-	-
Total Revenues	<u>973,282</u>	<u>973,282</u>	<u>1,033,449</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES:</b>						
Current						
Instructional Services			432,126			-
Support Services			24,785			-
Educational Media Services			38,700			-
General Administrative Services			151,068			-
Operation & Maintenance Services			163,026			-
Transportation Services			-			-
School Food Services			16,351			-
Extracurricular			120,407			-
Capital Outlay			-			-
Total Expenditures	<u>973,282</u>	<u>973,282</u>	<u>946,463</u>	<u>4,160</u>	<u>4,160</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>86,986</u>	<u>(4,160)</u>	<u>(4,160)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES/USES</b>						
Sale of Capital Assets	<u>-</u>	<u>-</u>	<u>420</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other financial Sources/Uses	<u>-</u>	<u>-</u>	<u>420</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>87,406</u>	<u>(4,160)</u>	<u>(4,160)</u>	<u>-</u>
<b>FUND BALANCE:</b>						
Beginning of the Year			<u>89,627</u>			<u>4,160</u>
End of the Year			<u>\$ 177,033</u>			<u>\$ 4,160</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
(Budget and Actual)  
ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	Flexibility Fund (HS)		
	Original Budget	Final Budget	Actual
REVENUES:			
District Levies	\$ -	\$ -	\$ -
Interest	-	-	-
Other	-	-	5,000
State	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>5,000</u>
EXPENDITURES:			
Current			
Instructional Services			-
Support Services			-
Educational Media Services			-
General Administrative Services			-
Operation & Maintenance Services			-
Transportation Services			-
School Food Services			-
Extracurricular			-
Capital Outlay			-
Total Expenditures	<u>120</u>	<u>120</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(120)</u>	<u>(120)</u>	<u>5,000</u>
OTHER FINANCING SOURCES/USES			
Sale of Capital Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Other financial Sources/Uses	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(120)	(120)	5,000
FUND BALANCE:			
Beginning of the Year			<u>120</u>
End of the Year			<u>\$ 5,120</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE BUDGET VS ACTUAL SCHEDULE  
Fiscal Year-Ended June 30, 2014

NOTE 1. BUDGETS

1. a. BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for the general fund, budgeted special revenue funds including (Transportation, Bus Depreciation, Tuition, Retirement, Adult Education, Technology, Flexibility), and budgeted capital project funds (Building Reserve). All annual appropriations lapse at fiscal year-end, unless the School District elects to encumber supplies and personal property ordered but not received at year end.

1. a. 1 General Budget Policies:

The School District's funds are either budgeted or non-budgeted in accordance with State statutes. Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are non-budgeted, meaning a legal budget is not required in order to spend the cash balance of such a fund. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major general and special revenue fund budgeted funds.

1. a. 2 Budget Operation:

The School District operates within the budget requirements for School Districts as specified by State law. The financial report reflects the following budgetary standards:

- By the second Monday in July, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property in the School District's borders.
- Before the fourth Monday in July, the County Superintendent estimates the revenue required for each fund.
- Before the fourth Monday in August, the Board of Trustees must meet to legally adopt the final budget. The final budget for the general fund is fund total only.
- Once adopted, the budget can be amended by subsequent Board action. An increase of the total budget of a given fund requires the adoption of an amended budget in accordance with State statutes.
- According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the School District.

NOTE 2. FUND BALANCE RECONCILIATION

The fund balances of the general fund displayed on the Statement of Revenue, Expenditures, and Changes in Fund Balances is differently displayed on the Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) by \$35,839. This is due to the reserve for encumbrances. Encumbrances are not included as expenditures on the first statement as they do not meet the GAAP definition of expenditures. The District reports encumbrances at year end as budgeted expenditures and displays these amounts as assigned or reserve of fund balances, as applicable.

NOTE 3. BUDGET AMENDMENT

The District approved a budget amendment as the result of unforeseen need of the district that cannot be postponed until the next school year without dire consequences, the district's budget for the elementary and high school retirement funds do not provide sufficient financing to properly maintain and support the district for the entire school year. Under the provisions of 20-9-161(6), MCA budget amendments were approved for the elementary and high school retirement funds in the amounts of \$3,700 and \$3,800 respectively. The funds for the budget amendment will provided the retirement funds reserves.

