

HARRISON SCHOOL DISTRICT NO. 23

**MADISON COUNTY
HARRISON, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

Harrison School District No. 23
 Madison County
 Harrison, Montana 59735

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Harrison School District No. 23
Madison County
Harrison, Montana 59735

ORGANIZATION

BOARD OF TRUSTEES

Todd Brennan	Chair
Ann Hokanson	Vice Chair
Dusty Wagner	Trustee

OFFICIALS

Fred Hofman	Superintendent
Judi Ward	District Clerk
Melinda Legg	County Superintendent
Chris Christensen	County Attorney

Harrison School District #23
Management Discussion and Analysis (MD&A)
For the Year Ended June 30, 2014

The Superintendent and Business Manager/Clerk of Harrison Schools have provided this MD&A to give the reader of these statements an overview of the financial position and activities of the school district for the fiscal year ended June 30, 2014. Certain comparative information between the current year and the prior is required to be presented in the MD&A, however, Statement No. 34 permits the omission of this comparative data in the first year of adoption of the new reporting model. This year will include comparative data with last year.

Financial Highlights

The K-12 district budget was decreased slightly from the previous year. This district is equalized.

Using This Financial Report

The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). Components and purposes of the report are explained below.

Reporting the School District as a Whole

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

- A. The **Statement of Net Position** (page 9) 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 purposes or reserved for emergencies and cash flow purposes. Some assets are invested in “fixed” or “capital” assets, such as building, equipment and other long-lived property; and some assets are available to fund budgets of the following year.
- B. The **Statement of Activities**, (page 10) shows the amounts of program-specific and general school district revenues used to support the school districts various functions.

Reporting the District's Most Significant Funds

The fund statements provide detailed information about the funds used by the school district. State laws 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 bus depreciation, in separate fund accounts.

The fund statements report balances and activities of the most significant or "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 Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance 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 presentation bases. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the district-wide statements but not in the fund statements.

Reporting the District's Trust and Fiduciary Responsibilities

The district is the trustee, or fiduciary, for endowments and the student extracurricular fund.

This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position because the district cannot use these assets to fund its operations.

The district is responsible for ensuring these assets are used for their intended purpose.

Budget-to-Actual Comparison

The district's original and final budgets were identical for the year ended June 30, 2014.

The budgetary comparison schedules on show how actual expenditures compared to the original and final budgeted expenditures for the general fund.

The following significant variances between the final revenue budget and the actual revenues exist:

The revenues were increased due to receiving outstanding protested taxes.

The District as a Whole

One important question asked about the District's finances is, "Is the District better or worse off as a result of the year's activities?" The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, including reporting depreciation on capital assets. This is similar to the basis of accounting used by most private-sector companies.

The change in net position over time is one indicator of whether the District's financial health is improving or deteriorating. There are also other non-financial factors that influence the District's fiscal health, such as enrollment changes, changes in the State's funding or educational costs, changes in the economy, or changes in the District's tax bases. At the Harrison Schools, assets exceed liabilities by \$1,268,861 as of June 30, 2014.

See page 6 and 7 for changes.

The districts total revenues for the fiscal year ended June 30, 2014 were \$1,633,480. The total cost of all programs and services was \$1,737,994. This generated a decrease of net position of \$104,514. District taxpayers paid approximately 33% of the \$1,633,480 in revenues. The remainder was financed through other state revenues, investment earnings and other miscellaneous revenue.

Analysis of Financial Information

Fund balances increased significantly overall due to receiving outstanding protested taxes.

Capital Assets

As of June 30, 2014, the District had \$1,325,832 in capital assets including land, buildings, machinery and equipment. The depreciation expense for the year ending June 30, 2014 was \$33,130.73.

The District's Future

The District is funded mainly by taxes and state aid. Because state aid revenue is based on enrollment, the decrease or increase in enrollment will cause budgets to decrease or increase accordingly. Over the past several years' enrollment has decreased causing the general fund budget to decrease. Increased insurance costs are also a concern to the district and will impact the budgets significantly.

Contact for Additional Information

If you have questions about this report or need additional information, contact either Fred Hofman, Superintendent, or Judi Ward, District Clerk by phone at (406)685-3428 or by mail at Harrison School, PO Box 7, Harrison MT 59735.

