

Board of Trustees
 Hardin School District No. 17H & 1
 Big Horn County
 Hardin, Montana 59034

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Board of Trustees
Hardin School District No. 17H & 1
Big Horn County
Hardin, Montana 59034

ORGANIZATION
Fiscal Year Ended June 30, 2014

BOARD OF TRUSTEES

Jodeen Marston	Chairman
Thor Torske	Vice Chairman
Crystal Uffelman	Trustee
Bryce Rogers	Trustee
Jon Wells	Trustee
Loren Knoll	Trustee

OFFICIALS

Albert Peterson	Superintendent
Margy Lehman	Business Manager/District Clerk
Sandra Watts	County Superintendent
Lance Pedersen	County Attorney



Hardin School Districts 17H & 1

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Hardin, MT 59034-2505

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Fiscal Year Ended June 30, 2014

The management of Hardin Elementary School District 17H and Hardin High School District 1 (combined as one and hereafter referred to as "the District") is providing this discussion and analysis to give the reader an overview of the financial position and activities of the District for the fiscal year which ended on June 30, 2014. Readers should also review the financial statements, which immediately follow this MD&A, along with the notes to the financial statements, to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

At the end of FY2014,

- ❖ the District had completed construction of the added classroom building at Crow Agency Public School and was in the process of remodeling the heating/ventilation system in the older building at Crow Agency;
- ❖ negotiations were ongoing with the teachers' union for the new master agreement;
- ❖ the current superintendent, Albert Peterson, retired June 30, after sixteen years of service to the District, and the District is ready to welcome Dennis Gerke, who will take the reins on July 1, 2014;
- ❖ expenditures rose by more than four percent, while revenues declined by more than two percent, causing a drop in net position of more than seven percent;
- ❖ a major hailstorm hit the area on May 18, 2014, causing significant damage to many of the District's buildings, especially the roofs. The District is working with insurance adjusters and contractors to make the repairs in the next year.

USING THIS FINANCIAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the government unit as a whole and present a longer-term view of the District's finances, including capital assets and non-current liabilities.

Fund financial statements present a shorter-term view of the District's activities and include only current assets to be collected and liabilities to be paid in the next fiscal year. Only major funds are disclosed in these financial statements. The remaining statements provide financial information about those activities where the District acts solely as trustee or agent for the benefit of those outside the government unit. The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB).

District-Wide Statements (Reporting the School Districts as a Whole)

The report includes two district-wide statements that focus on the operations of the District as a whole. These statements use the accrual basis of accounting (the same basis used by most private-sector companies) and are designed to show whether the District overall is better off financially than it was the previous year. Activities that are fiduciary in nature (where the District acts as trustee or agent) are not included in these statements.

- The **Statement of Net Position** shows the “assets” (what is *owned*), “liabilities” (what is *owed*), and the “net position” (the resources that would remain if all obligations were settled) of the District. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain uses or reserved for emergencies and cash flow purposes. Some assets are capital assets—long-term resources—such as buildings, equipment, and other long-term property; and some assets are available to fund budgets of the following year.
- The **Statement of Activities** shows the amounts of program-specific and general school district revenues (where the money came from) used to support the District’s various functions (where the money went).

Reporting the District’s Most Significant Funds

The fund statements provide detailed information about the funds used by the District. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant (“major”) funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district’s operations, and the existence of legal budget requirements. The general fund (which includes both Elementary General and High School General) is always a major fund.

The *Balance Sheet* and the *Statement of Revenues, Expenditures, and Changes in Fund Balances* are shown for governmental funds, such as the general fund, special revenue funds for transportation and school food service, and debt service and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the District’s activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. Most significant differences result from the use of different accounting bases—full accrual or modified accrual. In addition, general capital assets and general long-term debt (non-current liabilities) are reported in the district-wide statements but not in the fund statements.

Reporting the District’s Trust and Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for the scholarship fund and the extracurricular account. This report includes the activities in a separate *Statement of Fiduciary Net Position & Statement of Changes in Fiduciary Net Position*, because the District cannot use those assets to fund its operations. The District is responsible for ensuring that these assets are used ONLY for their intended purposes.

Budget—to—Actual Comparisons

The budgetary comparison schedules shown in the *Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual)* illustrate how actual revenues and expenditures compared to the original and final budgets for the general funds.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. Over time, changes in net position are an indicator of whether a school district's financial health is improving or deteriorating. However, the reader needs to consider other non-financial factors in making an assessment of the District's financial health, such as changes in enrollment, the State's funding of educational costs, the economy, the District's tax base, etc., to evaluate the overall health of the District.

The District's net position declined by more than seven percent from the previous year (see Table 1 below). Over half of the reduction in current assets is offset by the increases in restricted cash and capital assets. The District used its current assets to add to the sinking funds and to finish the construction of the additional classroom building at Crow Agency Public School, plus added two buses and other capital assets. The sizeable increase in restricted cash is due to the fourth deposit to the sinking funds—hence, an increase of one-third. The amounts will remain the same each year, but the percentages will decline significantly each year as the sinking fund balance accumulates for paying back the principal of the QSCB and QZAB bonds in 12 years.

Table 1			
Net Position of Hardin School Districts 17H & 1			
(in thousands of dollars)			
	FY2014	FY2013	% Change
Current assets	7,781	11,681	-33.4%
Restricted cash – sinking funds	2,668	2,001	33.3%
Capital assets, net	24,821	23,416	6.0%
Total assets	35,270	37,097	-4.9%
Current liabilities	234	568	-58.8%
Non-current liabilities	12,967	12,694	2.2%
Total liabilities	13,201	13,262	-0.5%
Net Position:			
Net Investment in Capital Assets	14,036	12,607	11.3%
Restricted	5,577	2,455	28.3%
Unrestricted	2,455	8,774	-44.3%
Net position	22,068	23,835	-7.4%

Note: Totals may not add due to rounding.

The large decrease in current liabilities is due to a 15% drop in the current portion of compensated absences and a significant drop in the amount of funds on hand at year-end that were to be used in grant programs (deferred inflows or unearned revenue). The slight increase in non-current liabilities is due to the addition to the OPEB (other post-employment benefits) liability and the reduction of the long-term portion of compensated absences.

Activities. The District's total revenues declined by more than half a million dollars (a little over two percent) from FY2013. Table 2 on the following page shows the changes in the revenues over the past two years.

Program revenues, which include charges for services and operating grants, increased slightly. While the Striving Readers grant was reduced by nearly \$280,000 (due to the expiration of the grant in the next couple of years), there were also increases in at least four other grants and in school food payments.

Table 2				
Changes in Revenues				
(in thousands of dollars)				
	FY2014	FY2013	\$ change	% change
Program revenues:				
Charges for services	370	364	6	1.6%
Operating grants	6,326	6,208	118	1.9%
Total program revenues	6,696	6,572	124	1.9%
General revenues:				
District levy	4,088	4,250	-162	-3.8%
State equalization	7,247	7,015	232	3.3%
Other state revenue	1,670	1,715	-45	-2.6%
County	1,820	1,677	143	8.5%
Federal	3,720	4,493	-773	-17.2%
Investment earnings	175	-113	288	254.9%
Other general revenues	116	485	-369	-76.1%
Total general revenues	18,836	19,522	-686	-3.5%
Total overall revenues	25,532	26,094	-562	-2.2%

Revenue from district levies dropped by 3.8%. Although the District levied half a million dollars more than the year before, the amounts received from personal property taxes dropped by nearly \$76,000 and from coal gross proceeds by \$56,000. Personal property taxes are declining because less personal property is subject to tax than it used to be. The biggest change came, though, from the huge drop in protested taxes, from close to \$250,000 in FY2013 to a little over \$100,000 in FY2014.

The increase in enrollment in the elementary district was a major component in the three-percent rise in the elementary general budget, bringing state equalization revenues up by \$125,000. Guaranteed Tax Base (GTB) aid also grew by \$107,000. Although many of the other state revenue sources increased slightly, the oil and gas tax revenues declined by nearly \$38,000 and the Class 8 Property Reimbursements from FY2013 were gone in FY2014, reducing revenues by another \$45,000.

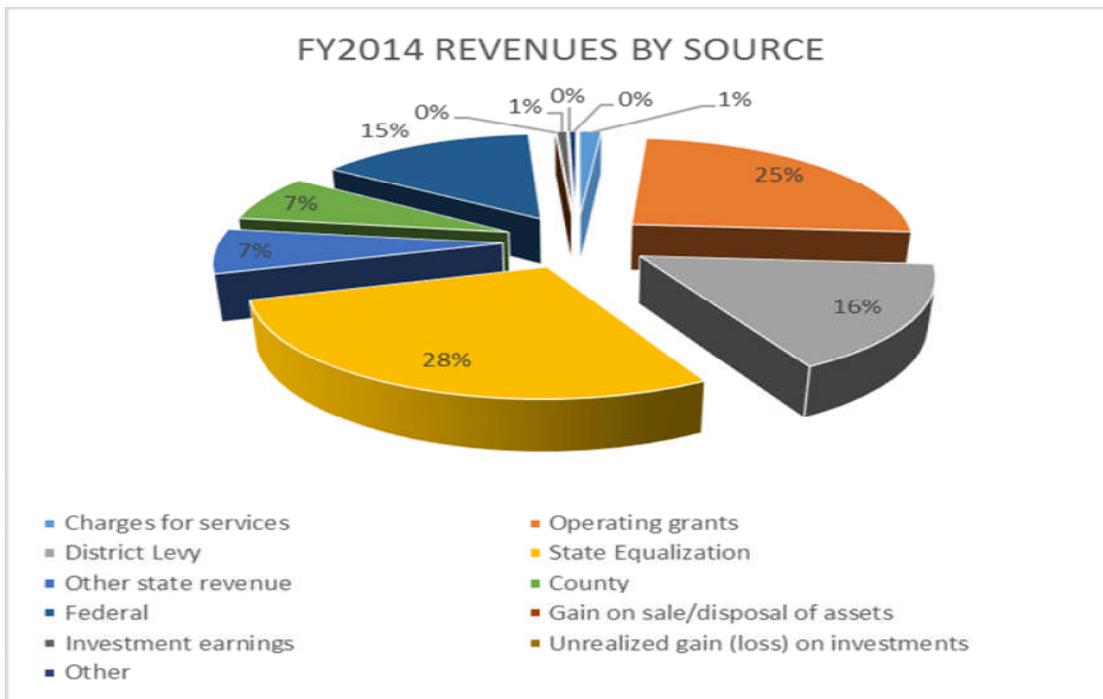
County revenues increased substantially, due to the increased rates for the Teachers' Retirement System (TRS) and the Public Employees Retirement System (PERS). Rates increased from 7.47% to 8.47% for the District's share of TRS and from 6.8% to 7.8% for PERS. These changes, along with the payment of excess reserve amounts from the retirement funds, were set by the legislature to sharply reduce the shortfall that was estimated by actuaries in both retirement systems.

Sequestration hit the District hard in FY2014. Federal revenues were down more than three-quarters of a million dollars (17.2%). In FY2013, the District received impact aid payments for not only FY2013, but small second, third, fourth, even fifth and sixth payments from fiscal years 2007-2011. In FY2014, however, the elementary district received one large payment in February that was actually about one percent higher than the total from the previous year. The high school district, on the other hand, received two smaller payments during the year, which added together, were less than half the total amount received in FY2013.

Government securities and bond prices finally started to make a comeback during FY2014, after a dreadful year last year, accounting for the nice rise in investment earnings.

The “other general revenue” category includes miscellaneous revenue items, such as insurance payments. In FY2013, the District received nearly \$270,000 to cover the loss of three trailers at Crow Agency Public School – the reason for building the new classroom addition. This caused a significant amount to be added to “Other General Revenue.” Without those payments, of course, other general revenue declined sharply. The District should be receiving substantial amounts in FY2015 due to all the hail damage from the storm in May, 2014, so other general revenue will undoubtedly rise significantly again next year.

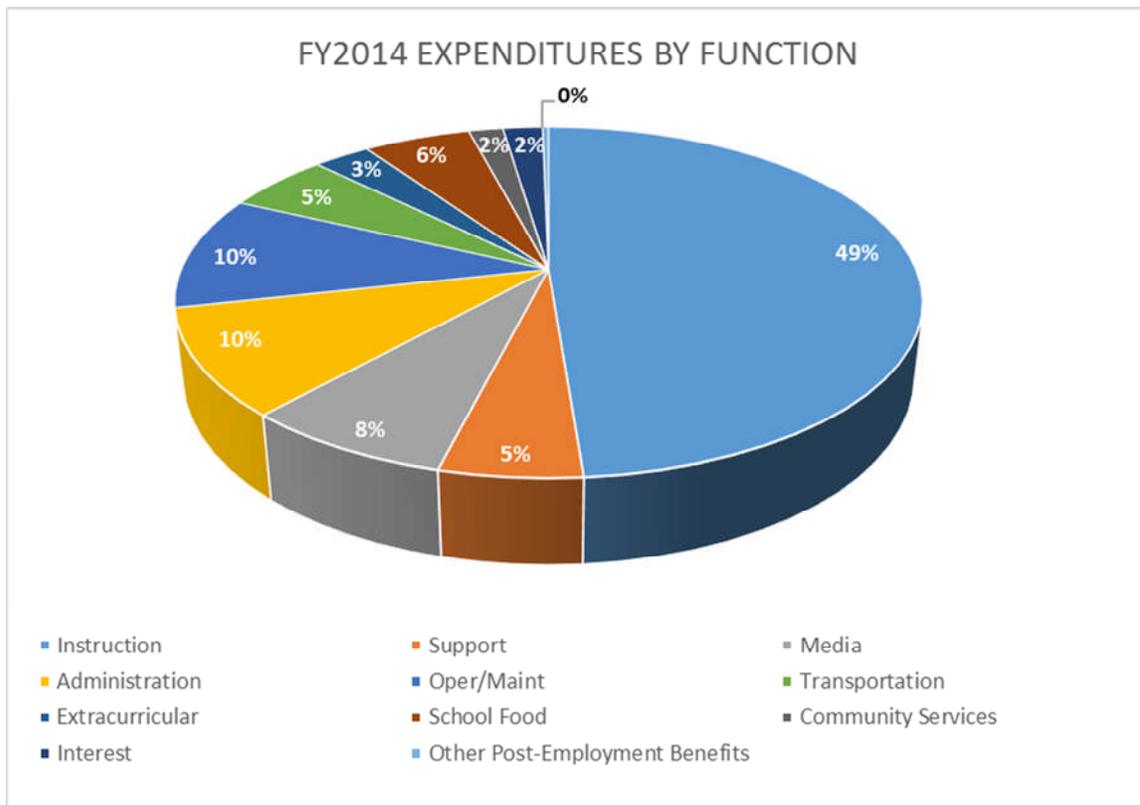
“Where did the money come from?” The graph below shows the breakdown of the sources of revenue received in FY2014. Because of the shortfall in impact aid payments received, the federal source’s share has declined from 17% to 15%. Operating grants, state equalization, and the county have increased the percentages they contribute by a percent each.