HARLOWTON SCHOOL DISTRICT NO. 16

NOTES TO THE BUDGET VS ACTUAL SCHEDULE (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 4. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	<u>Sub-fund General Fund (EL)</u>	<u>Sub-fund General Fund (HS)</u>	<u>Sub-fund Flexibility Fund (EL)</u>	<u>Sub-fund Flexibility Fund (HS)</u>	<u>Sub-fund Inter-local Agreement Fund (HS)</u>	<u>Total General Fund</u>
<b>REVENUES:</b>						
District Levies	\$ 696,926	\$ 574,928	\$ 0	\$ 0	\$ 0	\$ 1,271,854
Interest Earnings	165	235	0	0	107	507
Other	150	113	0	5,000	0	5,263
State Sources	912,840	458,173	0	0	0	1,371,013
Total Revenues	<u>\$ 1,610,081</u>	<u>\$ 1,033,449</u>	<u>\$ 0</u>	<u>\$ 5,000</u>	<u>\$ 107</u>	<u>\$ 2,648,637</u>
<b>EXPENDITURES:</b>						
Instructional Services	1,031,468	396,288	0	0	0	1,427,756
Support Services	13,853	24,785	0	0	0	38,638
Educational Media	56,360	38,700	0	0	0	95,060
General Administrative	201,566	151,068	0	0	0	352,634
Operation & Maintenance	138,667	163,026	0	0	0	301,693
Extracurricular	29,176	120,407	0	0	0	149,583
School Food	18,432	16,351	0	0	0	34,783
Capital Outlays	0	6,789	0	0	0	6,789
Total Expenditures	<u>\$ 1,489,522</u>	<u>\$ 917,414</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,406,936</u>
<b>Excess(Deficiency) of Revenue</b>						
Over Expenditures	120,559	116,035	0	5,000	107	241,701
Sale of Assets	0	420	0	0	0	420
Net Changes In Fund Balance	120,559	116,455	0	5,000	107	242,121
<b>FUND BALANCE:</b>						
Beginning of the Year	92,103	89,628	0	0	0	181,731
Prior Period Adjustment	0	0	4,160	120	851	5,131
Ending of the Year	<u>212,662</u>	<u>206,083</u>	<u>4,160</u>	<u>5,120</u>	<u>958</u>	<u>428,983</u>

In the reconciliation the general fund, elementary and high school flexibility funds, and the inter-local agreement fund are added together to get to the aggregate general fund shown as a major fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds. The elementary and high school flexibility funds and inter-local agreement fund are maintained as special revenue funds for accounting purposes, however, for external financial reporting they are added to the general fund because they have unassigned fund balance like the general fund.

On the Statement of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) All Budgeted Major Governmental Funds display budgeted information for the general and major special revenue funds. The Statement presents budgetary information for the general fund and elementary and high school flexibility funds because they are reported as major funds and have legally adopted budgets. The following major fund is not reported because the inter-local agreement fund is a non-budgeted special revenue fund.

Harlowton School District No. 16  
Schedule of Revenues, Expenses and Balances  
Student Activity Funds  
Fiscal Year-Ended June 30, 2014

Activity Account Name	Beginning Balance <u>7/1/2013</u>	Revenues	Expenses	Transfers	Ending Balance <u>6/30/2014</u>
STUDENT SENATE	3,350	2,540	3,529	1,447	3,808
ATHLETICS	14,989	47,314	40,902	(22)	21,379
ART	1,984	5,807	5,323	22	2,490
FFA	2,066	17,873	15,207	1,885	6,617
ANNUAL	3,229	1,982	-	-	5,211
PEP CLUB	1,289	24	807	(36)	470
DRAMA	1,416	849	424	-	1,841
FCCLA	3,249	4,203	8,250	3,190	2,392
HONOR SOCIETY	1,802	681	232	(22)	2,229
SOPHOMORE - 2016	6,648	1,889	1,154	-	7,383
FRESHMAN - 2017	8,350	1,975	1,196	-	9,129
SENIOR - 2014	3,283	2,385	2,450	(1,363)	1,855
FFA RODEO	-	16,626	12,262	-	4,364
SENIOR - 2013	1,280	-	1,280	-	-
SENIOR - 2012	627	-	627	-	-
CHEERLEADING	-	765	988	513	290
WEIGHT FUND	-	6,627	5,652	-	975
EIGHTH - 2018	3,353	1	161	4,930	8,123
KEY CLUB	1,181	1,084	1,538	13	740
CONCESSIONS	684	24,291	9,919	(14,437)	619
FOOTBALL	768	126	-	-	894
ELEMENTARY SCHOOL	3,767	949	2,080	-	2,636
VARSITY CLUB	1,246	1,161	1,111	(54)	1,242
SEVENTH - 2019	-	9	44	4,496	4,461
SOPHOMORE - 2015	5,811	1,052	1,871	-	4,992
BAND	4,930	2,848	2,578	36	5,236
JOURNALISM	2,080	1,406	54	-	3,432
ELE/NEEDY CHILDREN	134	-	-	-	134
BUS PROF OF AMERICA	556	-	-	-	556
JR HIGH ATHLETICS	4,433	7,051	3,435	(770)	7,279
BUILDERS CLUB	416	1	-	-	417
YOUTH ALIVE	143	-	-	-	143
SCIENCE CLUB	-	2,998	2,177	(598)	223
AMERICA READS	71	-	-	-	71
ELEM PLAYGROUND EQPT	161	-	-	-	161
HOSA	160	-	-	-	160
BAND MEMORIAL FUND	1,975	1	-	-	1,976
GBB SUMMER BALL	451	233	962	770	492
<b>Total</b>	<u>85,882</u>	<u>154,751</u>	<u>126,213</u>	<u>-</u>	<u>114,420</u>