Madison County
Harrison Montana

as of June 30, 2014

			\$Change	%Change
ASSETS:	2013	2014		
Current Assets:	\$ 547,389	\$ 378,306	\$ (169,083)	-30.89%
Capital Assets:	<u>1,007,508</u>	<u>947,526</u>	<u>(59,982)</u>	-5.95%
Net Position:	1,554,897	1,325,832	(229,065)	-14.73%

LIABILITIES:				
Current Liabilities:	25,092	3,172	(21,920)	-87.36%
Long Term Liabilities	<u>156,430</u>	<u>53,799</u>	<u>(102,631)</u>	-65.61%
Total Liabilities:	181,522	56,971	(124,551)	-68.61%

NET POSITION:				
Invested in Capital Assets	903,183	939,708	36,525	4.04%
Restricted	184,316	184,565	249	0.14%
Unrestricted	<u>285,876</u>	<u>144,588</u>	<u>(141,288)</u>	-49.42%
Total Net Position:	1,373,375	1,268,861	(104,514)	-7.61%

CHANGES IN NET POSITION

Revenues	2013	2014	\$Change	% Change
Program Revenues:				
Changes for Services	17,304	20,454	3,150	18.20%
Operating Grants	241,070	176,109	(64,961)	-26.95%

General Revenues:				
District Levy	545,723	538,692	(7,031)	-1.29%
State Equalization	439,058	444,092	5,034	1.15%
Other State Revenue	234,333	287,301	52,968	22.60%
County	113,745	150,247	36,502	32.09%
Interest	1,302	600	(702)	-53.92%
Other	<u>12,674</u>	<u>15,985</u>	<u>3,311</u>	26.12%
Totals	1,605,209	1,633,480	28,271	1.76%

Program Expenses:				
Instruction	857,685	1,002,736	145,051	16.91%
Media	6,162	5,552	(610)	-9.90%
Administration	165,375	190,492	25,117	15.19%
O & M	158,823	150,696	(8,127)	-5.12%
Transportation	183,966	194,267	10,301	5.60%
Extracurricular	78,865	84,208	33,071	64.67%
School Food	51,137	40,102	(38,763)	-49.15%
Other Current Charges	10,568	10,140	(428)	-4.05%
Interest	7,950	4,150	(3,800)	-47.80%
Depreciation-unalloc.	<u>29,760</u>	<u>55,651</u>	<u>25,891</u>	<u>87.00%</u>
Totals	<u>1,550,291</u>	<u>1,737,994</u>	<u>187,703</u>	12.11%

Change in Net Position	54,918	(104,514)	(159,432)	
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STROM & ASSOCIATES, PC
Certified Public Accountants
P.O. Box 1980
Billings, Montana 59103

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harrison School District No. 23
Madison County
Harrison, Montana 59735

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison School District No. 23 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison School District No. 23 as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 6) and budgetary comparison information (pages 24 - 27) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harrison School District No. 23's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 28) and schedule of reported enrollment (page 29) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of revenues, expenses and balances student activity funds and schedule of reported enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of revenues, expenses and balances student activity funds and schedule of reported enrollment are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2015 on our consideration of Harrison School District No. 23 internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrison School District No. 23 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
April 10, 2015

Harrison School District No. 23
 Madison County
 Harrison, Montana 59735

STATEMENT OF NET POSITION
 June 30, 2014

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 366,197
Taxes Receivable	<u>12,109</u>
Total Current Assets	<u>378,306</u>
Noncurrent Assets:	
Capital Assets:	
Land	1,500
Net Depreciable Assets	<u>946,026</u>
Total Noncurrent Assets	<u>947,526</u>
Total Assets	<u>\$ 1,325,832</u>
LIABILITIES:	
Current Liabilities	
Current Portions Compensated Absences	\$ 3,172
Total Current Liabilities	<u>3,172</u>
Noncurrent Liabilities:	
Compensated Absences	45,981
Long-Term Capital Obligations	<u>7,818</u>
Total Noncurrent Liabilities	<u>53,799</u>
Total Liabilities	<u>56,971</u>
NET POSITION:	
Net investment in capital assets	939,708
Restricted	184,565
Unrestricted (Deficit)	<u>144,588</u>
Total Net Position	<u>1,268,861</u>
Total Liabilities and Net Position	<u>\$ 1,325,832</u>

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

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Government Governmental Activities
GOVERNMENT OPERATIONS				
Instructional Services	\$ 1,002,736	\$ 3,000	\$ 105,150	\$ (894,586)
Educational Media Services	5,552	-	-	(5,552)
General Administrative Services	190,492	-	-	(190,492)
Operation & Maintenance Services	150,696	-	-	(150,696)
Transportation Services	194,267	-	44,046	(150,221)
School Food Services	84,208	17,454	26,913	(39,841)
Extracurricular	40,102	-	-	(40,102)
Other Current Charges	10,140	-	-	(10,140)
Debt Service				
Interest and other charges	4,150	-	-	(4,150)
Unallocated Depreciation Expense *	55,651	-	-	(55,651)
Total Governmental Activities	<u>1,737,994</u>	<u>20,454</u>	<u>176,109</u>	<u>(1,541,431)</u>
GENERAL REVENUES				
District Levies				538,692
State Equalization				444,092
Other State Revenues				287,301
County				150,247
Interest				600
Other				15,985
Total General Revenues				<u>1,436,917</u>
Change in Net Position				(104,514)
Net Position				
Beginning of the Year				<u>1,373,375</u>
End of the Year				<u>\$ 1,268,861</u>