“Where did the money go?” The chart on the following page shows how the expenses for the year break down by function. In FY2014, instructional and administrative costs took a slightly larger piece of the pie than the previous year, while operations and maintenance costs and the OPEB liability took slightly less than before. Really, there is little fluctuation in functional costs from year to year for the most part.

Table 3 on the following page shows the changes in expenses from FY2013 to FY2014. Instructional expenditures rose 5.3%; nearly half the increase was due to the TRS reserve payment required by HB 377. House Bill 377, approved in the 2013 legislative session, contained a provision requiring school districts to remit excess operating reserves to the Teachers’ Retirement System. The District was required to send in an additional \$315,007 due to a TRS excess reserves assessment. Also, the rise in TRS rates described previously caused an increase in instructional costs of over \$80,000 (a 13.5% rise). The District also purchased \$130,000 more in instructional supplies, equipment, software, and video than it did in FY2013.

Administrative costs rose significantly, but much of the reason for that is the change in coding for four certified staff from support to administrative, adding more than \$300,000 to administrative salaries and benefits alone. The estimates for compensated absences in this category also rose by more than \$90,000. Though the four staff were removed from support services, those costs rose by close to six percent. The District added the daycare center at the high school and the behavior intervention program during the year, creating positions for six additional employees for at least part of the year. Preparing the daycare center, which is housed at what used to be the Evenstart building across the street from the high school, cost the district around \$15,000. The Altacare program at the high school, middle school, and now at Crow Agency Public School added more than \$17,000 in services from the previous year. The Altacare program is really not a cost to the District, as the State of Montana reimburses the District for any payments made, but those payments are included in the expenditures, while the money received is included in revenues.



Salaries under media include salaries for school librarians and the curriculum coordinator, as well as technology staff. The decline in media costs is due primarily to the retirement of the District's printer and also the head of the technology department. A part-time employee was hired to do some of the printing, but the District had not hired another IT person at the end of the fiscal year. Also, when staff go out-of-district for training, the coding is also a part of media services. Those out-of-district training costs declined substantially from the previous year. As an example, the Striving Readers grant paid \$53,000 less in FY 2014 for training than it did in FY2013.

Operations and maintenance costs rose by two percent, primarily due to the very long and very cold winter, bringing utility expenses up \$60,000 more than the previous year.

Transportation costs grew by nearly 15%. One reason is that insurance costs of almost \$30,000 were added to transportation costs, where they hadn't been the year before. Bus contractor payments went up by 5.6% -

four percent increases in contract amounts with the remaining increase in reimbursement of fuel costs. Bus repair expenses increased by nearly \$90,000 during FY2014 from the prior year, including at least one overhaul and other extensive repairs.

Table 3				
Changes in Expenditures				
(in thousands of dollars)				
	FY2014	FY2013	\$ change	% change
Government Operations				
Instruction	13,340	12,668	672	5.3%
Support	1,426	1,349	77	5.7%
Media	2,104	2,206	-102	-4.6%
Administration	2,696	2,040	656	32.2%
Operations/maintenance	2,866	2,809	57	2.0%
Transportation	1,482	1,292	190	14.7%
Extracurricular	807	742	65	8.8%
School food	1,448	1,471	-23	-1.6%
Community services	486	561	-75	-13.4%
Interest	559	559	0	0.0%
Loss on disposal of capital assets		88	-88	-100.0%
Other post-employment benefits	84	336	-252	-75.0%
Total Governmental Activities	27,299	26,121	1,178	4.5%

Note: Totals may not add due to rounding.

Extracurricular expenditures were very nearly the same as the prior year. The \$65,000 increase in extracurricular costs is simply the amount of increase in depreciation expense from the previous year.

Since the District purchased over \$200,000 in equipment for the school food program in FY2013, and then spent less than \$20,000 on new equipment in FY2014, school food costs actually shrank by 1.6%. With five additional staff hired to work in food services and the increase in PERS rates, employee costs actually rose by nearly seven percent and the price of food went up nearly sixteen percent.

The community services category covers the expenses of the swimming pool (Hardin Community Activity Center) and any other community projects during the year, such as the annual clean-up day. In FY2014, those costs declined considerably. Depreciation of nearly \$45,000 from the previous year was not included in community service costs in FY2014 because it is reported in extracurricular costs. Also, costs for new doors, window coverings, and a new commercial vacuum cleaner from FY2013 were not present in 2014.

There was no gain or loss on disposal of capital assets in FY2014. The other post-employment benefits (OPEB), after the initial addition last year, was reduced to \$84,000, and will probably remain somewhat close to that amount annually. This liability is an estimate of how much it costs the District in the long run to allow retired employees to stay on its health insurance plan. Although the District does not continue to contribute to retirees' health insurance premiums after retirement, allowing them to remain on the plan does present a cost to the District by raising the average age of plan members.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the "major" (most significant) funds and a short-term view of a school district's operations. The General fund is always reported as a major fund. To be

reported as a major fund, the total assets, liabilities, revenues, or expenditures of an individual fund must be at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds. The major funds for the Hardin School District are the General Fund (which includes the Elementary General and the High School General funds), the Elementary Miscellaneous Programs fund and the High School Debt Service fund.

Most of the data in fund financial statements reinforces the figures from the district-wide statements. The differences are described in the Reconciliation to the Statement of Net Position at the bottom of the Governmental Funds Balance Sheet and are primarily caused by the different accounting bases used.

General Fund Budgetary Highlights

The District did not amend any of its original budgets during the 2013-2014 fiscal year and kept expenditures within the budgets. General fund budgets rose by \$281,000 (2.5%). ANB rose by 19 students – from 1,794 to 1,813 – a little more than one percent. The elementary district showed a gain in ANB from 1,336 to 1,364 (a 2.1% increase), while high school numbers dropped once more – from 458 to 449 (a 2% decline).

The District tax levies for the general funds actually increased by 1.3%, while taxable valuations for both the elementary and high school districts grew by 3.4% and 3.2% respectively.

Salaries rose by nearly two percent, while employee benefits grew by just slightly over two percent. Total salaries in FY2014 were nearing \$13 million, while employee benefits totaled \$4.3 million. General funds paid nearly \$8.7 million on salaries, down from the previous year by nearly half a million dollars, and account for 75% of general fund expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. At the end of FY2014, the District had substantially completed construction of the new building at the Crow Agency Public School to replace the trailers lost to fire the year before. The remodel of the heating/ventilation system at the Crow Agency Public School was underway. The District added nearly two million dollars to its total capital assets, including the construction projects and two buses, along with other additions to machinery and equipment and land improvements, such as parking lots and playground equipment.

With all the additions to capital assets in the last few years, depreciation expense increased by nearly 46%. The high school addition, with a total cost of nearly \$9.8 million, will be depreciated by almost \$200,000 every year, nearly doubling the total depreciation expense for the entire high school district from the year before. The District's new charter bus (a 2007 Prevost) added another \$25,000 of depreciation in the high school district, while the new Bluebird bus added \$12,500. The addition at the Primary School added over \$60,000 in depreciation.

Long-term Debt. The District's long-term debt at the end of FY2014 includes almost \$10.8 million in bonds payable and nearly \$1.8 million in estimated compensated absences payable. Compensated absences payable increased by 12.4%, due in large part, to adjustments made to the estimates of the superintendent's retirement package and the addition of the sick leave buy-back (Article XVII 17.1[3] in the Master Contract Agreement), which requires the District to buy back the cumulative sick leave of any certified employee with more than five years of service at a rate of \$26/day. The OPEB liability increased by \$84,000 or (25%). The long-term portion of Bonds Payable decreased slightly due to the current portion increasing.

FACTORS BEARING ON THE DISTRICT'S FUTURE

During the summer of 2014, the remodel project of the heating/ventilation system at Crow Agency Public School was in full swing and plans were to have it completed in the fall.

In May, 2014, a severe hailstorm hit Hardin and the surrounding area with golf ball-sized hail and many of the District's buildings, especially the roofs, were damaged substantially. The District was in the process of negotiating with the insurance company and contractors on the best way to proceed for the repairs. Those repairs and insurance payments will likely impact next year's financial statements considerably.

High school student enrollment should be increasing soon, as the growing number of elementary students over the past several years will be moving into the high school age group. Elementary numbers are expected to remain stable or increase somewhat.

The State of Montana received a \$10 million grant for early childhood education and the District is slated to receive a portion of that to help cover some of the costs of the Kindergarten Readiness Center. The governor is also emphasizing pre-school learning and has included funding in his proposed budget for increasing spending on early childhood education; the budget will be presented to the legislature early in 2015.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager or Superintendent, Hardin Public Schools, 585 West John Deere Road, Hardin, MT 59034. The Business Manager can be reached by phone at (406) 665-9308 or by email at margy.lehman@hardin.k12.mt.us.

Trripp & **A**ssociates
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Billings, Montana 59102

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hardin School District No. 17H & 1
Big Horn County
Hardin, Montana 59034

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin School District No. 17H & 1 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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, each major fund, and the aggregate remaining fund information of Hardin School District No. 17H & 1 as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis (MD&A) on pages 3 through 11; Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual on page 39; and Schedule of Funding Progress - Other Post-Employment Benefits (OPEB) Other Than Pensions on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of

preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hardin School District No. 17H & 1's basic financial statement. The Schedule of Combining Funds, Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of State, Local Governments, and Non-Profit organizations;" Schedule of Reported Enrollment and Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds are presented for purposes of additional analysis and are not a required part to the basic financial statements.

The Schedule of Combining Funds, Schedule of Reported Enrollment, Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds and Schedule of Expenditures of Federal Awards 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 Schedule of Combining Funds, Schedule of Reported Enrollment, and Schedule of Revenues, Expenditures and Fund Balances – Extracurricular Funds the Schedule of Expenditures of Federal Awards are fairly stated in all material respects **in relation to** the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2015, on our consideration of Hardin School District No. 17H & 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing Hardin School District No. 17H & 1's internal control over financial reporting and compliance.

Tripp & Associates

Billings, Montana
January 20, 2015

Hardin School District No. 17H & 1
Big Horn County
Hardin, Montana

STATEMENT OF NET POSITION
as of June 30, 2014

	<u>Governmental Activities</u> <u>2014</u>
ASSETS:	
Current Assets:	
Cash & Investments	\$ 7,074,003
Taxes Receivable	383,383
Due From Other Governments	<u>323,586</u>
Total Current Assets	7,780,972
Restricted Cash:	
G.O. Bond Sinking Funds - Held by District	2,667,936
Non-Current Assets:	
Land/Construction in Progress	890,587
Other Capital Assets (Net)	<u>23,930,209</u>
Total Non-Current Assets	<u>24,820,796</u>
Total Assets	35,269,704
LIABILITIES:	
Current Liabilities:	
Accounts Payable	47,556
Advances of Federal Grants	13,264
Compensated Absences	147,500
Current G.O. Bonds Payable	<u>25,941</u>
Total Current Liabilities	234,261
Non-Current Liabilities:	
Compensated Absences	1,788,421
OPEB Liability	420,120
G.O. Bonds Payable	86,647
G.O. Bonds Payable from Restricted Cash	<u>10,671,750</u>
Total Non-Current Liabilities	<u>12,966,938</u>
Total Liabilities	13,201,199
NET POSITION:	
Net Investment in Capital Assets	14,036,458
Restricted - Debt Service	3,176,687
Restricted - Instruction	116,347
Restricted - Transportation	352,861
Restricted - Capital Purchases	1,150,841
Restricted - Retirement	477,627
Restricted - O&M	209,571
Restricted - Media	232,681
Unrestricted	<u>2,315,431</u>
Total Net Position	<u>\$ 22,068,505</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Hardin School District No. 17H & 1
 Big Horn County
 Hardin, Montana

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

Functions/Programs	-----Program Revenues-----			Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Position
GOVERNMENTAL OPERATIONS:				
Instruction	\$ 13,339,854	\$ 146,621	\$ 3,393,531	\$ (9,799,702)
Support	1,426,447	-	1,067,675	(358,772)
Media	2,104,007	-	137,217	(1,966,790)
Administration	2,695,669	-	173,985	(2,521,684)
O & M	2,866,172	27,725	-	(2,838,447)
Transportation	1,482,261	-	597,218	(885,043)
Extracurricular	806,715	-	-	(806,715)
School Food	1,448,374	196,151	956,344	(295,878)
Community Services	486,288	-	-	(486,288)
Interest	559,362	-	-	(559,362)
Other Post-Employment Benefits	84,024	-	-	(84,024)
Total Governmental Activities	27,299,173	370,498	6,325,970	(20,602,705)
GENERAL REVENUES:				
District Levy				4,088,341
State Equalization				7,246,747
Other State Revenue				1,669,838
County				1,820,177
Federal				3,719,548
Investment Earnings				175,148
Other				116,172
Total General Revenues				18,835,971
CHANGE IN NET POSITION				(1,766,733)
NET POSITION:				
Beginning of the Year				23,835,238
End of the Year				\$ 22,068,505

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Hardin School District No. 17H & 1
 Big Horn County
 Hardin, Montana

