

**HOBSON SCHOOL DISTRICT NO. 25**

**JUDITH BASIN COUNTY  
HOBSON, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2014**

**Strom & Associates, P. C.**  
PO BOX 1980  
Billings, Montana 59103

Hobson School District No. 25  
Judith Basin County  
Hobson, Montana 59452

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Hobson School District No. 25  
Judith Basin County  
Hobson, Montana 59452

ORGANIZATION

BOARD OF TRUSTEES

Dan Thomas	Chair
Jarod Stevenson	Vice Chair
Shawn Erickson	Trustee
Bryan Vincent	Trustee
Heather Fryer	Trustee

OFFICIALS

Colby Fitzgerald	Superintendent
Sherri Bergstrom	District Clerk
Julie Peevey	County Superintendent
Mark Westveer	County Attorney

**Hobson School District  
Management Discussion and Analysis (MD&A)  
For the Year Ended June 30, 2014**

The Superintendent and Business Manager/Clerk of the Hobson Public School District 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.

**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**

The report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic 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 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 school 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 buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

B. The Statement of Activities, shows the amounts of program-specific and general school district revenues used to support the school district’s various functions.

Governmental activities – The school functions, including instruction, student services, administration, etc. Property taxes, state and federal revenues usually support most of these functions of the district.

**Reporting the District’s Most Significant Funds**

The fund statements provide detailed information about the funds used by the school 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, 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. Internal Service funds are never reported as major funds, but are combined and presented in a separate set of financial statements.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds such as the general funds, 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 of the student extracurricular fund.

This report includes the activities in a separate “End of Year Revenue and Expense” report 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 Comparisons**

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

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

The following significant variances between the final expenditure budget and the actual expenditures in the general fund exist:

- District Sources – A negative variance of \$2,480 exists due to the non-collection of delinquent and protested taxes for the district, and, a \$4,781 prior period adjustment in District Funds.
- Interest Earnings – A negative variance of (\$538) exists because the return on interest bearing investments is extremely low.

**DISTRICT AS A WHOLE**

Net position may serve over time as a useful indicator of a government’s financial position. In the District, assets exceeded liabilities by \$1,700,034 as of June 30, 2014.

**Hobson Public School  
Condensed Statement of Net Position  
Government Activities**

	<u>2014</u>	<u>2013</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
	<u>2014</u>	<u>2013</u>	<u>CHANGE</u>	<u>% CHANGE</u>
Current Assets	930,198	1,032,136	(101,938)	-9.88%
Capital Assets, net	<u>1,742,714</u>	<u>1,776,504</u>	<u>(33,790)</u>	<u>-1.90%</u>
Total Assets	2,672,912	2,808,640	(135,728)	-4.83%
Current Liabilities	20,962	7,652	13,310	173.94%
Long Term Liabilities	<u>951,916</u>	<u>1,007,855</u>	<u>(55,939)</u>	<u>-5.55%</u>
Total Liabilities	972,878	1,015,507	(42,629)	-4.20%
Net Position:				
Net Investment in				
Capital Assets	982,165	925,955	56,210	6.07%
Restricted	567,814	734,823	(167,009)	-22.73%
Unrestricted	<u>150,055</u>	<u>132,355</u>	<u>17,700</u>	<u>13.37%</u>

<b>HOBSON PUBLIC SCHOOL CHANGES IN NET POSITION</b>
---------------------------------------------------------

<b>Revenues</b>	<u>2014</u>	<u>2013</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
Program Revenues:				
Charges for Services	35,136	37,729	(2,593)	-6.87%
Operating Grants	1,54,533	150,538	(3,995)	2.65%
General Revenues:				
District Levy	728,423	665,976	62,447	9.38%
State Equalization	477,827	467,603	10,224	2.19%
Other State Revenue	217,075	233,325	(16,250)	-6.96%
County	138,160	132,525	5,635	4.25%
Interest	2,302	4,074	(1,772)	-43.50%
Other	<u>13,732</u>	<u>2,634</u>	<u>11,098</u>	<u>421.34%</u>
Total Revenues	1,767,188	1,694,404	72,784	4.3%