* Excludes depreciation included in direct expenses of the various functions

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

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2014

	MAJOR				Other Governmental Funds	Total Governmental Funds
	General	Transportation	Bus Depreciation	Debt Service		
ASSETS:						
Current Assets:						
Cash and Cash Equivalents	\$ 189,263	\$ (2,315)	\$ 96,046	\$ 6,042	\$ 77,161	\$ 366,197
Taxes Receivable	6,793	2,237	233	2,115	731	12,109
Total Assets	<u>\$ 196,056</u>	<u>\$ (78)</u>	<u>\$ 96,279</u>	<u>\$ 8,157</u>	<u>\$ 77,892</u>	<u>\$ 378,306</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable Property Taxes Receivable	6,793	2,237	233	2,115	731	12,109
Total Deferred Inflows of resources	<u>6,793</u>	<u>2,237</u>	<u>233</u>	<u>2,115</u>	<u>731</u>	<u>12,109</u>
FUND BALANCE:						
Fund Balances:						
Restricted	-	-	96,046	6,042	77,161	179,249
Unassigned:	189,263	(2,315)	-	-	-	186,948
Total Fund Balance	<u>189,263</u>	<u>(2,315)</u>	<u>96,046</u>	<u>6,042</u>	<u>77,161</u>	<u>366,197</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 196,056</u>	<u>\$ (78)</u>	<u>\$ 96,279</u>	<u>\$ 8,157</u>	<u>\$ 77,892</u>	<u>\$ 378,306</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 366,197
Governmental Capital Assets	947,526
Long-term Liabilities	
Compensated Absences	(49,153)
Long-Term Capital Obligations	(7,818)
Unavailable Property Taxes Receivable	12,109
Net Position of Governmental Activities	<u>\$ 1,268,861</u>

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

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

	MAJOR				Other Governmental Funds	Total Governmental Funds
	General	Transportation	Bus Depreciation	Debt Service		
REVENUES:						
District Levies	\$ 301,912	\$ 99,274	\$ 11,215	\$ 94,623	\$ 32,237	\$ 539,261
Interest	311	22	127	52	88	600
Charges for Services	-	-	-	-	20,454	20,454
Other	2,171	-	-	-	13,814	15,985
County	-	22,023	-	-	150,247	172,270
State	733,984	25,053	-	7,466	42,727	809,230
Federal	-	-	-	-	76,249	76,249
Total Revenues	1,038,378	146,372	11,342	102,141	335,816	1,634,049
EXPENDITURES:						
Current						
Instructional Services	776,882	-	-	-	248,355	1,025,237
Educational Media Services	5,552	-	-	-	-	5,552
General Administrative Services	151,320	19,427	-	-	17,945	188,692
Operation & Maintenance Services	130,708	-	-	-	19,988	150,696
Transportation Services	29,010	135,801	-	-	444	165,255
School Food Services	35,411	-	-	-	48,797	84,208
Extracurricular	35,842	-	-	-	3,990	39,832
Other Current Charges	-	-	-	-	10,140	10,140
Debt Service						
Principal	-	-	-	100,000	-	100,000
Interest and other charges	-	-	-	4,150	-	4,150
Capital Outlay	28,801	-	-	-	-	28,801
Total Expenditures	1,193,526	155,228	-	104,150	349,659	1,802,563
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(155,148)	(8,856)	11,342	(2,009)	(13,843)	(168,514)
OTHER FINANCING SOURCES/USES						
Fund Transfers In	-	-	-	-	12,000	12,000
Fund Transfers (Out)	(12,000)	-	-	-	-	(12,000)
Total Other financial Sources/Uses	(12,000)	-	-	-	12,000	-
NET CHANGES IN FUND BALANCES	(167,148)	(8,856)	11,342	(2,009)	(1,843)	(168,514)
FUND BALANCE:						
Beginning of the Year	356,411	6,541	84,704	8,051	79,004	534,711
End of the Year	\$ 189,263	\$ (2,315)	\$ 96,046	\$ 6,042	\$ 77,161	\$ 366,197

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

Harrison School District No. 23
Madison County
Harrison, Montana 59735

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

Net Changes in Fund Balance		\$	(168,514)
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			(569)
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(88,783)		
(Increase) decrease in Capital lease obligation	(3,493)		
(Increase) decrease in compensated absence liability	<u>28,044</u>		(64,232)
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Capital outlays	28,801		
Principal payments on bonds	<u>100,000</u>	<u>128,801</u>	
Change in net position reported on the Statement of Activity		\$	<u>(104,514)</u>