BALANCE SHEET
 GOVERNMENTAL FUNDS
 as of June 30, 2014

	-----MAJOR-----			Other	Total
	General Fund	EL Misc. Fund	HS Debt Svc. Fund	Government Funds	
ASSETS:					
Cash and Investments	\$ 3,266,338	\$ -	\$ 2,355,640	\$ 4,119,961	\$ 9,741,939
Taxes Receivable	271,794	-	28,050	83,538	383,383
Receivable From Other Funds	138,322	-	-	-	138,322
Due From Other Governments	-	246,673	-	76,913	323,586
Total Assets	<u>3,676,454</u>	<u>246,673</u>	<u>2,383,691</u>	<u>4,280,412</u>	<u>10,587,230</u>
LIABILITIES:					
Payable to Other Funds	-	110,210	-	28,112	138,322
Accounts Payable	41,147	4,169	-	2,241	47,556
Advances of Federal & State Grants	-	1,476	-	11,788	13,264
Total Liabilities	41,147	115,855	-	42,140	199,142
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property Taxes	271,794	-	28,050	83,538	383,383
FUND BALANCES:					
Nonspendable - Interfund Loans:	138,322	-	-	-	138,322
Nonspendable - Debt Service - Sinking Funds	-	-	1,875,000	792,936	2,667,936
Restricted:					
Instruction	-	544	-	111,566	112,110
Media	-	-	-	232,681	232,681
Transportation	-	-	-	302,575	302,575
Retirement	-	-	-	477,626	477,626
O&M	-	-	-	199,228	199,228
Capital Purchases	-	-	-	1,132,219	1,132,219
Debt Service	-	-	480,640	11	480,652
Committed:					
Instruction	-	110,144	-	11,339	121,483
Operations & Maintenance	-	-	-	771,359	771,359
Media	-	-	-	116,289	116,289
Assigned:					
Instruction	23,113	20,130	-	6,431	49,674
Vacations & Sick Leave	205,023	-	-	-	205,023
School Food	-	-	-	472	472
Debt Service	666,984	-	-	-	666,984
Capital Projects	400,000	-	-	-	400,000
Unassigned	1,930,071	-	-	-	1,930,071
Total Fund Balances	<u>3,363,513</u>	<u>130,818</u>	<u>2,355,640</u>	<u>4,154,733</u>	<u>10,004,704</u>
Total Liabilities, Deferred Inflows & Fund Bal.	<u>\$ 3,676,454</u>	<u>\$ 246,673</u>	<u>\$ 2,383,691</u>	<u>\$ 4,280,412</u>	<u>\$ 10,587,230</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

Total fund balances - Governmental Funds		\$ 10,004,704
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Cost of Assets	36,404,092	
Less Accumulated Depreciation	<u>(11,583,296)</u>	24,820,796
Less liabilities not reported in the governmental funds		
Compensated Absences	(1,935,921)	
Other Post-Employment Benefits	(420,120)	
Bonds Payable	<u>(10,784,338)</u>	(13,140,379)
Deferred Inflows of Resources due to Property Tax Collections Receivable		<u>383,383</u>
Net Position - Governmental Activities		<u>\$ 22,068,505</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Hardin School District No. 17H & 1
Big Horn County
Hardin, Montana

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

	-----MAJOR-----			Other	Total
	General Fund	EL Misc. Fund	HS Debt Svc. Fund	Government Funds	Governmental Funds
REVENUES:					
District Levies	\$ 2,855,890	\$ -	\$ 449,896	\$ 901,278	\$ 4,207,063
Interest	74,938	-	13,481	86,729	175,148
Other	9,722	15,702	43	90,704	116,172
County	-	-	-	2,117,534	2,117,534
State	8,825,780	12,795	77,723	782,795	9,699,093
Federal	3,719,548	3,316,131	376,536	1,553,440	8,965,654
Charges for Services	-	<u>37,784</u>	-	<u>332,714</u>	<u>370,498</u>
Total Revenues	15,485,878	3,382,412	917,678	5,865,192	25,651,161
EXPENDITURES:					
Instructional Services	8,549,455	2,012,224	-	2,237,974	12,799,654
Instructional Support Services	691,627	537,668	-	175,280	1,404,575
Educational Media Services	1,369,843	547,735	-	197,682	2,115,260
General Administrative Services	2,138,953	136,030	-	289,739	2,564,722
Operation & Maintenance Services	2,472,314	7,158	-	163,459	2,642,931
Transportation Services	136,902	2,616	-	1,243,324	1,382,842
Extracurricular	596,926	-	-	54,562	651,488
School Food Services	210,709	-	-	1,225,476	1,436,185
Community Services	<u>158,404</u>	<u>2,874</u>	-	<u>320,175</u>	<u>481,452</u>
Total Current Expenditures	16,325,133	3,246,305	-	5,907,671	25,479,108
Capital Outlay	1,419,579	32,932	-	915,372	2,367,883
Debt Service (Principal, Interest, Fees)	-	-	<u>406,250</u>	<u>177,802</u>	<u>584,052</u>
Total Expenditures	<u>17,744,711</u>	<u>3,279,237</u>	<u>406,250</u>	<u>7,000,845</u>	<u>28,431,044</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	(2,258,833)	103,175	511,428	(1,135,653)	(2,779,883)
OTHER FINANCING SOURCES (USES)					
Fund Transfers In	64,085	-	14,607	264,899	343,591
Fund Transfers (Out)	<u>(343,591)</u>	-	-	-	<u>(343,591)</u>
NET CHANGES IN FUND BALANCES	(2,538,339)	103,175	526,035	(870,754)	(2,779,883)
FUND BALANCES:					
Beginning of the Year	<u>5,901,852</u>	<u>27,643</u>	<u>1,829,605</u>	<u>5,025,488</u>	<u>12,784,587</u>
End of the Year	<u>\$ 3,363,513</u>	<u>\$ 130,818</u>	<u>\$ 2,355,640</u>	<u>\$ 4,154,733</u>	<u>\$ 10,004,705</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Hardin School District No. 17H & 1
Big Horn County
Hardin, Montana

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

Total Net Change in Fund Balances - Governmental Funds		\$	(2,779,883)
Amounts reported for governmental activities in the statement of activities are different because:			
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:			
Increase (Decrease) in Taxes Receivable			(118,721)
Expenses in the statement of activities that do not require the use of current financial resources are not included in the governmental funds:			
Depreciation Expense	(962,745)		
Other Post-Employment Benefits (Increase) Decrease	(84,024)		
(Increase) Decrease in Compensated Absence Liability	<u>(213,934)</u>	(1,260,703)	
Expenditures reported in the governmental funds not included in the Statement of Activities			
Capital Outlays	2,367,883		
Principal Payments on General Obligation Bonds (QZAB 2003)	<u>24,691</u>	<u>2,392,574</u>	
Change in net position reported on the Statement of Activities - governmental activities		\$	<u>(1,766,733)</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Hardin School District No. 17H & 1
Big Horn County
Hardin, Montana

STATEMENT OF FIDUCIARY NET POSITION &
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
As of June 30, 2014

	<u>Private Purpose</u> <u>Trust Funds</u>
ASSETS:	
Cash, Cash Equivalents and Investments	\$ 248,382
Total Assets	248,382
LIABILITIES:	
Total Liabilities	-
NET POSITION:	
Held in Trust for Scholarships	9,903
Held in Trust for Student Activities	<u>238,479</u>
Total Net Position	<u>\$ 248,382</u>

CHANGES IN FIDUCIARY NET POSITION

ADDITIONS:	
Contributions to Scholarships	894
Revenue from Student Activities	<u>261,674</u>
Total Additions	262,568
DEDUCTIONS:	
Regular Education Expenses	500
Expenses of Student Activities	<u>257,377</u>
Total Deductions	257,877
CHANGE IN NET POSITION:	4,691
Net Position, Beginning of the Year	<u>243,691</u>
Net Position, Ending of the Year	<u>\$ 248,382</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Board of Trustees
Hardin School District No. 17H & 1
Big Horn County
Hardin, Montana 59034

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Hardin School District No. 17H & 1 (the "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 District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A) REPORTING ENTITY

The District is a political subdivision of the Montana Department of Education governed by a Board of Trustees (the Board) elected by the public. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. The statements reflect all funds and accounts directly under the control of the District.

The 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 districts are combined because they are controlled by the same central board of trustees and managed by the same administration.

The criteria for including organizations as component units within the District's reporting entity is set forth in Section 2100 of the 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 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 District. Based on those criteria the District has no component units.

B) MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The measurement focus establishes the basis of accounting. The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of advances, the presentation of expenses versus expenditures, the recording of capital assets, the recognition of depreciation and the recording of long-term liabilities. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the Government-wide financial statements and the governmental fund financial statements.

Government-Wide Financial Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the District as a whole except for the fiduciary funds. The trust funds are reported as private purpose trust funds in the fiduciary fund financial statements.

The government-wide financial statements and fiduciary fund statements report using the economic resources measurement focus and the accrual basis of accounting generally including the elimination of internal service activity between or within funds. Revenues are recognized when earned and expenses are recognized when the related 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. Net Position is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased Net Position. Depreciation is charged as an expense against current operations and accumulated depreciation is reported on the Statement of Net Position.

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 (1) charges for services such as school lunch fees and facility rental fees and (2) operating grants that are restricted to particular functional programs.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Fund Financial Statements

Fund financial statements provide information on the districts major governmental funds and a combined column for all other non-major funds and student activity fiduciary funds. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay current liabilities. The District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenues from federal, state and other grants designated for payment of specific district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as advances until earned. Expenditures are recognized when the liability is incurred, except for claims, compensated absences and interest on long-term debt which are recorded when normally expected to be liquidated with expendable available financial resources. Payments of long-term debt principal are reported as expenditures when paid. Capital asset purchases are recorded as functional expenditures and depreciation is not recognized.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenues from property taxes are recognized in the period for which the taxes are levied. Revenues from grants, entitlements and donations are recognized when all eligibility requirements imposed by the provider have been satisfied. Eligibility requirements include timing requirements, which specify whether resources are required to be used for the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

GASB Statement No. 34 requires that the general fund be reported as a major fund and that only one general fund be reported. All other governmental funds that exceed 10% of total governmental fund assets, liabilities, revenues, or expenditures are reported as major funds. The District's major governmental funds are General, Miscellaneous and Debt Service.

General Fund – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the 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. GASBS 54 requires that funds with similar restrictions to the General fund be combined in the General fund. For reporting purposes, the EL & HS Compensated Absences, EL & HS Impact Aid and EL & HS Flexibility funds are combined with the General fund. The Supplementary Information section of this report includes schedules of combined funds with details of each combined fund.

* The EL & HS Impact Aid funds are used to account for funds received from the federal government for the education of federally impacted children.

* The EL Flexibility and HS Flexibility funds are used to account for State grants and local revenues not directed to other funds.

* The EL and HS Compensated absence funds are used to account for funds accrued for vacations and sick leave.

EL Miscellaneous Fund – This special revenue fund is used to account for miscellaneous federal and state grants received by the District and various other State and local miscellaneous funds.

HS Debt Service Fund – This debt service fund is used to account for the accumulation of funds restricted by debt covenants or committed by the Board for the payment of General Obligation Bond debt.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Interlocal Fund reported as a Special Revenue Fund

The Interlocal Agreement fund is used to account for the operation of the community swimming pool. It is reported as a governmental special revenue fund due to the significant portion (70%) of District support required to sustain its activities. As of June 30, 2014 the fund balance of this fund was \$14. (Note 10).

Fiduciary Funds

Private Purpose Trust Funds – The Trust Funds account 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 District's Board of Trustees. This accounting reflects the District's trust relationship with the student activity organizations and any scholarship commitments.

Agency Funds – The Agency Funds generally are used to account for assets that the District holds on behalf of others as their agent in the payroll and claims clearing funds. Cash is held for warrants which were written but have not been paid by the County Treasurer. Agency funds do not report a measurement focus as they do not report operations.

C) CASH AND INVESTMENTS

Montana Code Annotated (MCA) allows school districts 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. The District's cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes.

The District does not have a formal investment policy that places any further restrictions on the nature of types of investments that may be purchased other than the State statute. Investments are recorded at fair market value.

The District considers cash on hand, demand accounts, savings, money markets, repurchase agreements, CD's, STIP, and short-term investments with original maturities of three months or less when purchased, to be cash equivalents. The Extracurricular fund's cash is held separately by the District and is covered by FDIC.

D) 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, the disclosure of contingent 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.

E) PROPERTY TAXES

Property taxes are collected by the Big Horn County Treasurer who credits to the 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 District receives its share of the sale proceeds of any such auction.

F) INVENTORIES

Inventory at year end was not material so all inventory was included as expenditures at the time of purchase.

G) CAPITAL ASSETS

The District considers capital assets to be those resulting from expenditures which have an initial, individual cost of more than \$5,000 with estimated useful life in excess of one year. These assets are reported in the government-wide Statement of Net Position, but are not reported in the Balance Sheet – Governmental Funds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital assets are recorded at cost, or estimated historical cost if actual historical cost is not available, and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. The District capitalizes the value of all infrastructures acquired after July 1, 2003. The District uses the straight-line depreciation method.

Improvements are capitalized but the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during construction is not capitalized. The useful lives of these assets have been estimated as follows:

Buildings & Improvements	10 – 50 years
Improvements other than buildings	20 – 25 years
Machinery and Equipment	5 – 20 years

H) COMPENSATED ABSENCES

District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. 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. The District reports compensated absences on the Termination Payment Method. 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. Therefore, only 25% of the accumulated sick leave is included in the accrual.

The liability accrued for unused vacation and sick leave accumulated by employees is 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 \$147,500 and it is generally paid out of the general fund. The accrued liability for sick and vacation leave at June 30, 2014 was \$1,935,921.

I) INTERFUND TRANSACTIONS

Interfund transactions between governmental funds are reflected as transfers. Loans are reported as receivables and payables as appropriate, and are referred to as either "due to/from other funds" and are subject to elimination upon consolidation of funds. Advances between funds, as reported in the fund financial statements, are offset by Nonspendable fund balance in the General fund and as committed or assigned fund balance in other governmental funds as appropriate.

J) ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

NOTE 2: CASH AND INVESTMENTS

A portion of the District's cash resources are held and managed by the Big Horn County Treasurer. They are combined with cash resources of other governmental entities within Big Horn County to form a pool of cash and cash equivalents. As of June 30, 2014, the County held \$1,837,794 for the District which consists primarily of repurchase agreements. The County does not issue separate financial statements on the investment pool. This external investment pool is audited as part of Big Horn County's financial statements. The County investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC) or subject to other regulatory oversight. The County provides monthly statements to the District.

The remainder of the District's cash resources are held and managed by the District's Business Manager. The District pools cash and cash equivalents for all funds. Deposits of pooled cash consist primarily of repurchase

NOTES TO THE FINANCIAL STATEMENTS (Continued)

agreements, money markets and CD's and is carried at fair value. The District's investments consist primarily of US Government Securities and are carried at fair value.

At June 30, 2014 the carrying amount of deposits was \$5,325,601 and investments of \$5,836,896. Total cash and investments are \$11,162,497. This includes \$1,410,655 in Agency funds and \$9,903 in Trust funds.

Custodial Credit Risk – Deposits: Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's may not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The State of Montana (the State) statutes require that District funds be deposited in banks located in the State and that all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits be collateralized in accordance with State statutes. The District's deposit policy for custodial credit risk requires compliance with the laws of the State. As of June 30, 2014 the District's deposits were either insured or collateralized.

The County-held portion of the repurchase agreements are exposed to custodial credit risk in that they are uninsured, unregistered and held by the County, not in the District's name. The entire balance of the District's deposits in repurchase agreements is collateralized be either underlying securities held by the County or by collateralization agreements held by the District.

As of June 30, 2014, of the District's deposits held in SIPC financial institutions \$625,720 was either uninsured or uncollateralized. Of this amount, \$406,438 is held in a US Government money market and \$219,319 is held in money market funds of the SIPC financial institutions.

Custodial Credit Risk – Investments: Custodial credit risk for investments is the risk that, in the event of a financial institution failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require all investments (other than federal or state government instruments) to be collateralized in accordance with State statutes. As of June 30, 2014, none of the District's investments was exposed to custodial credit risk.

As of June 30, 2014, the District held the following investments which are permitted by the District's investment policy. The District is not subject to concentration of credit risk disclosures because all District investments are held in US Government securities.

<u>Investment Type</u>	<u>Fair Value</u>
US Gov. Agency/Mortgage Bonds	\$5,312,869
US Gov. Mutual Funds	364,253
US Gov. Treasuries	59,616
US Gov. Treasury Notes	50,223
Treasury Inflation Protected Securities (TIPS)	<u>49,935</u>
Total Investments	<u>\$5,836,896</u>

Restricted Cash

The District maintains restricted cash balances consisting of guaranteed interest deposit accounts held by fiscal agents, which are restricted for repayment of the District's Elementary Qualified Zone Academy Bonds (QZAB) and High School Qualified School Construction Bonds (QSCB). As of June 30, 2014, the total carrying amounts and related bank balances of the restricted cash accounts is \$2,667,936 as illustrated below:

<u>Restricted Cash and Investments</u>	<u>Amount</u>
US Government Money Markets	\$ 376,418
CD's	1,133,957
US Gov. Mortgage Bonds	1,017,839
US Gov. Bond Mutual Funds	29,883
Treasury Inflation Protected Securities	59,616
US Treasury Notes	<u>50,223</u>
Total	<u>\$2,667,936</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 3: NET POSITION/FUND BALANCES

A) NET POSITION

The government-wide fund financial statements utilize a Net Position presentation. Net Position are categorized as invested in capital assets, net of related debt, restricted and unrestricted.

Net Investment in Capital Assets – This category reports the portion of Net Position containing capital assets, including infrastructure, as one component of Net Position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category reports the portion of Net Position that is subject to constraints either by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, restricted Net Position for governmental activities totaled \$5,576,928 of which \$2,937,091 was restricted by enabling legislation.

Unrestricted Net Position – This category reports the portion of Net Position that is not restricted for any project or other purpose. Outstanding liabilities attributable to these assets reduce the balance of this category.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use the restricted funds first.

B) FUND BALANCE POLICY

Fund Statement – Fund Balances

In the fund financial statements, governmental funds report fund balance as Nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

Nonspendable – Amounts that cannot be spent because they are in a nonspendable form or because they are legally or contractually required to maintained intact i.e., inventory or endowment corpus.

Restricted – Amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation.

Committed – Amounts that can be used only for specific purposes determined through a motion approved by the Board to establish, modify and rescind; and do not lapse at year end.

Assigned – Amounts intended for specific purposes by the District Clerk and/or Superintendent who have been delegated authority by the Board to assign such amounts. This fund balance classification also reflects any funds assigned for capital projects.

Unassigned – All amounts not included in other spendable classifications.

When expenditures are incurred for which committed, assigned or unassigned amounts could be used, it is the District’s policy to first spend committed, then assigned and unassigned resources last.

C) FUND BALANCE CLASSIFICATIONS

Nonspendable Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
EL Impact Aid	\$ 110,210	Due From Other Funds – EL Misc.
HS Flexibility	28,112	Due From Other Funds – HS Misc.
EL Debt Service	792,936	Debt Service – Sinking Fund
HS Debt Service	<u>1,875,000</u>	Debt Service – Sinking Fund
Total Nonspendable	\$2,806,258	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Restricted Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
EL Miscellaneous	\$ 544	Instruction
EL Debt Service	11	Debt Service
HS Debt Service	480,640	Debt Service
EL Transportation	191,715	Transportation
HS Transportation	110,860	Transportation
EL Bus Depreciation	469,594	Capital Purchases - Buses
HS Bus Depreciation	662,625	Capital Purchases - Buses
EL & HS Retirement	322,080	Retirement
HS Retirement	155,547	Retirement
EL Building Reserve	33,518	Operations & Maintenance
HS Building Reserve	165,710	Operations & Maintenance
EL Technology	126,411	Media
HS Technology	106,270	Media
Other Governmental Funds	<u>111,566</u>	Instruction
Total Restricted	\$2,937,091	

Committed Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
EL Miscellaneous	\$ 110,144	Instruction
EL & HS Technology	116,289	Media
HS Miscellaneous	11,326	Instruction
Other Governmental Funds	14	Instruction
EL Building	243,394	Operations & Maintenance
EL Lease Rental	1,546	Operations & Maintenance
HS Building	<u>526,418</u>	Operations & Maintenance
Total Committed	\$1,009,131	

Assigned Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 400,000	Capital Projects – Crow Elementary HVAC
General	468,750	Debt Service – QSCB Principal
General – EL Impact Aid	198,234	Debt Service – QZAB Principal
General	11,253	Instruction
General – HS Impact Aid	1,325	Instruction
General – EL Comp Absences	153,558	Instruction
General – HS Comp Absences	51,465	Instruction
EL Miscellaneous	20,130	Instruction
HS Miscellaneous	6,430	Instruction
School Food	<u>472</u>	School Food Services
Total Assigned	\$1,311,617	

Unassigned Fund Balance

<u>Fund</u>	<u>Amount</u>
General	\$ 566,372
General – EL Impact Aid	380,254
General – HS Impact Aid	1,621
General – EL Flexibility	579,106
General – HS Flexibility	<u>413,254</u>
Total Unassigned	\$1,940,607

Total District Fund Balance \$10,004,704

D) MATERIAL CHANGES IN FUND BALANCE CLASSIFICATIONS

The District reviewed its GASB 54 interpretations and determined that the previously reported fund balance classifications were in need of revision. The fund balances reported above reflect current District classifications.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

E) RESTRICTED FUND BALANCE AND RESTRICTED NET POSITION DIFFERENCES

The Restricted Net Position reported on the Statement of Net Position differs from the Restricted Fund Balance reported on the Balance Sheet – Governmental Funds. The difference of \$2,667,936 represents Non-Spendable amounts reported on the Balance Sheet – Governmental Funds held in Debt Service funds to meet sinking fund requirements. The difference of \$111,589 represents the deferred inflows of resources due to taxes receivable in the restricted funds. This difference is attributable to the difference in accounting basis of these two statements.

NOTE 4: TAXES / RECEIVABLES

A) MILL LEVIES

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$12,806,131 for the elementary district and \$21,214,815 for the high school district. The tax rates assessed for the year ended June 30, 2014 to finance District operations were for the elementary and high school districts as follows:

<u>Fund</u>	<u>Elementary</u>	<u>High School</u>	<u>Total Mills</u>
General	121.77	24.83	146.60
Transportation	33.12	4.10	37.22
Bus Depreciation	7.86	3.64	11.52
Tuition	.02	1.32	1.34
Adult Education	1.00	1.00	2.00
Debt Service	0	21.61	21.61
Building Reserve	<u>2.73</u>	<u>3.06</u>	<u>5.79</u>
Total	<u>166.50</u>	<u>59.56</u>	<u>226.06</u>

B) TAXES RECEIVABLE

<u>Fund</u>	<u>Elementary</u>	<u>High School</u>	<u>Total</u>
General	\$227,556	\$44,239	\$271,795
Transportation	45,752	4,534	50,286
Bus Depreciation	11,945	6,678	18,623
Tuition	79	1,422	1,501
Adult Education	1,638	1,098	2,736
Debt Service	49	28,050	28,099
Building Reserve	<u>4,912</u>	<u>5,431</u>	<u>10,343</u>
Total	<u>\$291,931</u>	<u>\$91,452</u>	<u>\$383,383</u>

C) DUE FROM OTHER GOVERNMENTS

<u>School / Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
Elementary – Miscellaneous	\$110,572	Crow Tribe - Johnson O'Malley
Elementary - Miscellaneous	16,715	Federal Gov. - Title I Part A
Elementary - Miscellaneous	19,660	Federal Gov. - Striving Readers
Elementary - Miscellaneous	1,628	Federal Gov. - Title II Part A
Elementary - Miscellaneous	12,948	Federal Gov. - 21 st Century
Elementary - Miscellaneous	57,673	Federal Gov. - Gear Up
Elementary - Miscellaneous	271	Federal Gov. - Title I Part A
Elementary - Miscellaneous	27,206	Federal Gov. - Title I Part A
High School – Traffic Education	3,694	State of MT - Driver's Ed Reimbursement
High School - Miscellaneous	27,584	Federal Gov. - Svc to Pregnant & Parenting Teens
High School - Miscellaneous	3,859	Federal Gov. - Carl Perkins
High School - Miscellaneous	41,305	Federal Gov. - Gear Up
High School - Miscellaneous	<u>471</u>	Federal Gov. - Gear Up - Summer
District Total	<u>\$323,586</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

D) DUE FROM OTHER FUNDS

<u>School / Fund</u>	<u>Amount</u>	<u>Due From / Reason</u>
Elementary – Impact Aid	\$110,210	Elementary Misc. – To Cover Negative Cash
High School – Flexibility	<u>28,112</u>	High School Misc. – To Cover Negative Cash
District Total	<u>\$138,322</u>	

NOTE 5: CAPITAL ASSETS

The value and changes to the District’s capital assets as of June 30, 2014 are as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Removals</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>
COST Non-Depreciable:					
Land	\$ 390,595	\$ 0	\$ 0	\$ 0	\$ 390,595
CIP	<u>405,489</u>	<u>387,155</u>	<u>0</u>	<u>(292,652)</u>	<u>499,992</u>
Total Non-Depreciable	796,084	387,155	0	(292,652)	890,587
COST Depreciable:					
Land Improvements	\$ 2,262,476	\$ 90,366	\$ 0	\$ 0	\$ 2,352,842
Buildings	27,581,485	1,437,698	0	292,652	29,311,835
Major Equipment	<u>3,430,598</u>	<u>452,665</u>	<u>34,435</u>	<u>0</u>	<u>3,848,828</u>
Total Depreciable COST	<u>33,274,559</u>	<u>1,980,729</u>	<u>34,435</u>	<u>292,652</u>	<u>35,513,505</u>
Total COST	<u>\$34,070,643</u>	<u>\$2,367,884</u>	<u>\$ 34,435</u>	<u>\$ 0</u>	<u>\$ 36,404,092</u>
ACCUMULATED DEPRECIATION:					
Land Improvements	\$ (925,778)	\$(101,059)	\$ 0	\$ 0	\$ (1,026,837)
Buildings	(7,282,869)	(628,840)	0	0	(7,911,709)
Major Equipment	<u>(2,446,339)</u>	<u>(232,846)</u>	<u>(34,435)</u>	<u>0</u>	<u>(2,644,750)</u>
Total Depreciation	<u>\$(10,654,986)</u>	<u>\$(962,745)</u>	<u>\$(34,435)</u>	<u>\$ 0</u>	<u>\$(11,583,296)</u>

Depreciation was charged to the district’s programs as follows:

Instructional	\$434,588
Media	8,964
School Administration	37,933
Operation & Maintenance	222,056
Transportation	99,419
School Food	10,809
Extracurricular	<u>148,976</u>
Total Current Year Depreciation	<u>\$962,745</u>

Hail Damage to Buildings

In fiscal year 2014 a hailstorm caused significant roof damage to buildings in the District. The insurance company paid \$270,000. However, the damage is believed to be significantly more than the insurance amount received. The District and insurance company are still working on an estimate of the full amount of damage sustained. The District made short-term repairs to roofs to prevent water leaks while the actual amount of damage is determined and an insurance award is made. The District has full intention of making all necessary repairs to its buildings. No impairment of District buildings has been reported for financial statement purposes.

NOTE 6: RISK MANAGEMENT

The 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 district has joined with other districts throughout

NOTES TO THE FINANCIAL STATEMENTS (Continued)

the state into an interlocal common risk pool to insure workers compensation for all participating districts in a self- insurance pool. The Workers Compensation Risk Retention Program (WCRRP) is managed by a board of directors elected annually. Members are responsible for fully funding the WCRRP through the payment of annual premiums accessed. There is no other liability to the district other than timely payments of premiums. The district can withdraw from the WCRRP with 60 days' notice. Information regarding the WCRRP may be obtained by contacting WCRRP at 1 S. Montana Ave., Helena, MT, 59601.