**Program Expenses**

Instructional Services	1,075,299	1,032,205	43,094	4.17%
Support Services	2,826	2,888	(62)	-2.15%
Educational Media	230	1,735	(1,505)	-86.74%
General Administrative	161,877	145,945	15,932	10.92%
O & M	208,225	232,754	(24,529)	-10.54%
Transportation	84,174	67,980	16,194	23.82%
Extracurricular	65,539	57,764	(7,775)	13.46%
School Food	92,014	90,344	1,670	1.85%
Interest & Other Charges	41,810	45,635	(3,825)	-8.38%
OPEB	27,951	27,951	-0-	0%
Unallocated Depreciation	103,155	103,909	(754)	-.73%
Total Expenses	1,863,100	1809,110	53,990	2.98%
Gain Loss on Sale of Assets	1,865		1,865	
	(94,047)	(114,706)	18794	

**Change in Net Position**

**Analysis of Financial Information**

The district's total revenues for the fiscal year ended June 30, 2014 were \$1.77 million. District taxes collected were increased by 9.38%. This was due to some protested taxes in the District as well as unpaid taxes being collected. Interest income was decreased in 2014. Interest rates were extremely low. State revenue was decreased by 6.96%, which offset the increase in other revenue areas.

The total cost of all programs and services was \$1.86 million and total net position were \$1.7 million. This resulted in a decrease in overall Net Position of \$94,047. The District traded in two busses and purchased one new bus in 2014. Operation and Maintenance expenses were decreased by 10.54% from previous year. The cost of boiler fuel was slightly down and boiler repairs were very minimal. No new maintenance equipment was purchased. The cost of commodities and supplies to maintain a quality school lunch program has increased slightly. The Board of Trustees increased School Lunch prices at the beginning of the school year. This helps offset the rising cost of commodities and supplies. The inflationary cost of supplies has also affected the extracurricular expenses. Hobson School is the financial control center for the Tri-City Sports Coop. All sports are cooped, which makes expenses very high.

The OPEB liability is only required, by government regulation, to be calculated every three years, thus, there is no increase for this year.

**Hobson Public School  
Spending Levels Compared to Resource Levels**

Expenditures Supported with General Revenues (from taxes and other sources for general school use)	\$ 1,075,299	62%
Expenditures Support with Program Revenues	\$ 656,695	38%
Total Expenditures Related to Governmental Activities	\$ 1,731,994	100%

**Capital Assets**

Net Land and Improvements was decreased because of increased depreciation expense. Net Buildings and Improvements and Net Machinery and Equipment were also decreased because of increased depreciation expense. The district purchased no capital assets this fiscal year.

The total decrease in net Capital Assets as of June 30, 2014 was \$35,655.

As of June 30, 2014, the District is at \$3.48 million invested in capital assets including land and improvements, buildings and improvements, and machinery and equipment. Total depreciation expense for the year was \$103,155. The following schedule presents capital asset balances net of depreciation for the fiscal year ended June 30, 2014:

Land and improvements	\$ 29,394
Buildings and improvements	\$ 1,558,534
Machinery and equipment	\$ <u>154,787</u>
<b>Total</b>	<b>\$ <u>1,742,715</u></b>

**Debt Administration**

At June 30, 2014, the District had \$818,830 in general obligation bonds and other long-term debt outstanding, of which \$95,000 is due within one year. A summary of the District's outstanding long-term debt for the year ended June 30, 2014 is presented below:

General obligation bonds	\$ 760,000
Compensated absences	\$ 58,233
Capital Leases	\$ <u>0</u>
<b>Total</b>	<b>\$ <u>818,233</u></b>

**The District's Future**

The following will be major factors in the future of the District

- The Hobson District will implement an elementary computer lab within the next year.

**Contact for Additional Information**

If you have questions about this report or need additional information, contact the Superintendent of Schools, Colby Fitzgerald or District Clerk, Sherri Bergstrom at 406-423-5483.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Hobson School District No. 25  
Judith Basin County  
Hobson, Montana 59452

**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 Hobson School District No. 25 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 Hobson School District No. 25 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 the schedule of funding for other post-employment benefits other than pensions (page 25) and budgetary comparison information (pages 26 – 29) 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 Hobson School District No. 25's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 30) and schedule of reported enrollment (page 31) 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 March 10, 2015 on our consideration of Hobson School District No. 25 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 Hobson School District No. 25 internal control over financial reporting and compliance.