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

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2014

	Private Purpose	
	Trust Funds	Agency Funds
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 289,595	\$ 26,578
Total Assets	<u>289,595</u>	<u>26,578</u>
LIABILITIES:		
Current Liabilities		
Other Current Liabilities	-	26,578
Total Liabilities	-	<u>26,578</u>
NET POSITION:		
Restricted for Endowment	252,111	
Restricted for Student Activities	37,484	
Total Net Position	<u>\$ 289,595</u>	

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

	Private Purpose
	Trust Funds
ADDITIONS:	
Revenues from Student Activities	\$ 79,337
Contributions to Endowment	7
Total Additions	<u>79,344</u>
DEDUCTIONS:	
Expenses of Student Activities	<u>91,656</u>
Total Deductions	<u>91,656</u>
CHANGE IN NET POSITION	<u>(12,312)</u>
NET POSITION:	
Beginning of the Year	<u>301,907</u>
End of the Year	<u>\$ 289,595</u>

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

HARRISON SCHOOL DISTRICT NO. 23

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Harrison School District No. 23 (School District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the School District adopted the following

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

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

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

The School District provides education for kindergarten through twelfth grade. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations.

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

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

HARRISON SCHOOL DISTRICT NO. 23

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

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

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

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

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

1. b. 2 FUND ACCOUNTING

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

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

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

Trust and agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

GASB Statement No. 34 requires the general fund be reported as a major fund. Other individual governmental should be reported in separate columns as major funds based on these criteria:

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

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

The School District reports the following major governmental funds:

- General Fund – The General Fund is the general operating fund of the School District and accounts for all revenues and expenditures of the School District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. On the GASB 34 financial statements the general fund also includes the activities of the flexibility fund since the restrictions on those funds are similar to the general fund.

HARRISON SCHOOL DISTRICT NO. 23

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

- Transportation Fund – This fund is used to account for financing the maintenance and operation of School District owned school buses, contracts with private carriers for school bus service, individual transportation contracts, and any amount necessary for the purchase, rental, or insurance of yellow school buses or operation of the transportation program. County wide levies to this fund are to be based upon projected transportation costs for the fiscal year.
- Bus Depreciation Fund – This fund is used to account for financing the replacement of yellow school buses and two-way radio equipment owned by a school. Deposits made to the fund are limited by depreciation percentages of current buses and two-way radio equipment owned by the School District.
- Debt Service Fund – This fund is used to account for the financing needs of the School District to pay interest and principal on outstanding bonds and special improvement School District (SID) assessments.

1. b. 3 OTHER FUND TYPES

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

Agency Funds – Account for assets that the School District holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) commands the School District trustee to pay a particular sum of money to a payee (person or entity) from funds in the School District treasury which are or may become available.

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

1. c. 1 CASH AND INVESTMENTS

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

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

1. c. 2 TAXES

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

1. c. 3 CAPITAL ASSETS

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	15 – 50 years
Machinery and Equipment	5 – 20 years

HARRISON SCHOOL DISTRICT NO. 23

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

1. c. 4 INVENTORIES

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

1.c. 5 DEFERRED INFLOWS OF RESOURCES

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

1.c. 6 VACATION AND SICK LEAVE

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

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$3,172 and it is generally paid out of the general fund.

1.c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

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

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

<u>Purpose</u>	<u>Restricted</u>
Instructional - Regular	\$ 9,920
Student Transportation	96,046
School Food	721
Third Party Grantor Restrictions	27,124
Employer Retirement Benefits	36,849
Future Technology	2,367
Future Capital Costs	180
Debt Service	6,042
Total	<u>\$ 179,249</u>

HARRISON SCHOOL DISTRICT NO. 23

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

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first.

1. d. OTHER

1. d. 1 USE OF ESTIMATES

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

1. d. 2 County Provided Services

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 366,197	\$ 316,173	\$ 682,370

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

	<u>Amount</u>
Demand Accounts	\$ 42,980
Time Deposits	3,956
County Investment Pool	398,057
Mutual Funds	<u>237,377</u>
Total	<u>\$ 682,370</u>

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

The cash of the extracurricular funds and private purpose trust funds is held separately by the School District, not at the Madison County. As of June 30, 2014, \$291,375 was exposed to custodial credit risk and was covered by FDIC insurance.