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 7: CURRENT LIABILITIES

A) DEFERRED INFLOWS OF RESOURCES

<u>School / Fund</u>	<u>Amount</u>	<u>Reason</u>
Elementary-General	\$227,556	Taxes Receivable
Elementary-Transportation	45,752	Taxes Receivable
Elementary-Bus Depreciation	11,945	Taxes Receivable
Elementary- Tuition	79	Taxes Receivable
Elementary-Adult Ed	1,638	Taxes Receivable
Elementary-Debt Service	49	Taxes Receivable
Elementary-Building Reserve	4,912	Taxes Receivable
High School-General	44,239	Taxes Receivable
High School-Transportation	4,534	Taxes Receivable
High School-Bus Depreciation	6,678	Taxes Receivable
High School-Tuition	1,422	Taxes Receivable
High School-Adult Ed	1,098	Taxes Receivable
High School-Debt Service	28,050	Taxes Receivable
High School-Building Reserve	<u>5,431</u>	Taxes Receivable
District Total	<u>\$383,383</u>	

B) ADVANCES FROM STATE AND FEDERAL GRANTS

The District's advances from federal grants represent federal grant monies received but not spent by year end. As of June 30, 2014, the District held the following federal grant monies.

<u>School / Fund</u>	<u>Amount</u>	<u>Source/Grant Name</u>
Elementary - Miscellaneous	\$ 1,476	Federal Gov. - Title III
High School - Miscellaneous	2,293	ST of MT - Medicaid
High School - Miscellaneous	<u>9,495</u>	Federal Gov. - Title VII – Indian Education
District Total	<u>\$13,264</u>	

C) DUE TO OTHER FUNDS

<u>School / Fund</u>	<u>Amount</u>	<u>Due to / Reason</u>
Elementary - Miscellaneous	\$110,210	Elementary Impact Aid – To Cover Overspent Cash
High School - Miscellaneous	<u>28,112</u>	High School Flexibility – To Cover Overspent Cash
District Total	<u>\$138,322</u>	

D) ACCOUNTS PAYABLE

The District had accounts payable for unpaid invoices as of June 30, 2014. These balances were not encumbered.

<u>School / Fund</u>	<u>Amount</u>	<u>School / Fund</u>	<u>Amount</u>
Elementary – Transportation	\$ 205	High School – Miscellaneous	\$ 1,904
Elementary – Miscellaneous	4,169	High School – Impact Aid	717
Elementary – Impact Aid	25,462	High School – Flexibility	7,884
High School – General	7,084	HS – Interlocal Agreement	<u>63</u>
High School – Transportation	68	District Total	<u>\$47,556</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 8: EMPLOYEE RETIREMENT PLANS

The District participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all 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.

Teachers' Retirement System (TRS)

The TRS is a statewide defined benefit retirement plan established in 1937 and governed by Title 19, chapter 20 of the Montana Code Annotated providing retirement services to teachers or professional staff of any public elementary or secondary school, colleges of technology or unit of the university system. The TRS is a mandatory multiple-employer, cost-sharing plan administered by the Teachers' Retirement Board. Members' rights become vested after five years of service.

Benefits

TRS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility, benefit amounts, and contributions required by state law are based on the date the employee became a TRS member. Tier I – Employees who became members before July 1, 2013. Tier II – Employees who became members after July 1, 2013.

Tier I – Retirement benefit eligibility is age 60 with at least five years of service; or 25 years of service regardless of age. Actuarial reduced benefits may be taken after age 50 with at least five years of service. Service retirement is based on the highest 3 consecutive highest salaries.

Tier II – Retirement benefit eligibility is age 60 with at least five years of service; age 55 with 30 years of service. A professional retirement option applies to Tier II members age 60 with 30 years of service. Actuarial reduced benefits may be taken after age 55 with at least five years of service. Service retirement is based on the highest 5 consecutive salaries.

Retirement benefits are calculated as shown below:

The Service Retirement is based on *Years of Service* x *Average Final Compensation* x 1.6667%

The Professional Retirement is based on *Years of Service* x *Average Final Compensation* x 1.85%

The Guaranteed Annual Benefit Adjustment (GABA) provides an annual benefit increase set in the fall of each year by the TRS board of .5% to 1.5%. A benefit recipient, who has been receiving a benefit for at least 36 months prior to January 1 each year, will receive a GABA with payment of the January benefit.

Contributions

Beginning July 1, 2013 a required supplemental contribution, which will vary from 0% to 1% based on the funded ratio of the TRS pension became effective for Tier I members. A supplemental contribution may be required from Tier II members after January 1, 2023. For fiscal year 2013, Tier I member normal contributions are 7.15% and supplemental contributions are 1% for total Tier I member contributions of 8.15%. Tier II normal contributions are 8.15% which does not contain a supplemental contribution element. Employer contributions are based on total payroll reported to TRS. These are not matching contributions allocated to individual members, but contributions to the trust fund. The TRS employer rate was increased from 7.47% to 8.47% effective July 1, 2013. Effective July 1, 2013, the District is required to make contributions of 9.85% to TRS. The State supplemental rate is 2.49%. In fiscal year 2014, the District made an additional TRS contribution of \$315,007 due to a TRS excess reserves assessment.

Actuarial Information

An actuarial valuation of the retirement system is performed annually. The purpose of the valuation is to determine the financial position of the fund, the normal cost, and the unfunded actuarial accrued liability based on present and prospective assets and liabilities of the system. If employee and employer contribution rates are sufficient to amortize any unfunded liability over 30 years or less, the system is actuarially sound and does not have a shortfall. According to TRS publications as of July 1, 2013, TRS does not have a shortfall and is actuarially sound.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Montana Public Employees' Retirement System (PERS)

PERS is a state wide retirement plan established in 1945 and governed by Title 19, chapter 2 & 3 of the Montana Code Annotated providing retirement services to substantially all public employees. Within 12 months of their hire date, employees must choose between the Defined Benefit Retirement Plan (DBRP) and the Defined Contribution Retirement Plan (DCRP). The default plan is the DBRP. The PERS is a mandatory, except for those employed less than one half time. It is a multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS Defined Benefit Retirement Plan (DBRP) offers service retirement, early retirement, disability and survivorship benefits to plan members and their beneficiaries. Members' rights become vested after five years of service. The plan allows for a Guaranteed Annual Benefit Adjustment (GABA) that provides for an annual benefit increase each January that could range from 0% to 1.5% depending upon the funding status of the plan.

The service retirement benefit eligibility is age 65 with at least five years of service credit or age 70 regardless of service. Actuarial reduced benefits may be taken with age 55 with at least 5 years of service. Monthly retirement benefits are calculated as: *Membership Service Factor* times *Highest Average Compensation* times *Service Credit*. This formula is multiplied by an Early Retirement Factor to determine the early retirement benefit.

The PERS Defined Contribution Retirement Plan (DCRP) consists of three components; member contributions, other contributions and employer contributions. Each component has different vesting criteria. Members are fully vested when they have earned five years of membership service. Member contributions and earnings are fully vested immediately. Other contributions i.e., 403(b) or 457(b) rollover contributions are fully vested immediately. Employer contributions are fully vested after five years of membership service.

Employer contributions are forfeited if the employee dies or if service is terminated prior to attaining five years of membership service. The employee and employer contributions to the plan are the same rates as the DBRP.

Contribution rates for either plan above are required and determined by State law. Effective, July 1, 2013, the PERS rates for all employees was changed to 7.9%. The basic PERS rate for school district employers is 6.8%. Effective July 1, 2013 school district employers are required to contribute an additional employer contribution of 1.10% for total employer contributions of 7.9%.

Both Plans

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

Montana Teachers Retirement System	Montana Public Employees Retirement System
P.O. Box 200139	P.O. Box 200131
1500 Sixth Avenue	1712 Ninth Avenue
Helena, MT 59620-0139	Helena, MT 59620-0131
Phone: 406-444-3134	Phone: 406-444-3154
www.trs.doa.state.mt.us	www.state.mt.us/doa/perb/prb.htm

State contributions to PERS and TRS totaled \$8,137 and \$249,555 respectively and have been included in the Retirement Fund revenues and expenditures.

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, 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	\$1,675,023	\$1,753,301	\$2,022,652
PERS	<u>319,109</u>	<u>327,652</u>	<u>345,257</u>
Total	<u>\$1,994,132</u>	<u>\$2,080,953</u>	<u>\$2,367,909</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: LONG TERM DEBT OBLIGATIONS

A) CHANGES IN LONG TERM DEBT

Governmental Activities:	Balance	Additions	Deletions	Balance
	July 1, 2013			June 30, 2014
Compensated Absences	\$ 1,721,986	\$213,935	\$ 0	\$ 1,935,921
EL QZAB 2003 Series Bonds	137,279	0	24,691	112,588
EL QZAB 2010 Series Bonds	3,171,750	0	0	3,171,750
HS QSCB 2010 Series Bonds	7,500,000	0	0	7,500,000
OPEB Liability	<u>336,096</u>	<u>84,024</u>	<u>0</u>	<u>420,120</u>
Total Long Term Debt	<u>\$12,867,111</u>	<u>\$297,959</u>	<u>\$24,691</u>	<u>\$13,140,379</u>

B) GENERAL OBLIGATION BONDS

The District issued General Obligation bonds in prior years for the acquisition and construction of capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. The general obligation QZAB or QSCB bonds were issued for the terms and payment schedules indicated in the following schedule:

ELEMENTARY QZAB BONDS

Issue Date	Original Term	Original Amount	Interest Rate	Required Sinking Fund Balance	Sinking Fund to accumulate June 30, 2014
08/03 Series 2003	15 Years	\$ 625,000	6.00%	\$ 512,412	\$ 112,588
06/11 Series 2010	15 Years	<u>3,171,750</u>	4.81%	<u>792,936</u>	<u>2,378,814</u>
Totals		\$3,796,750		\$1,305,348	\$2,491,402

EL 2003 Series:

In Fiscal Year 2003, the District issued General Obligation Qualified Zone Academy Bonds (QZAB) for various repairs and maintenance projects and/or the purchase of new capital assets. These bonds were for \$625,000 and mature in 15 years. The District made one payment to the sinking fund of \$297,642 in April 2003. These funds are held by UMB Corporate Trust Services in a trust fund that will be used to pay the bond principal when due in full in April 2018. The money is invested in Federal Home Loan Mortgage Corp. and Federal National Mortgage Association fixed income bonds at 6.25% and 5% interest respectively. The sinking fund is not reported as part of the district's assets. The sinking fund holds assets in excess of the amount shown below as "Required Sinking Fund Balance." Interest expense is not shown since the private investors receive tax credits in place of interest payments. The District is responsible for interest when tax audits do not meet original planned tax credits in place at the time of the bond issuance for repayment of the principal. The bonds were issued for the terms and payment schedules indicated above as Series 2003.

EL 2010 Series:

In Fiscal Year 2011, the district issued General Obligation Qualified Zone Academy Bonds (QZAB) for rehabilitating certain public school facilities of the district consisting of to the extent of available bond proceeds, rehabilitation of existing Hardin Primary School building, the existing Hardin Middle School building, and the existing Crow Elementary School building. The bonds were issued for the terms and payment schedules indicated above as Series 2010.

Elementary QZAB Bonds Sinking Funds

EL Series 2003 QZAB Bonds

The Series 2003 QZAB bonds have a sinking fund provision requiring a current balance of \$512,412. This sinking fund is not held by the District. Only the outstanding debt requirement for this bond is reported on the Statement of Net Position.

HS Series 2010 QZAB Bonds

The District maintains control over the Elementary Series 2010 QZAB bonds sinking fund. The sinking fund balance as of June 30, 2014 was \$792,936 and is reported on the Statement of Net Position under Restricted Cash. The full bond principal amount of \$3,171,750 is reported on the Statement of Net Position under Non-Current Liabilities - Bonds Payable. The net effect of the sinking fund held by the District is illustrated below:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>EL Series 2003</u>	<u>EL Series 2010</u>
Sinking fund balance as of June 30, 2014	\$605,091	\$ 792,936
Less Scheduled Sinking Fund Balance	<u>(512,412)</u>	<u>(792,936)</u>
Surplus / Deficit	\$ 92,679	\$ 0
Outstanding Bond Balance	112,588	\$3,171,750
Less Sinking fund balance held by the District	<u>0</u>	<u>(792,936)</u>
Net Outstanding bond balance	<u>\$112,588</u>	<u>\$2,378,814</u>

Debt Service requirements to the sinking funds include interest earned on the sinking funds to maturity for the Elementary bonded long term obligations are as follows:

For the year ended 6/30:	EL Series 2003 Scheduled <u>Interest Earned</u>	EL Series 2010 Scheduled <u>Sinking Fund Payments</u>
2015	\$ 25,941	\$ 198,234
2016	27,254	198,234
2017	28,634	198,234
2018	30,759	198,234
2019	0	198,234
2020-2024	0	991,170
2025-2027	<u>0</u>	<u>396,474</u>
Totals	<u>\$112,588</u>	<u>\$2,378,814</u>

HIGH SCHOOL QSCB BONDS

The School District issued General Obligation School Building Bonds a Qualified School Construction Bond, (QSCB) bonds in May 2010 of \$7,500,000 for the acquisition and construction of capital facilities. The bonds mature in 16 years. QSCB bonds were created by the American Recovery and Reinvestment Act (ARRA). General obligation bonds are direct obligations and pledge the full faith and credit of the District. The District elected to accept direct interest payments from the federal government in lieu of tax credits. The bonds are federally taxable bonds. The bonds were issued for the terms and payments indicated in the following schedule:

<u>Issue Date</u>	<u>Original Term</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Required Sinking Fund Balance</u>	<u>Sinking Fund to accumulate June 30, 2014</u>
06/11 HS QSCB Series 2010	16 Years	\$7,500,000	5.41%	\$1,875,000	<u>\$5,625,000</u>

The repayment schedule includes interest of \$5,680,500 which is subsidized by the federal government and is included in revenues of the District as payments are made. The Debt Service requirements to maturity for sinking fund payments and interest for the High School bonded long term obligations are as follows for the year ended 6/30:

For the year ended 6/30:	<u>HS QSCB Series 2010</u> Scheduled Sinking <u>Fund Payments</u>	<u>Interest</u>
2015	\$ 468,750	\$ 405,750
2016	468,750	405,750
2017	468,750	405,750
2018	468,750	405,750
2019	468,750	405,750
2020-2024	2,343,750	2,028,750
2025-2026	<u>937,500</u>	<u>811,500</u>
Totals	<u>\$5,625,000</u>	<u>\$4,869,000</u>

The District maintains control over the sinking fund for the High School Series 2010 QZAB bonds. The sinking fund balance as of June 30, 2014 was \$1,875,000 and is reported on the Statement of Net Position under Restricted Cash. The full bond principal amount of \$7,500,000 is reported on the Statement of Net Position as Non-Current Liabilities - Bonds Payable. The net effect of the sinking fund and outstanding bond balance is illustrated below:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>HS QSCB Series 2010</u>
Scheduled sinking fund balance	\$ 1,875,000
Less Sinking fund balance as of June 30, 2014	<u>\$(1,875,000)</u>
Surplus / (Deficit)	<u>\$ 0</u>
Outstanding bond balance	\$ 7,500,000
Less Sinking fund balance held by the District	<u>(1,875,000)</u>
Net Outstanding bond balance	<u>\$ 5,625,000</u>

In fiscal year 2014, the District made unscheduled interest payments to the bond holders of \$29,214 because the actual federal tax credits were less than the scheduled tax credits.