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

Hobson School District No. 25  
 Judith Basin County  
 Hobson, Montana 59452

STATEMENT OF NET POSITION  
 as of June 30, 2014

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 871,151
Taxes Receivable	8,979
Due From Other Governments	<u>50,068</u>
Total Current Assets	<u>930,198</u>
Noncurrent Assets:	
Net Depreciable Assets	<u>1,742,714</u>
Total Noncurrent Assets	<u>1,742,714</u>
Total Assets	<u>\$ 2,672,912</u>
LIABILITIES:	
Current Liabilities	
Cash Overdraft	\$ 14,341
Current Portions Long-Term Obligations	549
Current Portions Compensated Absences	<u>6,072</u>
Total Current Liabilities	<u>20,962</u>
Noncurrent Liabilities:	
Bonds Payable	760,000
Compensated Absences	52,161
Other Post Employment Benefits	<u>139,755</u>
Total Noncurrent Liabilities	<u>951,916</u>
Total Liabilities	<u>972,878</u>
NET POSITION:	
Net investment in capital assets	982,165
Restricted	567,814
Unrestricted (Deficit)	<u>150,055</u>
Total Net Position	<u>1,700,034</u>
Total Liabilities and Net Position	<u>\$ 2,672,912</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
<b>GOVERNMENT OPERATIONS</b>				
Instructional Services	\$ 1,075,299	\$ -	\$ 66,487	\$ (1,008,812)
Support Services	2,826	-	-	(2,826)
Educational Media Services	230	-	-	(230)
General Administrative Services	161,877	-	-	(161,877)
Operation & Maintenance Services	208,225	-	-	(208,225)
Transportation Services	84,174	-	60,508	(23,666)
School Food Services	92,014	35,136	27,538	(29,340)
Extracurricular	65,539	-	-	(65,539)
Debt Service				
Interest and other charges	41,810	-	-	(41,810)
Other Post Employment Benefits	27,951	-	-	(27,951)
Unallocated Depreciation Expense *	103,155	-	-	(103,155)
Total Governmental Activities	<u>1,863,100</u>	<u>35,136</u>	<u>154,533</u>	<u>(1,673,431)</u>
Total Primary Government	<u>\$ 1,863,100</u>	<u>\$ 35,136</u>	<u>\$ 154,533</u>	<u>\$ (1,673,431)</u>
<b>GENERAL REVENUES</b>				
District Levies				728,423
State Equalization				477,827
Other State Revenues				217,075
County				138,160
Interest				2,302
Other				13,732
Gain loss on Sale of Assets				1,865
Total General Revenues				<u>1,579,384</u>
Change in Net Position				(94,047)
<b>Net Position</b>				
Beginning of the Year				1,793,133
Prior Period Adjustments				948
End of the Year				<u>\$ 1,700,034</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  
 as of June 30, 2014