NOTE 3. TAXES RECEIVABLE

The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$2,239,322 for the School District. The tax rates assessed for the year ended June 30, 2014 to finance School District operations and applicable taxes receivable for the School District follows:

HARRISON SCHOOL DISTRICT NO. 23

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

Fund	Mill Levies	Taxes	
		Receivable	
General*	137.24	\$	6,793
Transportation*	45.38		2,237
Bus Depreciation*	4.72		233
Tuition	7.15		352
Adult Education	1.00		49
Technology	2.23		110
Debt Service*	42.91		2,115
Building Reserve	4.47		220
Total	<u>245.10</u>	\$	<u>12,109</u>

* Denotes Major Funds

NOTE 4. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

Governmental Activities:	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<u>Non-depreciable:</u>				
Land	\$ 1,500	\$ 0	\$ 0	\$ 1,500
Total Non-depreciable	<u>\$ 1,500</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,500</u>
<u>Depreciable:</u>				
Buildings	\$ 2,068,330	\$ 0	\$ 0	\$ 2,068,330
Machinery and equipment	253,347	28,801	(7,818)	274,330
Total Depreciable	<u>\$ 2,321,677</u>	<u>\$ 28,801</u>	<u>\$ (7,818)</u>	<u>\$ 2,342,660</u>
<u>Accumulated Depreciation:</u>				
Buildings	\$ (1,204,468)	\$ (55,652)	\$ 0	\$ (1,260,120)
Machinery and equipment	(111,201)	(33,131)	7,818	(136,514)
Total Depreciation	<u>\$ (1,315,669)</u>	<u>\$ (88,783)</u>	<u>\$ 7,818</u>	<u>\$ (1,396,634)</u>
Net Depreciable Assets	<u>1,006,008</u>	<u>(59,982)</u>	<u>0</u>	<u>946,026</u>
Net General Capital Assets	<u>\$ 1,007,508</u>	<u>\$ (59,982)</u>	<u>\$ 0</u>	<u>\$ 947,526</u>

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

Function	Amount
Instructional	\$ 2,050
School Administration	1,800
Transportation	29,012
Extracurricular	270
Unallocated	55,651
Total Depreciation Expense	<u>\$ 88,783</u>

NOTE 5. CHANGES IN LONG-TERM DEBT

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

Governmental Activities	Balance July 1, 2013	New Debt and Other Additions	Principal Payments and Other Reductions	Balance June 30, 2014	Due within One Year
<u>Bonds and Notes Payable:</u>					
Capital Lease	\$ 4,325	\$ 7,818	\$ (4,325)	\$ 7,818	\$ 0
Bonds Payable	100,000	0	(100,000)	0	0
Total Bonds and Notes Payable	<u>\$ 104,325</u>	<u>\$ 7,818</u>	<u>\$ (104,325)</u>	<u>\$ 7,818</u>	<u>\$ 0</u>

HARRISON SCHOOL DISTRICT NO. 23

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

Other Liabilities:

Compensated Absences	\$ 77,197	\$ 0	\$ (28,044)	\$ 49,153	\$ 3,172
Total Other Liabilities	<u>\$ 77,197</u>	<u>\$ 0</u>	<u>\$ (28,044)</u>	<u>\$ 49,153</u>	<u>\$ 3,172</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 181,522</u>	<u>\$ 7,818</u>	<u>\$ (132,369)</u>	<u>\$ 56,971</u>	<u>\$ 3,172</u>

5.b GENERAL OBLIGATION BONDS

The School 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 School District. These bonds were issued for the terms and payment schedules indicated in the following schedule:

<u>Description</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Length of Loan</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding June 30, 2014</u>
2003 GO bonds	10/2003	2.0 - 3.9%	10 Years	10/2013	\$ 960,000	\$ 0

Debt service requirements to maturity for principal and interest for all bonded long term obligations is \$0 as of June 30, 2014.

5. c. CAPITAL LEASES

A lease purchase agreement was entered into between Wells Fargo Financial and Harrison School District No. 23 on February 15, 2010. This lease-purchase agreement provided a method of financing copier for the District. The amount due on this lease purchase is reflected as a liability on the financial statements of the District in the Statement of Net Position. The amount shown in the Statement of Net Position for capitalized machinery and equipment is 10,250. This lease was paid in full in fiscal year 2014 and the lease shown below was started. The principal balance as of June 30, 2014 was \$ 0.

A lease purchase agreement was entered into between Gagnon's Digital Imaging and Harrison School District No. 23 on October 9, 2013. This lease-purchase agreement provided a method of financing a copier machine for the School District. The amount due on this lease purchase is reflected as a liability on the financial statements of the School District in the Statement of Net Position. The amount shown in the Statement of Net Position for capitalized machinery and equipment is \$9,178.

The principal amount paid as of June 30, 2013 was \$1,360. The principal balance as of June 30, 2013 was \$7,818.