SCHEDULE OF REPORTED ENROLLMENT

FALL ENROLLMENT - OCTOBER, 2013

Elementary			
CHar	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	24	24	0
Grade 1 - 6	139	139	0
Grade 7 - 8	<u>52</u>	<u>52</u>	<u>0</u>
Total	<u><u>215</u></u>	<u><u>215</u></u>	<u><u>0</u></u>

High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>76</u>	<u>76</u>	<u>0</u>

Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

WINTER ENROLLMENT - DECEMBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	24	24	0
Grade 1 - 6	136	136	0
Grade 7 - 8	<u>51</u>	<u>51</u>	<u>0</u>
Total	<u><u>211</u></u>	<u><u>211</u></u>	<u><u>0</u></u>

High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>73</u>	<u>73</u>	<u>0</u>

Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

SPRING ENROLLMENT - FEBRUARY, 2014

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	25	25	0
Grade 1 - 6	139	139	0
Grade 7 - 8	<u>51</u>	<u>51</u>	<u>0</u>
Total	<u><u>215</u></u>	<u><u>215</u></u>	<u><u>0</u></u>

High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>72</u>	<u>72</u>	<u>0</u>

Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>1</u>	<u>1</u>	<u>0</u>
Total Part-time	<u><u>1</u></u>	<u><u>1</u></u>	<u><u>0</u></u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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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*

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Harlowton School District No. 16  
Wheatland County  
Harlowton, Montana 59452

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harlowton School District No. 16 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Harlowton School District No. 16's basic financial statements and have issued our report thereon dated May 5, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Harlowton School District No. 16's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses as items 2014 -001.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Harlowton School District No. 16's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Harlowton School District No. 16's Response to Findings**

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

**Purpose of this Report**

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



STROM & ASSOCIATES, PC  
Billings, Montana  
May 5, 2015

SCHEDULE OF FINDINGS AND RESPONSES

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2014.

FINDING NUMBER 1 EXPENDITURES 2013 (Repeat finding from 2010-2012):

This was not a finding in fiscal year 2014.

FINDING NUMBER 2 CASH 2013:

This was not a finding in fiscal year 2014.

FINDING NUMBER 3 RECEIVABLES 2013:

This was not a finding in fiscal year 2014.

2014-001 FINDING - CAPITAL ASSETS:

Criteria: Generally accepted accounting principles (GAAP) requires all activity of the District to be accounted for in their annual report.

Condition: Fund 272 the theater enterprise fund did not include capital asset purchases, depreciation expense, or accumulated depreciation changes for fiscal year 2014. Also revenue was over reported.

Effect: Capital assets and depreciation expense were under reported. Revenue was over reported.

Context: Capital assets, depreciation expense, and accumulated depreciation were under reported by \$46,610, \$7,163, and \$14,195 respectively. Revenue was over reported by \$43,624.

Cause: This was by inexperience in accounting for enterprise fund assets and holding the enterprise fund cash in a separate bank account.

Recommendation: We recommend the District reconcile assets reported in the enterprise fund to its detailed asset listing for the enterprise fund. The separate bank account was closed per our recommendation in the prior year audit so tracking revenue will be easier in the future.

Auditee response: The normal operations of the district owned, student operated local movie theater have always been run through the district's accounting system, reconciled and reported on the TFS. When it became necessary to upgrade to a digital projector, an account at the local bank was set up February 5, 2013 for community members to donate toward the cause. The activity in this local bank account was omitted from the TFS. In the exit interview with Mr. Strom in October 2013, we were told these monies should be run through the accounting system. By the close of books on October 31, 2013, the bank account was closed and these monies were transferred to the school account with Wheatland County. All funds have been reconciled with the county each month.

The digital projector was purchased and installed in July 2013. It was paid for by cashier's checks from the donation account at the local bank. The time in question for this finding is from July 2013 through October 2013, when the bank account was closed and the monies were transferred to the school account with the County. Following the exit interview with Mr. Strom on December 19, 2014, the projector was booked as a fixed asset and the depreciation was booked. The 2013-14 TFS was updated with OPI in December 2014 to reflect this fixed asset change. In the future, all activity for Enterprise Fund 272 will be handled through the County Fund, reconciled and reported on the TFS. The District Clerk will keep a separate record of fixed assets and depreciation for the Enterprise Fund.