	MAJOR					Total Governmental Funds
	General	Bus Depreciation	Retirement	Debt Service	Other Governmental Funds	
<b>ASSETS:</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 343,306	\$ 283,470	\$ -	\$ -	\$ 244,375	\$ 871,151
Taxes Receivable	6,575	-	-	1,633	771	8,979
Due From Other Governments	-	-	46,054	-	4,014	50,068
<b>Total Assets</b>	<b>\$ 349,881</b>	<b>\$ 283,470</b>	<b>\$ 46,054</b>	<b>\$ 1,633</b>	<b>\$ 249,160</b>	<b>\$ 930,198</b>
<b>LIABILITIES:</b>						
Current Liabilities						
Cash Overdraft	-	-	12,503	1,648	190	14,341
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>12,503</b>	<b>1,648</b>	<b>190</b>	<b>14,341</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Property Taxes Receivable	6,575	-	-	1,633	771	8,979
<b>Total Deferred Inflows of resources</b>	<b>6,575</b>	<b>-</b>	<b>-</b>	<b>1,633</b>	<b>771</b>	<b>8,979</b>
<b>FUND BALANCE:</b>						
Fund Balances:						
Restricted	-	283,470	33,551	-	248,389	565,410
Unassigned:	343,306	-	-	(1,648)	(190)	341,468
<b>Total Fund Balance</b>	<b>343,306</b>	<b>283,470</b>	<b>33,551</b>	<b>(1,648)</b>	<b>248,199</b>	<b>906,878</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 349,881</b>	<b>\$ 283,470</b>	<b>\$ 46,054</b>	<b>\$ 1,633</b>	<b>\$ 249,160</b>	<b>\$ 930,198</b>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 906,878
Governmental Capital Assets	1,742,714
Long-term Liabilities	
Lease Payable	(549)
Long-Term Capital Obligations	(760,000)
Compensated Absences	(58,233)
Long-Term Obligations	(139,755)
Unavailable Property Taxes Receivable	8,979
<b>Net Position of Governmental Activities</b>	<b>\$ 1,700,034</b>

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

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

	MAJOR					Total Governmental Funds
	General	Bus Depreciation	Retirement	Debt Service	Other Governmental Funds	
<b>REVENUES:</b>						
District Levies	\$ 519,537	\$ 281	\$ -	\$ 129,103	\$ 77,184	\$ 726,105
Interest	792	645	92	92	681	2,302
Charges for Services	-	-	-	-	39,336	39,336
Other	18	-	-	-	9,515	9,533
County	-	-	138,160	-	30,254	168,414
State	711,037	-	-	-	39,592	750,629
Federal	-	-	-	-	68,551	68,551
<b>Total Revenues</b>	<b>1,231,384</b>	<b>926</b>	<b>138,252</b>	<b>129,195</b>	<b>265,113</b>	<b>1,764,870</b>
<b>EXPENDITURES:</b>						
<b>Current</b>						
Instructional Services	836,505	-	164,541	-	69,174	1,070,220
Support Services	126	-	-	-	2,700	2,826
Educational Media Services	230	-	-	-	-	230
General Administrative Services	117,699	-	-	-	44,178	161,877
Operation & Maintenance Services	178,246	-	-	-	29,979	208,225
Transportation Services	-	21	-	-	84,153	84,174
School Food Services	32,192	-	-	-	59,822	92,014
Extracurricular	65,539	-	-	-	-	65,539
<b>Debt Service</b>						
Principal	-	-	-	90,000	-	90,000
Interest and other charges	-	-	-	41,810	-	41,810
Capital Outlay	-	67,500	-	-	-	67,500
<b>Total Expenditures</b>	<b>1,230,537</b>	<b>67,521</b>	<b>164,541</b>	<b>131,810</b>	<b>290,006</b>	<b>1,884,415</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>847</b>	<b>(66,595)</b>	<b>(26,289)</b>	<b>(2,615)</b>	<b>(24,893)</b>	<b>(119,545)</b>
<b>OTHER FINANCING SOURCES/USES</b>						
Fund Transfers In	-	-	-	-	1,500	1,500
Fund Transfers (Out)	(1,500)	-	-	-	-	(1,500)
<b>Total Other financial Sources/Uses</b>	<b>(1,500)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,500</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(653)</b>	<b>(66,595)</b>	<b>(26,289)</b>	<b>(2,615)</b>	<b>(23,393)</b>	<b>(119,545)</b>
<b>FUND BALANCE:</b>						
Beginning of the Year	291,556	350,065	59,840	967	323,047	1,025,475
Prior Period Adjustments	52,403	-	-	-	(51,455)	948
<b>End of the Year</b>	<b>\$ 343,306</b>	<b>\$ 283,470</b>	<b>\$ 33,551</b>	<b>\$ (1,648)</b>	<b>\$ 248,199</b>	<b>\$ 906,878</b>