<u>For the year ended 6/30:</u>	<u>Future Minimum Lease Payments</u>
2015	\$ 632
2016	1,081
2017	1,167
2018	<u>4,938</u>
Total	<u>\$ 7,818</u>

NOTE 6. DEFERRED INFLOWS OF RESOURCES

6. a. PROPERTY TAXES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 6,793	Taxes Receivable
Transportation*	2,237	Taxes Receivable
Bus Depreciation*	233	Taxes Receivable
Tuition	352	Taxes Receivable
Adult Education	49	Taxes Receivable
Technology	110	Taxes Receivable
Debt Service*	2,115	Taxes Receivable
Building Reserve	<u>220</u>	Taxes Receivable
Total	<u>\$ 12,109</u>	

* Denotes Major Funds

HARRISON SCHOOL DISTRICT NO. 23

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

NOTE 7. DEFICIT FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>How to Correct</u>
Transportation	\$2,315	Future tax collections

NOTE 8. TRANSFERS

<u>Fund - From</u>	<u>Amount</u>	<u>Fund - To</u>
General*	\$12,000	Compensated Absences - Allowable transfer
* Denotes Major Funds		

NOTE 9. OTHER POST EMPLOYMENT BENEFITS

The School District allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. The School District uses a single premium for both active and retired employees resulting in an implicit rate subsidy (the older retiree benefits from the School District's blended premium). The School District has not recorded a liability for the implicit rate subsidy as based on an analysis of the cost it is not material to the School District's financial statements. At June 30, 2014 the School District had no retired employees on the group insurance plan.

NOTE 10. RISK MANAGEMENT

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

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

NOTE 11. EMPLOYEE RETIREMENT SYSTEM

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

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:

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

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

HARRISON SCHOOL DISTRICT NO. 23

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

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$ 104,695	\$ 108,996	\$ 115,907
PERS	<u>11,615</u>	<u>9,326</u>	<u>13,166</u>
Total	<u>\$ 116,310</u>	<u>\$ 118,322</u>	<u>\$ 129,073</u>

NOTE 12. COOPERATIVE

SPECIAL EDUCATION

The Harrison School District No. 23 is a member of the Gallatin/Madison Special Education Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of Harrison School District No. 23, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the School District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Madison County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member School District's budgeted costs for contracted special education services. All capital assets of the Cooperative are included in the Cooperative's financial statements.

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

NOTE 13. TRANSPORTATION

The School District entered into an operating lease with Harlow's School Bus service for its student transportation needs. Harlow's provides buses, drivers, and maintenance of the buses for all student transportation needs of the School District. The contract is renewed annually with adjustments for fuel and mileage. Transportation fees paid in fiscal year 2014 were \$113,486.

In fiscal year 2007, the School District agreed to buy a 2007 Chevy Bus for \$52,870, in fiscal year 2010, the School District agreed to buy a 2010 International bus for \$75,605, and in fiscal year 2011 the School District agreed to buy a 2011 International bus for \$92,414. The School District agreed to let Harlow's use these buses for bus services to the School District in return for reduced monthly transportation fees equal to the value of the bus divided by 7 years divided by the 9 months of transportation fees each year. This is equal to a reduction of \$3,506 per month during fiscal year 2014. The School District will retain ownership of the buses until the completion of the agreement. On June 30, 2014, the reduced fees outstanding are shown as accounts receivable of \$0 on the balance sheet. Actual transportation expenses paid to Harlow's for this year were reduced by \$31,554 for the contract.

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

	General			Transportation		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District Levies	\$ 307,299	\$ 307,299	\$ 301,912	\$ 101,616	\$ 101,616	\$ 99,274
Interest	212	212	89	-	-	22
Other	-	-	-	-	-	-
County	-	-	-	29,527	29,527	22,023
State	734,412	734,412	733,984	32,557	32,557	25,053
Total Revenues	1,041,923	1,041,923	1,035,985	163,700	163,700	146,372
EXPENDITURES:						
Current						
Instructional Services			620,879			-
Educational Media Services			5,552			-
General Administrative Services			151,320			19,427
Operation & Maintenance Services			130,708			-
Transportation Services			29,010			135,801
School Food Services			35,411			-
Extracurricular			35,842			-
Capital Outlay			17,500			-
Total Expenditures	1,041,923	1,041,923	1,026,222	163,700	163,700	155,228
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	9,763	-	-	(8,856)
OTHER FINANCING SOURCES/USES						
Fund Transfers (Out)			(12,000)			-
Total Other financial Sources/Uses	-	-	(12,000)	-	-	-
NET CHANGES IN FUND BALANCES	-	-	(2,237)	-	-	(8,856)
FUND BALANCE:						
Beginning of the Year			105,482			6,541
End of the Year			\$ 103,245			\$ (2,315)