C) CHANGES IN DISTRICT SINKING FUND BALANCES

These assets are held in the District's Debt Service funds on the Statement of Net Position. Elementary and High School sinking funds held by the District and reported as Restricted Cash in District assets are as follows:

	Required Balance			Required Balance		Actual Debt Service
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>June 30, 2014</u>	Sinking Fund Balance
EL Series 2010 QZAB	\$ 594,702	\$198,234	\$ 0	\$ 792,936	\$ 792,936	\$ 792,936
HS Series 2010 QSCB	<u>1,406,250</u>	<u>468,750</u>	<u>0</u>	<u>1,875,000</u>	<u>1,875,000</u>	<u>1,875,000</u>
Total Sinking Funds	\$2,000,952	\$666,984	\$ 0	<u>\$2,667,936</u>	<u>\$2,667,936</u>	

The EL Series 2003 QZAB bond sinking fund is not in the custody or control of the District. Therefore, the cash and bond liability is neither reported above nor in the District financial statements. The required sinking fund balance is \$512,412. The trust account sinking fund has a June 30, 2014 balance of \$605,091. It is expected that the sinking fund will continue to grow and cover the bond requirement without additional District outlays.

NOTE 10: INTERLOCAL AGREEMENTS

Community Swimming Pool

The District has an interlocal agreement with the City of Hardin to operate a community swimming pool. The District agreed to establish and operate the swimming pool and the City of Hardin agreed to contribute \$31,000 annually to assist in its operation. The District manages the pool, hires personnel and pays the operating costs. The District reports this fund as a Governmental special revenue fund due to the significant financial support it provides in comparison to the fund's other revenue sources. In fiscal year 2014, the District made transfers of \$185,000 of the \$265,815 of the fund's revenues and paid invoices of \$481,452 from other District funds to cover the pool's operating costs. The Interlocal Agreement fund balance at year end was \$14.

Decker-Kirby Cooperative

The Hardin EL District has an interlocal agreement with Decker School District to establish the Decker-Kirby Cooperative *to jointly build and maintain an elementary school building* on property donated by the two Districts for the purpose of providing educational services to elementary students who reside within the Decker and Big Bend elementary school districts. The Board of Trustees is composed of 3 members from the Decker School District to represent the Decker School District and 3 members from the Hardin Elementary School District representing the Big Bend School District. Decker School District (Spring Creek School District No. 1) has been named as the prime agency for the cooperative. The agreement may be renewed every three years unless terminated.

Spring Creek Elementary School District No. 1

The Hardin EL School District has an interlocal agreement with Spring Creek School District No. 1 *to operate a rural elementary school district*. The Spring Creek School District is run by a management board of which two members are elected from the Spring Creek School District and two are elected from the Hardin EL School District. An additional member from the Hardin School District and one from the Squirrel Creek School District serve on the management board. The Hardin School District transfers funds from its Elementary General fund to this cooperative for its share of expenditures; fiscal year 2014 transfers totaled \$30,146. Financial statements may be obtained by contacting the Spring Creek Elementary School District at Box 118, Decker MT 59025.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Fort Smith School

The Hardin EL School District has a memorandum of understanding with the US Department of Interior – Bureau of Reclamation to establish a cooperative for the administration of the Fort Smith School of the Yellowtail Unit within the Big Horn Canyon National Recreation Area. The agreement provides for the administration, operation and maintenance of the Fort Smith School, playground, playground equipment and all associated school grounds within the Fort Smith Government Camp. The District historically leased the land for school purposes through contract # 14-06-600-20A dated January 15, 1970. In April 1998, the District signed a cooperative agreement whereby the ownership of all playground equipment was transferred to the District. The District provides educational opportunities for families living within the Fort Smith Government Camp. The Fort Smith School financial activities are reported with the Hardin Elementary School District’s activities.

NOTE 11: TRANSPORTATION CONTRACTS

The District has three contracts for its student transportation needs as described below:

- 1) Sarpy Transportation, Inc. - 3 routes. Sarpy Transportation provides busses, drivers, insurance and maintenance of the busses they operate for student transportation needs of the district. This contract is for five years, from fiscal year 2009 through 2014 for specified mileage payments with adjustments for fuel and mileage changes. Transportation fees paid to Sarpy Transportation, Inc. in fiscal year 2014 totaled \$263,656.
- 2) Cannon Transportation, Inc. - 14 routes. This contract is for five years, from fiscal year 2013 through 2018 for specified mileage payments with adjustments for fuel and mileage changes. Transportation fees paid to Cannon Transportation, Inc. in fiscal year 2014 totaled \$742,988.
- 3) Nedens Trucking Inc. - one route. This contract is for five years, from fiscal year 2013 to 2018 for specified mileage payments with adjustments for fuel and mileage changes. Transportation fees paid to Nedens Trucking, Inc. in fiscal year 2014 totaled \$83,327.

NOTE 12: OTHER POST EMPLOYMENT BENEFITS (OPEB) OTHER THAN PENSIONS

Plan Description – In accordance with MCA (2-18-704) the District allows employees who are eligible for retirement; at least age 50 with at least 5 years of service, to remain on the District’s health insurance plan after retiring from the district as long as they pay the same premium as active employees. Since retirees are usually older than the average age of the active participants, they receive a benefit of lower insurance rates. This benefit is referred to as the “OPEB.” The OPEB plan does not provide a stand-alone financial report. The District pays 80% of the monthly health premiums for all fulltime certified and non-certified staff. The implicit subsidy is \$440 per member and \$880 per member and spouse. The Schedule of Funding Progress is reported in the Required Supplementary Section of this report which immediately follows the notes to the financial statements.

The District has more than 100 plan members. However, the Alternative Measurement Method is used based on a statement issued by the Minnesota State Auditor. The MN auditor issued a statement that those entities whose only retiree health liability is the implicit rate subsidy may use the “alternative measurement method” to determine the OPEB liability even if their health plan has more than 100 employees.

Funding Policy - The District pays OPEB liabilities on a “pay-as-you-go” basis. The District’s OPEB liability is amortized on a level dollar basis annually until the Actuarial Accrued Liability (AAL) is reached. A trust fund for future liabilities has not been established. Therefore, the District’s OPEB liability will continue to grow until the Actuarial Accrued Liability (AAL) is reached.

Funding status and progress - As of June 30, 2014 the funded status of the plan was as follows:

	<u>Alternative Measurement Method</u>
Actuarial Accrued Liability (AAL)	\$ 647,924
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	647,924
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$12,872,354
UAAL as a percentage of covered payroll	5%

NOTES TO THE FINANCIAL STATEMENTS (continued)

Date of latest AAL calculation

June 30, 2013

Annual OPEB Cost and Net OPEB Obligation – The district's annual Other Post-Employment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC) of the employer, 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 district's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the district's net OPEB obligation.

The following table shows the components of the district's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the district's net OPEB obligation.

	<u>Alternative Measurement Method</u>
Annual Required Contribution (ARC)	\$ 84,024
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	84,024
Contribution made	<u>0</u>
Increase in net OPEB obligation	84,024
Net OPEB obligation - beginning of year	<u>336,096</u>
Net OPEB obligation - end of year	<u>\$420,120</u>

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

Actuarial Cost Method	<u>Alternative Measurement Method</u>
Average age of retirement (based on historical data)	58.6
Discount rate (average anticipated rate)	2%
Average Salary Increase	2%
Health care cost rate trend	5% for the next 10 years.

Actuarial calculations reflect a long-term perspective and consistent with that perspective, the actuarial method and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets. The District has no actuarial value of assets because the plan is not funded.

The District's Annual Required Contribution (ARC) for the current and preceding two fiscal years is illustrated below. The ARC is a misleading term, since no cash contribution is actually required. No interest has been applied to the Net OPEB obligation.

Fiscal Year <u>Ending June 30:</u>	Annual Required <u>Contribution (ARC)</u>	ARC Adjustment <u>Adjustment</u>	Percent of ARC <u>Contributed</u>	Net OPEB <u>Obligation</u>
2012	\$ 0	\$ 0	0%	\$ 0
2013	84,024	252,072	0%	336,096
2014	84,024	0	0%	420,120

The required supplementary information section of this report presents multiple years fund information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the AAL for benefits. The projection of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and if applicable, the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the patterns of cash shares between the employer and plan members in the future.

NOTE 13: ENCUMBRANCES

In compliance with GASBS 54, the District's encumbrances are no longer illustrated as separate balances on the governmental fund statements. Instead, they are included in each fund's Assigned or Committed fund balance classification. The major EL Miscellaneous & non-major HS Miscellaneous funds are not budgeted funds.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Encumbrances of \$20,130 and \$6,431 in the non-budgeted EL & HS Miscellaneous funds respectively were to meet Title III and Title VII Indian Education grant obligations.

-----Major Funds -----			
<u>General</u>	<u>EL Misc.</u>	<u>HS Misc.</u>	<u>Total</u>
\$16,253	\$20,130	\$6,431	<u>\$42,814</u>

NOTE 14: OPERATING TRANSFERS

<u>School / Fund</u>	<u>Amount</u>	<u>Transferred To</u>
Elementary – General	\$ 46,571	EL Compensated Absences
Elementary – Impact Aid	79,899	EL Debt Service – Meet Sinking Fund Requirement
Elementary – Impact Aid	123,750	HS Interlocal Agreement – Provide funding
High School – General	17,514	HS Compensated Absences
High School – General	14,607	HS Debt Service – Meet Debt Svc Funding Requirement
High School – General	31,250	HS Interlocal agreement – Provide funding
High School – Impact Aid	<u>30,000</u>	HS Interlocal agreement – Provide funding
District Total	<u>\$343,591</u>	

NOTE 15: SUBSEQUENT REPORTABLE EVENTS

Subsequent events were evaluated through January 16, 2015.

The District awarded a contract for a heating/ventilation system renovation project at Crow Agency Public School to Westin Mechanical LLC in the amount of \$890,120. So far, payments of \$844,841 have been made. The project was nearing completion in January, 2015. Funding for this project was made from Coal Board Grant, Impact Aid, Building, and Building Reserve funds.

In May 2014, a severe hailstorm hit Hardin resulting in damaged roofs to many of the District’s buildings. The District is still in the process of negotiating with the insurance company and contractors on the best way to proceed for repairs. The District intends to repair the damage. As of January 16, 2015, no contracts have been awarded for these repairs.

The District is slated to receive a portion of a \$10 million grant that the State of Montana was awarded for early childhood education. The District anticipates using its portion to cover the costs of the Kindergarten Readiness Center. As of January 16, 2015, the District has received no additional information.

Hardin School District No. 17H & 1
 Big Horn County
 Hardin, Montana

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 (Budget and Actual)
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS
 for the Fiscal Year Ended June 30, 2014

	General Fund	
	Original & Final	
	Budget	Actual
REVENUES:		
District Levies	\$ 2,456,213	\$ 2,490,759
Interest Earnings	4,950	38,812
Other Local & District Sources	4,289	1,926
State Sources	8,725,234	8,771,758
Charges for Services	<u>1,056</u>	<u>-</u>
Total Revenues	11,191,743	11,303,254
EXPENDITURES:		
Instructional Services		7,499,915
Instructional Support Services		570,411
Educational Media Services		1,008,217
General Administrative Services		1,661,545
Operation & Maintenance Services		232,560
Transportation Services		14,501
Extracurricular		403,645
School Food Services		9,537
Other Current Charges		<u>14,074</u>
Total Current Expenditures		11,414,403
Capital Outlay	<u>-</u>	<u>31,995</u>
Total Expenditures	11,561,855	11,446,398
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		(143,143)
OTHER FINANCING SOURCES/USES		
Fund Transfers (Out)		<u>(109,942)</u>
NET CHANGES IN FUND BALANCES		(253,086)
FUND BALANCES:		
BEGINNING FISCAL YEAR FUND BALANCES		<u>1,688,208</u>
ENDING FISCAL YEAR FUND BALANCES		<u>\$ 1,435,122</u>

The accompanying NOTES TO REQUIRED SUPPLEMENTAL INFORMATION are an integral part of this statement.

Board of Trustees
Hardin School District No. 17H & 1
Big Horn County
Hardin, Montana 59034

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

NOTE 1: 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 and Flexibility), Debt Service fund, and budgeted capital project funds (Building Reserve). All annual appropriations lapse at the end of the fiscal year, unless the District elects to encumber supplies and personal property ordered but not received at year end.