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

Hobson School District No. 25  
Judith Basin County  
Hobson, Montana 59452

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		\$	(119,545)
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			2,318
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(103,155)		
(Increase) decrease in Other Post Employment Benefits	(27,951)		
(Increase) decrease in compensated absence liability	<u>(5,079)</u>	(136,185)	
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Capital outlays	67,500		
Gain/loss on sale of assets	1,865		
Principal payments on bonds	<u>90,000</u>	<u>159,365</u>	
Change in net position reported on the Statement of Activity		\$	<u>(94,047)</u>

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

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

	<u>Private Purpose</u> <u>Trust Funds</u>	<u>Agency</u> <u>Funds</u>
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 45,237	\$ 50,553
Total Assets	<u>45,237</u>	<u>50,553</u>
LIABILITIES:		
Current Liabilities		
Warrants Payable	-	50,553
Total Liabilities	<u>-</u>	<u>50,553</u>
NET POSITION:		
Restricted for Student Activities	<u>45,237</u>	
Total Net Position	<u>\$ 45,237</u>	

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

	<u>Private Purpose</u> <u>Trust Funds</u>
ADDITIONS:	
Revenues from Student Activities	\$ 109,054
Total Additions	<u>109,054</u>
DEDUCTIONS:	
Expenses of Student Activities	107,670
Total Deductions	<u>107,670</u>
CHANGE IN NET POSITION	1,384
NET POSITION:	
Beginning of the Year	<u>43,853</u>
End of the Year	<u>\$ 45,237</u>

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

HOBSON SCHOOL DISTRICT NO. 25

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 Hobson School District No. 25 (School District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the School District adopted the following

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

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

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

The School District 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.

HOBSON SCHOOL DISTRICT NO. 25

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
- 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 is displayed as a fiduciary fund. 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.

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 funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures of that individual governmental funds 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 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.
- Bus Depreciation Fund – This fund is used to account for financing the replacement of yellow school buses and two-way radio equipment owned by a school. Deposits made to the fund are limited by depreciation percentages of current busses and two-way radio equipment owned by the School District.

HOBSON SCHOOL DISTRICT NO. 25

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

- Retirement Fund – This fund is used to account for financing the employer’s contribution to the Teachers’ Retirement System (TRS), the Public Employees’ Retirement System (PERS), Unemployment Compensation, Social Security and Medicare benefits for School District employees. County wide levies to this fund are to be based upon projected salaries for the fiscal year.
- 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. 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.

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

1. c. 1 CASH AND INVESTMENTS

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

Information regarding the collateral and security for cash is not available to the School District. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Judith Basin 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 INVENTORIES

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

1. c. 4 CAPITAL ASSETS

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	15 – 50 years
Improvements other than buildings	20 years
Machinery and Equipment	4 – 20 years

HOBSON SCHOOL DISTRICT NO. 25

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

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 \$6,072 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	\$ 23,632
Operations and Maintenance	2,860
Student Transportation	354,908
School Food	4,961
Third Party Grantor Restrictions	50,031
Employer Retirement Benefits	37,988
Future Capital Costs	91,030
Total	<u>\$ 565,410</u>

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

HOBSON SCHOOL DISTRICT NO. 25

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

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 Judith Basin County. The Judith Basin County also serves as cashier and treasurer for the School District for tax and assessment collections and other revenues received by the Judith Basin County which are subject to distribution to the various taxing jurisdictions located in the Judith Basin County. The collections made by the Judith Basin 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 Judith Basin County Treasurer. No service charges have been recorded by the School District or the Judith Basin County.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

<u>Account Type</u>	<u>Governmental</u> <u>Activities</u>	<u>Fiduciary</u> <u>Funds</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 871,151	\$ 95,790	\$ 966,941
Cash Overdraft	(14,341)	0	(14,341)
Total	<u>\$ 856,810</u>	<u>\$ 95,790</u>	<u>\$ 952,600</u>

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

	<u>Amount</u>
Demand Accounts	\$ 45,237
Other	4,751
County Investment Pool	<u>902,612</u>
Total	<u>\$ 952,600</u>