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

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

	Bus Depreciation			Flexibility Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District Levies	\$ 10,574	\$ 10,574	\$ 11,215	\$ -	\$ -	\$ -
Interest	-	-	127	-	-	222
Other	-	-	-	-	-	2,171
County	-	-	-	-	-	-
State	-	-	-	-	-	-
Total Revenues	<u>10,574</u>	<u>10,574</u>	<u>11,342</u>	<u>-</u>	<u>-</u>	<u>2,393</u>
EXPENDITURES:						
Current						
Instructional Services			-			156,003
Educational Media Services			-			-
General Administrative Services			-			-
Operation & Maintenance Services			-			-
Transportation Services			-			-
School Food Services			-			-
Extracurricular			-			-
Capital Outlay			-			11,301
Total Expenditures	<u>95,278</u>	<u>95,278</u>	<u>-</u>	<u>250,929</u>	<u>250,929</u>	<u>167,304</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(84,704)</u>	<u>(84,704)</u>	<u>11,342</u>	<u>(250,929)</u>	<u>(250,929)</u>	<u>(164,911)</u>
OTHER FINANCING SOURCES/USES						
Fund Transfers (Out)			-			-
Total Other financial Sources/Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>(84,704)</u>	<u>(84,704)</u>	<u>11,342</u>	<u>(250,929)</u>	<u>(250,929)</u>	<u>(164,911)</u>
FUND BALANCE:						
Beginning of the Year			84,704			250,929
End of the Year			<u>\$ 96,046</u>			<u>\$ 86,018</u>

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

HARRISON SCHOOL DISTRICT NO. 23

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

NOTE 1. BUDGETS

1. a. BUDGETS

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

1. a. 1 General Budget Policies:

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

1. a. 2 Budget Operation:

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

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

NOTE 2. BUDGET AMENDMENT

The original budget was not amended so the original budget and the final budget are the same.

HARRISON SCHOOL DISTRICT NO. 23

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

NOTE 3. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	<u>Sub-fund</u> <u>General</u> <u>Fund</u>	<u>Sub-fund</u> <u>Flexibility</u> <u>Fund</u>	<u>Total</u> <u>General</u> <u>Fund</u>
REVENUES:			
District Levies	\$ 301,912	\$ 0	\$ 301,912
Interest Earnings	89	222	311
Other	0	2,171	2,171
State Sources	<u>733,984</u>	<u>0</u>	<u>733,984</u>
Total Revenues	<u>\$ 1,035,985</u>	<u>\$ 2,393</u>	<u>\$ 1,038,378</u>
EXPENDITURES:			
Instructional Services	\$ 620,879	\$ 156,003	\$ 776,882
Educational Media	5,552	0	5,552
General Administrative	151,320	0	151,320
Operation & Maintenance	130,708	0	130,708
Transportation	29,010	0	29,010
Extracurricular	35,842	0	35,842
School Food	35,411	0	35,411
Capital Outlay	<u>17,500</u>	<u>11,301</u>	<u>28,801</u>
Total Expenditures	<u>\$ 1,026,222</u>	<u>\$ 167,304</u>	<u>\$ 1,193,526</u>
Excess(Deficiency) of Revenues Over Expenditures	\$ 9,763	\$ (164,911)	\$ (155,148)
Fund Transfers (Out)	<u>\$ (12,000)</u>	<u>\$ 0</u>	<u>\$ (12,000)</u>
Net Changes In Fund Balance	\$ (2,237)	\$ (164,911)	\$ (167,148)
FUND BALANCE:			
Beginning of the Year	<u>\$ 105,482</u>	<u>\$ 250,929</u>	<u>\$ 356,411</u>
Ending of the Year	<u>\$ 103,245</u>	<u>\$ 86,018</u>	<u>\$ 189,263</u>

In the reconciliation the general fund and flexibility fund are added together to get to the aggregate general fund shown as a major fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds. The flexibility fund is maintained as a special revenue fund for accounting purposes, however, for external financial reporting it is added to the general fund because it has unassigned fund balance like the general fund.

On the Statement of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) All Budgeted Major Governmental Funds display budgeted information for the general and major special revenue funds. The Statement presents budgetary information for the general fund and flexibility fund because they are reported as major funds and have legally adopted budgets.

Harrison School District No. 23
 Schedule of Revenues, Expenses and Balances
 Student Activity Funds
 Fiscal Year-Ended June 30, 2014

Activity Account Name	Beginning Balance	Revenues	Expenses	Transfers	Ending Balance
Yearbook	\$ 1,287	\$ 1,943	\$ 1,262	\$ 132	\$ 2,100
Echo	132	-	-	(132)	-
"H" Club	(28)	-	-	28	-
Athletics	(969)	17,149	19,628	714	(2,734)
Student Council	1,366	3,029	2,968	-	1,427
Pep Club	1,451	-	-	(1,451)	-
Honor Society	549	521	580	-	490
Science fun	55	-	55	-	-
Class of 2013	122	-	-	(122)	-
Class of 2014	21,145	6,091	30,176	4,253	1,313
Class of 2015	10,333	2,803	699	986	13,423
Class of 2016	2,047	301	-	(884)	1,464
Class of 2017	45	-	-	(45)	-
Class of 2018	14	-	-	(14)	-
Field Trip Fund	297	1,913	1,908	-	302
Misc. Donations	295	855	610	188	728
Shop Class	989	134	260	-	863
Skills USA	82	1,651	2,425	-	(692)
Scholars Fund	8,722	8,861	9,089	-	8,494
School Play	1,102	629	535	-	1,196
Cheerleading fund	230	7	380	1,000	857
Graduation	58	174	314	93	11
Girls State	-	1,026	863	-	163
Music	265	1,037	1,068	-	234
Clearing Account	(874)	16,186	15,136	(450)	(274)
Library	608	697	697	-	608
Art Class	329	-	-	-	329
Eagle Scout Project	152	-	-	-	152
DC Educ. Exp. Club	-	14,329	3,003	(4,296)	7,030
Total	\$ 49,804	\$ 79,336	\$ 91,656	\$ -	\$ 37,484