General Budget Policies:

The District's funds are either budgeted or nonbudgeted in accordance with State statutes. Budgeted funds are those for which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are nonbudgeted, 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 and Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major budgeted Special Revenue funds. The major special revenue fund, Elementary Miscellaneous is not included in the schedule because it is not a budgeted fund. The major High School Debt Service fund is not included in the schedule because it is not a special revenue fund. The original budget was not amended so the original budget and the final budget are the same.

Budget Operation:

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

- (1) Before the fourth Monday in July, the County Superintendent estimates the revenue required for each fund.
- (2) By the first Monday in August, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property in the District's borders.
- (3) Before the later of the first Thursday in September or within 30 calendar days of the receipt of the Certified Taxable Valuations from the County Assessor, the Board of Trustees must meet to legally adopt the final budget. The final budget for the general fund is fund total only.
- (4) 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.
- (5) According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- (6) At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the District.

Fund Balance Reconciliation:

The General fund balance on the *Schedule of Revenue, Expenditures, and Changes in Fund Balances – Combined Funds* is different than the General fund balance on the *Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual)* for major funds by \$11,253 which represent the General fund's encumbrances. Encumbrances are not included as expenditures in fund balance – GAAP basis because they do not meet the GAAP definition of expenditures or liabilities. The District reports encumbrances at year end as budgeted expenditures and establishes a budget carryover of fund balances for encumbrances.

NOTE 2: STATE PORTION OF TRS AND PERS

The State portion of TRS and PERS totaling \$249,555 and \$8,137 respectively is included in the Retirement Fund's revenues and expenditures reported on the District's financial statements. These expenditures are exempt from budget constraints.

Board of Trustees
 Hardin School District No. 17H & 1
 Big Horn County
 Hardin, Montana 59034

SCHEDULE FUNDING PROGRESS
 OTHER POST-EMPLOYMENT BENEFITS (OPEB)
 For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial AAL Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
2012	\$0	\$ 0	\$ 0	0%	\$12,246,049	0.0%
2013	0	647,924	647,924	0%	10,413,569	6.2%
2014	0	647,924	647,924	0%	12,872,354	5.0%

The purpose of the above table is to provide information that serves as a surrogate for the funding progress of the Other Post-Employment Benefit plan.

The District recalculated its OPEB Accrued Actuarial Liability (AAL) on June 30, 2013 and is in compliance with the 3-year recalculation requirement of GASB Statement No. 45.

Hardin School District No. 17H & 1
 Big Horn County
 Hardin, Montana

SCHEDULE OF COMBINED FUNDS
 BALANCE SHEET - COMBINED FUNDS
 as of June 30, 2014
 Page 1 of 2

	General Fund	EL Impact Aid Fund	HS Impact Aid Fund	EL Flexibility Fund	HS Flexibility Fund
ASSETS:					
Cash and Investments	\$ 1,453,459	\$ 603,950	\$ 3,663	\$ 579,106	\$ 421,138
Taxes Receivable	271,794	-	-	-	-
Receivable From Other Funds	-	110,210	-	-	28,112
Total Assets	<u>1,725,253</u>	<u>714,160</u>	<u>3,663</u>	<u>579,106</u>	<u>449,250</u>
LIABILITIES:					
Accounts Payable	7,084	25,462	717	-	7,884
Total Liabilities	7,084	25,462	717	-	7,884
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Taxes	271,794	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	271,794	-	-	-	-
FUND BALANCES:					
Nonspendable - Interfund Loans:	-	110,210	-	-	28,112
Assigned:					
Instruction	11,253	10,536	1,325	-	-
Vacations & Sick Leave	-	-	-	-	-
Debt Service	468,750	198,234	-	-	-
Capital Projects	400,000	-	-	-	-
Unassigned (deficit):	<u>566,372</u>	<u>369,718</u>	<u>1,621</u>	<u>579,106</u>	<u>413,254</u>
Total Fund Balances	<u>1,446,375</u>	<u>688,698</u>	<u>2,946</u>	<u>579,106</u>	<u>441,366</u>
Total Liabilities, Deferred Inflows & Fund Bal.	<u>\$ 1,725,253</u>	<u>\$ 714,160</u>	<u>\$ 3,663</u>	<u>\$ 579,106</u>	<u>\$ 449,250</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Hardin School District No. 17H & 1
 Big Horn County
 Hardin, Montana

SCHEDULE OF COMBINED FUNDS
 BALANCE SHEET - COMBINED FUNDS
 as of June 30, 2014
 Page 2 of 2

	EL Comp Abs Fund	HS Comp Abs Fund	Total Combined Funds
ASSETS:			
Cash and Investments	\$ 153,558	\$ 51,465	\$ 3,266,338
Taxes Receivable	-	-	271,794
Receivable From Other Funds	-	-	138,322
Total Assets	<u>153,558</u>	<u>51,465</u>	<u>3,676,454</u>
LIABILITIES:			
Accounts Payable	-	-	41,147
Total Liabilities	-	-	41,147
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	-	-	271,794
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	271,794
FUND BALANCES:			
Nonspendable - Interfund Loans:	-	-	138,322
Assigned:			
Instruction			23,113
Vacations & Sick Leave	153,558	51,465	205,023
Debt Service			666,984
Capital Purchases	-	-	400,000
Unassigned:	-	-	1,930,071
Total Fund Balances	<u>153,558</u>	<u>51,465</u>	<u>3,363,513</u>
Total Liabilities, Deferred Inflows & Fund Bal.	<u>\$ 153,558</u>	<u>\$ 51,465</u>	<u>\$ 3,676,454</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

SCHEDULE OF COMBINED FUNDS
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - COMBINED FUNDS
 For the Year Ended June 30, 2014

	General Fund	EL Impact Aid Fund	HS Impact Aid Fund	EL Flexibility Fund	HS Flexibility Fund
REVENUES:					
District Levies	\$ 2,490,759	\$ -	\$ -	\$ -	\$ 365,131
Interest	38,812	15,603	2,050	11,826	3,409
Other	1,926	3,787	1,262	2,453	294
State	8,771,758	-	-	20,600	33,423
Federal	-	3,038,587	680,961	-	-
Total Revenues	11,303,254	3,057,976	684,274	34,878	402,256
EXPENDITURES:					
Instructional Services	7,488,662	867,584	177,662	11,000	-
Instructional Support Services	570,411	92,572	25,645	3,000	-
Educational Media Services	1,008,217	301,915	29,828	2,000	1,593
General Administrative Services	1,661,545	380,680	60,906	26,200	6,701
Operation & Maintenance Services	232,560	1,707,033	453,696	-	76,620
Transportation Services	14,501	76,768	45,633	-	-
Extracurricular	403,645	69,819	122,462	1,000	-
School Food Services	9,537	198,332	-	-	-
Community Services	14,074	109,375	34,025	-	-
Total Current Expenditures	11,403,150	3,804,076	949,857	43,200	84,914
Capital Outlay	31,995	1,342,066	15,205	-	30,314
Total Expenditures	11,435,145	5,146,142	965,062	43,200	115,228
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	(131,891)	(2,088,166)	(280,788)	(8,322)	287,029
OTHER FINANCING SOURCES (USES)					
Fund Transfers In	-	-	-	-	-
Fund Transfers (Out)	(109,942)	(203,649)	(30,000)	-	-
NET CHANGES IN FUND BALANCES					
	(241,833)	(2,291,815)	(310,788)	(8,322)	287,029
FUND BALANCES:					
Beginning of the Year	1,688,208	2,980,513	313,734	587,427	154,338
End of the Year	\$ 1,446,375	\$ 688,698	\$ 2,946	\$ 579,106	\$ 441,366

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Hardin School District No. 17H & 1
 Big Horn County
 Hardin, Montana

SCHEDULE OF COMBINED FUNDS
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - COMBINED FUNDS
 For the Year Ended June 30, 2014

Page 2 of 2

	EL Comp Abs	HS Comp Abs	Total
	Fund	Fund	Combined
	Fund	Fund	Funds
REVENUES:			
District Levies	\$ -	\$ -	\$ 2,855,890
Interest	2,442	798	74,938
Other	-	-	9,722
State	-	-	8,825,780
Federal	-	-	3,719,548
Total Revenues	<u>2,442</u>	<u>798</u>	<u>15,485,878</u>
EXPENDITURES:			
Instructional Services	4,547	-	8,549,455
Instructional Support Services	-	-	691,627
Educational Media Services	19,718	6,573	1,369,843
General Administrative Services	-	2,920	2,138,953
Operation & Maintenance Services	2,406	-	2,472,314
Transportation Services	-	-	136,902
Extracurricular	-	-	596,926
School Food Services	2,840	-	210,709
Community Services	-	930	158,404
Total Current Expenditures	<u>29,512</u>	<u>10,423</u>	<u>16,325,133</u>
Capital Outlay	-	-	1,419,579
Total Expenditures	<u>29,512</u>	<u>10,423</u>	<u>17,744,711</u>
EXCESS (DEFICIENCY) OF REVENUES			
OVER EXPENDITURES			
	(27,069)	(9,626)	(2,258,833)
OTHER FINANCING SOURCES (USES)			
Fund Transfers In	46,571	17,514	64,085
Fund Transfers (Out)	-	-	(343,591)
NET CHANGES IN FUND BALANCES	19,501	7,889	(2,538,339)
FUND BALANCES:			
Beginning of the Year	<u>134,057</u>	<u>43,576</u>	<u>5,901,852</u>
End of the Year	<u>\$ 153,558</u>	<u>\$ 51,465</u>	<u>\$ 3,363,513</u>

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of this statement.

Hardin School District No. 17H & 1
 Big Horn County
 Hardin, Montana

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 (Budget and Actual)
 BUDGETED COMBINED FUNDS
 for the Fiscal Year Ended June 30, 2014

	General Fund		EL Flexibility Fund		HS Flexibility Fund	
	Original & Final		Original & Final		Original & Final	
	Budget	Actual	Budget	Actual	Budget	Actual
REVENUES:						
District Levies	\$ 2,456,213	\$ 2,490,759	\$ -	\$ -	\$ -	\$ 365,131
Interest Earnings	4,950	38,812	-	11,826	-	3,409
Other Local & District Sources	4,289	1,926	-	2,453	-	294
State Sources	8,725,234	8,771,758	250,600	20,600	33,423	33,423
Charges for Services	1,056	-	-	-	-	-
Total Revenues	<u>11,191,743</u>	<u>11,303,254</u>	<u>250,600</u>	<u>34,878</u>	<u>33,423</u>	<u>402,256</u>
EXPENDITURES:						
Instructional Services		7,488,662	67,195	11,000	63,761	-
Instructional Support Services		570,411	5,000	3,000	-	-
Educational Media Services		1,008,217	2,000	2,000	2,000	1,593
General Administrative Services		1,661,545	27,000	26,200	7,000	6,701
Operation & Maintenance Services		232,560	-	-	80,000	76,620
Transportation Services		14,501	-	-	-	-
Extracurricular		403,645	1,000	1,000	-	-
School Food Services		9,537	-	-	-	-
Other Current Charges		14,074	-	-	-	-
Total Current Expenditures		<u>11,403,150</u>	<u>102,195</u>	<u>43,200</u>	<u>152,761</u>	<u>84,914</u>
Capital Outlay		31,995	-	-	35,000	30,314
Total Expenditures	<u>11,561,855</u>	<u>11,435,145</u>	<u>102,195</u>	<u>43,200</u>	<u>187,761</u>	<u>115,228</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
		(131,891)		(8,322)		287,029
OTHER FINANCING SOURCES/USES						
Fund Transfers (Out)		(109,942)		-		-
NET CHANGES IN FUND BALANCES						
		(241,833)		(8,322)		287,029
FUND BALANCES:						
BEGINNING FISCAL YEAR FUND BALANCES		<u>1,688,208</u>		<u>587,427</u>		<u>154,338</u>
ENDING FISCAL YEAR FUND BALANCES		<u>\$ 1,446,375</u>		<u>\$ 579,106</u>		<u>\$ 441,366</u>

The accompanying NOTES TO REQUIRED SUPPLEMENTAL INFORMATION are an integral part of this statement.

Hardin School District No. 17H & 1
 Big Horn County
 Hardin, Montana 59034

SCHEDULE OF REPORTED ENROLLMENT
 Fiscal Year Ended June 30, 2014

	Reported Enrollment	Per Audit	Difference
FALL ENROLLMENT OCTOBER, 2013			
Kindergarten:	180	180	0
Grades 1 - 6:	982	982	0
Junior High:	<u>242</u>	<u>242</u>	<u>0</u>
Total Elementary:	<u>1,404</u>	<u>1,404</u>	<u>0</u>
High School:	427	427	0
19 Year Olds	3	3	0
MT Youth Challenge	<u>1</u>	<u>1</u>	<u>0</u>
Total High School:	<u>431</u>	<u>431</u>	<u>0</u>
WINTER ENROLLMENT DECEMBER, 2013			
Kindergarten:	180	180	0
Grades 1 - 6:	981	981	0
Junior High:	<u>246</u>	<u>246</u>	<u>0</u>
Total Elementary:	<u>1,407</u>	<u>1,407</u>	<u>0</u>
High School:	429	429	0
19 Year Olds	3	3	0
MT Youth Challenge	<u>0</u>	<u>0</u>	<u>0</u>
Total High School:	<u>432</u>	<u>432</u>	<u>0</u>
SPRING ENROLLMENT FEBRUARY, 2014			
Kindergarten:	169	169	0
Grades 1 - 6:	971	971	0
Junior High:	<u>238</u>	<u>238</u>	<u>0</u>
Total Elementary:	<u>1,378</u>	<u>1,378</u>	<u>0</u>
High School:	422	422	0
19 Year Olds	3	3	0
MT Youth Challenge	<u>1</u>	<u>1</u>	<u>0</u>
Total High School:	<u>426</u>	<u>426</u>	<u>0</u>