HARRISON SCHOOL DISTRICT NO. 23

SCHEDULE OF REPORTED ENROLLMENT
Fiscal Year-Ended June 30, 2014

FALL ENROLLMENT - OCTOBER, 2013

Elementary

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Part-time	6	6	0
Grade 1 - 6	32	32	0
Grade 7 - 8	<u>17</u>	<u>17</u>	<u>0</u>
Total	<u>55</u>	<u>55</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>40</u>	<u>40</u>	<u>0</u>

Part-time Students

Less than 181 hours	0	0	0
Less than 359 hours	1	1	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>1</u>	<u>1</u>	<u>0</u>
Total Part-time	<u>2</u>	<u>2</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

WINTER ENROLLMENT - DECEMBER, 2013

Elementary

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Part-time	6	6	0
Grade 1 - 6	32	32	0
Grade 7 - 8	<u>18</u>	<u>18</u>	<u>0</u>
Total	<u>56</u>	<u>56</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>39</u>	<u>39</u>	<u>0</u>

Part-time Students

Less than 181 hours	0	0	0
Less than 359 hours	1	1	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>1</u>	<u>1</u>	<u>0</u>
Total Part-time	<u>2</u>	<u>2</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

SPRING ENROLLMENT - FEBRUARY, 2014

Elementary

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Part-time	6	6	0
Grade 1 - 6	28	28	0
Grade 7 - 8	<u>17</u>	<u>17</u>	<u>0</u>
Total	<u>51</u>	<u>51</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>36</u>	<u>36</u>	<u>0</u>

Part-time Students

Less than 181 hours	0	0	0
Less than 359 hours	1	1	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>2</u>	<u>2</u>	<u>0</u>
Total Part-time	<u>3</u>	<u>3</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harrison School District No. 23
Madison County
Harrison, Montana 59735

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison School District No. 23 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Harrison School District No. 23's basic financial statements and have issued our report thereon dated April 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harrison School District No. 23's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies as item 2014 -001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harrison School District No. 23's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Harrison School District No. 23's Response to Findings

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

Purpose of this Report

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

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
April 10, 2015

SCHEDULE OF FINDINGS AND RESPONSES

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

Prior year findings

Fiscal year 2013 Finding Number 1 – Claims Approval Process:

This finding has been resolved and is not repeated in the current fiscal year.

Current year findings

Finding 2014-001 – Credit Card Internal Controls:

Criteria: Strong internal controls require proper authorization and approval of all credit card payments.

Condition: For testing internal controls over credit cards we selected 4 of the 12 credit card payments which occurred in fiscal year 2014. One of the four statements included interest charges which indicates that the credit card was not being paid in full. None of the four included complete documentation of the current charges on the statement or the receipts included with the statement.

Effect: Proper approval and authorization of a credit card payment cannot be made when the purchase order and supporting documentation included with the statement are not in agreement with the charges on the statement.

Context: Current school policy is to collect receipts and make a payment to the credit card company based on the receipts collected rather than the charges appearing on the statement. This results in the purchase order and receipts not matching the current charges on each monthly statement.

Cause: Receipts are collected as charges are made and each month a payment is made to the credit card company based on the receipts collected. This results in receipts attached to statements that do not correspond to charges on that statement and also results in no payment being made for some charges if a receipt was not received on time. This can result in finance charges for the District and also results in a lack of proper documentation attached to each credit card statement.

Recommendation: We recommend the following controls be implemented for credit card transactions:

- 1) Employees who are assigned credit cards should complete a credit card reconciliation form each month which lists out all charges incurred for the month, includes an attached receipt for each charge, and balances with the current charges on the monthly statement.
- 2) The overall payment each month for credit card charges should be equal to the current charges listed on the statement and balance to each of the employee reconciliations listed above including detailed receipts for each transaction.

Auditee Response: 1) A credit card reconciliation sheet will be implemented for employees with a credit card. They will be expected to fill it out, attach the receipts, and give to the District Clerk to reconcile with the credit card statement every month.
2) This will enable the district clerk to make the payment to the credit card company to equal the statement.