HARDIN SCHOOLS
END OF YEAR REVENUES & EXPENSES
STUDENT ACTIVITY FUND

June 30, 2014

Page 1 of 2

	BALANCE July 1, 2013	REVENUES	EXPENSES	BALANCE June 30, 2014
ATHLETICS	\$30,716	\$67,270	\$68,601	\$29,384
EASTERN "A"	3,753	1,878	2,275	3,355
ART	254	5	53	206
BAND	842	2,309	2,620	531
BPA	3,063	11,244	7,078	7,229
BULLDOG BUDDIES	99	1,887	349	1,636
CHEERLEADERS	8,027	8,834	11,279	5,583
CHESS CLUB	408	0	0	408
CHORUS	147	3,866	2,939	1,074
DECA	1,334	3,590	2,812	2,111
DRAMA	1,704	1,293	982	2,015
SPEECH TEAM	236	0	107	130
FFA	515	16,453	17,369	-400
NATIONAL HONOR SOCIETY	550	0	85	466
INDIAN CLUB	1,875	658	300	2,233
A.I.S.E.S.	2,708	811	1,340	2,179
PEP CLUB	94	0	0	94
RODEO CLUB	4,688	10,489	7,410	7,767
FCCLA	2,884	872	756	3,000
WEIGHTLIFTING CLUB	2,847	1,003	0	3,850
SKI CLUB	1,674	1,076	906	1,845
MATH CLUB	810	51	135	726
FOREIGN LANGUAGE	3,117	2,393	1,886	3,624
VARISTY CLUB	9,997	919	1,574	9,341
HISTORY CLUB	655	18,223	17,211	1,667
HHS STUDENT COUNCIL	514	2,799	2,728	585
CLASS OF 2011	0	0	0	0
CLASS OF 2012	0	0	0	0
CLASS OF 2013	0	0	0	0
CLASS OF 2014	2,103	496	2,599	0
CLASS OF 2015	2,379	6,153	4,770	3,762
CLASS OF 2016	1,256	209	118	1,347
CLASS OF 2017	800	1	153	648
CONCESSIONS	17,149	44,510	45,838	15,821
HHS STUDENT PROJECT	6,179	3,024	7,838	1,365
HHS LIBRARY	897	637	600	934
ANNUAL	17,072	6,730	6,378	17,423
ONE SKY ABOVE US	3,792	2	0	3,795
SCIENCE CLUB	648	0	0	648
AG WELDING	158	2,312	2,499	-28
HHS VO AG FARM	61	0	0	61
MECHANICS	948	380	159	1,169
WOODSHOP	1,148	3,321	2,016	2,452
SUBTOTAL	\$138,101	\$225,700	\$223,764	\$140,036

HARDIN SCHOOLS
END OF YEAR REVENUES & EXPENSES
STUDENT ACTIVITY FUND

June 30, 2014

Page 2 of 2

	BALANCE July 1, 2013	REVENUES	EXPENSES	BALANCE June 30, 2014
BALANCE FROM PAGE 1	\$138,101	\$225,700	\$223,764	\$140,036
VOCATIONAL REHAB	21	0	0	21
SCHOOL NEWSPAPER	39	0	12	27
TEXTBOOK	4,074	304	0	4,377
HHS ACADEMICS	28,933	11,268	10,284	29,917
SPECIAL OLYMPICS	91	0	0	91
AFS	1,455	1	0	1,456
ACADEMIC DECATHALON	855	1	0	856
CHRISTMAS FUND	1,724	801	957	1,568
HMS	10,029	14,032	14,457	9,604
HMS SHOP	645	80	0	725
HMS SKI CLUB	2,772	5,642	4,845	3,568
HMS SCI PROJECT	427	0	0	427
HMS LITTLE BEAR	24	0	0	24
SPE (Student Performance Enhancement)	12,339	8	0	12,347
HMS STUDENT COUNCIL	2,424	478	1,248	1,655
HMS FACULTY FUND	8,537	1,029	404	9,162
HARDIN INTERMEDIATE SCHOOL	10,418	903	4,638	6,682
INTERMEDIATE LIBRARY	903	3,629	2,878	1,654
PRIMARY SCHOOL ACTIVITY	3,633	10,667	8,192	6,108
PRIMARY SCHOOL LIBRARY	3,620	3,561	2,168	5,014
CROW AGENCY SCHOOL	175	2,055	399	1,832
CROW SCHOOL LIBRARY	2,249	4,856	6,108	997
FORT SMITH SCHOOL	694	150	514	330
SUBTOTAL	\$234,182	\$285,165	\$280,868	\$238,479
Less: Transfers		23,491	23,491	
TOTAL	\$234,182	\$261,674	\$257,377	\$238,479

GRANTOR/PASS THROUGH GRANT AND PROGRAM TITLE	Pass Through or Grantor Contract #	CFDA Number	GRANT AWARD AMOUNT
U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS:			
PL 874 Impact Aid ²	S041B20142870	84.041	\$3,057,976
PL 874 Impact Aid ²	S041B20142871	84.041	684,274
Title VI Part B (REAP)		84.358	33,226
Title VII Indian Education Gear Up	S060A1211008	84.060	299,116
		84.334	218,124
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:			
Title I Part A	00200233113	84.010	\$ 80,733
Title I Part A	00200233114	84.010	30,905
Title I Part A ⁴	00200233214	84.010	979,820
Title II Part A – Improving Teacher Quality	00200231413	84.367	16,727
Title II Part A – Improving Teacher Quality ⁴	00200231414	84.367	209,121
Title II Part A – Improving Teacher Quality ⁴	00200231414	84.367	7,424
Title III Part A ⁴	00200234114	84.365	18,280
Title III Part A	00200234114	84.365	28,726
IDEA Part B	00200237714	84.127	500,054
IDEA Preschool	00200237914	84.173	12,359
Carl Perkins	00211898113	84.048	38,121
Title IV Part B - 21 st Century	00200231713	84.287	4,094
Title IV Part B - 21 st Century	00200231714	84.287	50,000
Title I Part E - Striving Readers	00200233513	84.371	150,467
Title I Part E - Striving Readers	00200233514	84.371	781,179
Adult Basic Ed (ABE)	00200235614	84.002	35,237
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:			
National School Lunch Program - Cash Payments ¹		10.555	\$ 783,667
National School Lunch Program - Commodities ¹		10.555	62,794
Summer Food Service ¹		10.559	48,015
Fresh Fruits and Vegetables		10.582	61,869
CROW INDIAN TRIBE DIRECT PAYMENTS			
Johnson O'Malley	Crow Tribe	15.130	\$ 143,504

- Notes: 1. Child Nutrition Cluster - No separate funds or accounts maintained. District assumed first in first out for program monies.
2. Impact aid grant revenue includes other revenue generated from Impact Aid money, i.e., interest.
3. The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting which is described in Note 1B.
4. Consolidated into Schoolwide Plan.

GRANTOR/PASS THROUGH GRANT AND PROGRAM TITLE	Balance July 1, 2013	Revenues	Allowable Expenditures	Balance June 30, 2014
U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS:				
PL 874 Impact Aid ²	\$2,980,513	\$3,057,976	\$5,349,791	\$688,698
PL 874 Impact Aid ²	313,734	684,274	995,062	2,946
Title VI Part B (REAP)	0	33,226	33,226	0
Title VII Indian Education	0	299,116	299,116	0
Gear Up	0	218,124	218,124	0
U.S. DEPARTMENT OF EDUCATION: PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:				
Title I Part A	0	80,733	80,733	0
Title I Part A	0	30,905	30,905	0
Title I Part A ⁴	0	979,820	979,820	0
Title II Part A – Improving Teacher Quality	0	16,727	16,727	0
Title II Part A – Improving Teacher Quality ⁴	0	209,121	209,121	0
Title II Part A – Improving Teacher Quality ⁴	0	7,424	7,424	0
Title III Part A ⁴	0	18,280	18,280	0
Title III Part A	0	28,726	28,726	0
IDEA Part B	0	500,054	500,054	0
IDEA Preschool	0	12,359	12,359	0
Carl Perkins	0	38,121	38,121	0
Title IV Part B - 21 st Century	0	4,094	4,094	0
Title IV Part B - 21 st Century	0	50,000	50,000	0
Title I Part E - Striving Readers	0	150,467	150,467	0
Title I Part E - Striving Readers	0	781,179	781,179	0
Adult Basic Ed (ABE)	0	35,237	35,237	0
TOTAL DEPT OF EDUCATION:	\$ 3,294,247	\$7,235,963	\$ 9,838,566	\$691,644
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH STATE OF MONTANA OFFICE OF PUBLIC INSTRUCTION:				
National School Lunch - Cash Payments ¹	\$ 0	\$ 783,667	\$ 783,667	\$ 0
National School Lunch - Cash Payments ¹	0	62,794	62,794	0
Summer Food Service ¹	0	48,015	48,015	0
Fresh Fruits and Vegetables	0	61,869	61,869	0
TOTAL DEPT OF AGRICULTURE:	\$ 0	\$ 956,345	\$ 956,345	\$ 0
CROW INDIAN TRIBE DIRECT PAYMENTS:				
Johnson O'Malley	\$ 0	\$ 143,504	\$ 143,504	\$ 0
TOTAL FEDERAL PROGRAMS:	\$3,294,247	\$8,335,812	\$10,938,415	\$691,644

- Notes: 1. Child Nutrition Cluster - No separate funds or accounts maintained. District assumed first in first out for program monies.
2. Impact aid grant revenue includes other revenue generated from Impact Aid money, i.e., interest.
3. The Schedule of Expenditures of Federal Awards (SEFA) is prepared using the modified accrual basis of accounting which is described in Note 1B.
4. Consolidated into the Schoolwide Plan.

Tripp & Associates
1645 Ave. D, Suite E
Billings, Montana 59102

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Hardin School District No. 17H & 1
Big Horn County
Hardin, Montana 59034

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin School District No. 17H & 1 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Hardin School District No. 17H & 1's basic financial statements and have issued our report thereon dated January 20, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered Hardin School District No. 17H & 1'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 Hardin School District No. 17H & 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Hardin School District No. 17H & 1's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hardin School District No. 17H & 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 the audit performed in accordance with Governmental Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tripp & Associates

Tripp & **A**ssociates
Billings, Montana
January 20, 2015

Tripp & **A**ssociates
1645 Ave. D, Suite E
Billings, Montana 59102

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Trustees
Hardin School District No. 17H & 1
Big Horn County
Hardin, Montana 59034

Report on Compliance for Each Major Federal Program

We have audited Hardin School District No. 17H & 1's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. Hardin School District No. 17H & 1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hardin School District No. 17H & 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America: the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hardin School District No. 17H & 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Hardin School District No. 17H & 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Hardin School District No. 17H & 1, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs. Our opinion on each major federal program is not modified with respect to this matter. The instance of noncompliance related to the Impact Aid programs and Davis Bacon compliance requirement described in item 1, 2014.

Hardin School District No. 17H & 1's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Hardin School District No. 17H & 1's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Hardin School District No. 17H & 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hardin School District No. 17H & 1's internal control over compliance with the types of requirement that could have a material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hardin School District No. 17H & 1's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Tripp & Associates

Tripp & **A**ssociates
Billings, Montana
January 20, 2015

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FINDING NUMBER 1 – LIABILITIES 2013:

This is not a finding for fiscal year 2014.

FINDING NUMBER 2 – IMPACT AID STUDENT LIST 2013:

This is not a finding for fiscal year 2014.

FINDING NUMBER 3 – INTERNAL SERVICE FUNDS 2013:

This finding has been resolved for fiscal year 2014.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

A. Summary of Auditor's Results

Financial Statements:

The auditor, Tripp & Associates, has issued an unmodified opinion on Hardin School District No. 17H & 1's financial statements as of and for the year ended June 30, 2014.

Internal Control over financial reporting:

- Material Weaknesses identified? ___ YES X NO
 - Significant Deficiencies identified? ___ YES X NONE REPORTED
- Noncompliance material to financial
statements noted? ___ YES X NO

Federal Awards:

The auditor, Tripp & Associates, has issued an unmodified opinion on Hardin School District No. 17H & 1's compliance with major federal awards programs as of and for the year ended June 30, 2014.

Internal Control over compliance for major programs:

- Material Weaknesses identified? ___ YES X NO
- Significant Deficiencies identified? ___ YES X NONE

Any compliance audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?

 X YES ___ NO

1. The major programs of Hardin School District No. 17H & 1 for the year ended June 30, 2014 were Impact Aid 84.041; Title I Part A 84.010; Title II Part A – Improving Teacher Quality 84.367; Johnson O'Malley 15.130; and the Child Nutrition cluster 10.553, 10.555, 10.556, 10.559.

2. The threshold used to distinguish between Type A and Type B programs was \$300,000. Hardin School District No. 17H & 1 has Impact Aid; Title I Part A; and the Child Nutrition cluster as Type A programs.

3. The District does not qualify as a low risk audit client.

B. Findings relating to the financial statements which are required to be reported in accordance with "Governmental Auditing Standards."

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FINDING NUMBER 1 – DAVIS BACON RATES 2014:

Program CFDA number and Title: 84.041 PL 874 Impact Aid
Federal Award Number: S041B20142870 & S041B20142871

Federal Award Year: 2014

Criteria: OMB Circular A-133 Compliance supplement for Impact Aid states that Davis Bacon rates or better are required for contractors paid from Impact Aid sections 8007, 8002 or 8003(b) funds. Montana wage and hour laws require that contract employees are paid from a contract.

Condition: Payments were made from Impact Aid monies without supporting documentation of terms of the contracts or whether Davis Bacon rates were paid.

Context: Three vendors received payments totaling \$61,425 made from Impact Aid funds. Sufficient information was not available to determine the terms of the work to be performed or whether Davis Bacon rate requirements were met.

Possible Effect: The District may not be in compliance with the Impact Aid federal program Davis Bacon compliance requirement and wage and hour laws.

Recommendation: We recommend that at the onset of an agreement, the District award formal contracts as appropriate, and determine whether Impact Aid monies will be used in order to assure that the contract terms and Davis Bacon rate requirements are met.

Auditee Response: The District will use other funds to pay for contractors, if other funds are available.

C. Findings and questioned costs for Federal awards, as defined in section .510 (a) of OMB Circular A-133.

The audit disclosed findings or questioned costs relating to federal awards as defined in section .510 (a) of the OMB Circular A-133 as item 1, 2014.