Cash resources of the School District are held and managed by the Judith Basin County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within Judith Basin County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of certificates of deposits and money market accounts 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 Judith Basin County government. Because of the custodial involvement of the Judith Basin County government, and the commingling of cash in County deposits in the name of the Judith Basin County Treasurer, full risk classifications according to GASB 40 are available in the Judith Basin County's annual report. There is no known maturity and credit rating of the Judith Basin County Investment Pool. The cash of the extracurricular funds is held separately by the School District, not at the Judith Basin County. As of June 30, 2014, \$47,393 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 \$4,470,801 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:

<u>Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	117.83	\$ 6,575
Transportation	13.85	771
Technology	3.67	0
Debt Service*	<u>29.27</u>	<u>1,633</u>
Total	<u>164.62</u>	<u>\$ 8,979</u>

\* Denotes Major Funds

HOBSON SCHOOL DISTRICT NO. 25

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

NOTE 4. DUE FROM OTHER GOVERNMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
School Food Services	\$ 204	State of Montana	School Food payment
Retirement*	46,054	Judith Basin County	County Retirement payment
Miscellaneous	3,810	State of Montana	Grant funds
Total	<u>\$ 50,068</u>		

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
<u>Depreciable:</u>				
Land Improvements	\$ 71,910	\$ 0	\$ 0	\$ 71,910
Buildings	2,815,106	0	0	2,815,106
Major Equipment	634,753	89,500	(135,280)	588,973
Total Depreciable	<u>\$ 3,521,769</u>	<u>\$ 89,500</u>	<u>\$ (135,280)</u>	<u>\$ 3,475,989</u>
<u>Accumulated Depreciation:</u>				
Land Improvements	\$ (39,195)	\$ (3,321)	\$ 0	\$ (42,516)
Buildings	(1,193,337)	(63,235)	0	(1,256,572)
Major Equipment	(512,733)	(36,599)	115,145	(434,187)
Total Depreciation	<u>\$ (1,745,265)</u>	<u>\$ (103,155)</u>	<u>\$ 115,145</u>	<u>\$ (1,733,275)</u>
Net Depreciable Assets	<u>\$ 1,776,504</u>	<u>\$ (13,655)</u>	<u>\$ (20,135)</u>	<u>\$ 1,742,714</u>

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

Unallocated \$ 103,155

NOTE 6. CHANGES IN LONG-TERM DEBT

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

<u>Governmental Activities</u>	<u>Balance</u>	<u>New Debt</u>	<u>Principal</u>	<u>Balance</u>	<u>Due within</u>
	<u>July 1, 2013</u>	<u>and Other</u>	<u>Payments</u>	<u>June 30, 2014</u>	<u>One Year</u>
		<u>Additions</u>	<u>and Other</u>		
			<u>Reductions</u>		
<u>Bonds and Notes Payable:</u>					
General Obligation Bonds	\$ 850,000	\$ 0	\$ (90,000)	\$ 760,000	\$ 0
Capital Lease	549	0	0	549	0
Total Bonds and Notes Payable	<u>\$ 850,549</u>	<u>\$ 0</u>	<u>\$ (90,000)</u>	<u>\$ 760,549</u>	<u>\$ 95,000</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 53,154	\$ 5,079	\$ 0	\$ 58,233	\$ 6,072
Other Post-Employment Benefits (OPEB)	111,804	27,951	0	139,755	0
Total Other Liabilities	<u>\$ 164,958</u>	<u>\$ 33,030</u>	<u>\$ 0</u>	<u>\$ 197,988</u>	<u>\$ 6,072</u>
Total Governmental Activities-Long-Term Debt:	<u>\$ 1,015,507</u>	<u>\$ 33,030</u>	<u>\$ (90,000)</u>	<u>\$ 958,537</u>	<u>\$ 6,072</u>

6. 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:

HOBSON SCHOOL DISTRICT NO. 25

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

<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>
GO Bonds	3/2001	4.75-5%	20 years	3/2021	\$ 1,600,000	\$ 760,000

Debt service requirements to maturity for principal and interest for all bonded long term obligations are as follows:

For the year ended 6/30:		
	<u>Principal</u>	<u>Interest</u>
2015	\$ 0	\$ 18,685
2015	95,000	35,108
2016	95,000	30,625
2017	100,000	25,895
2018	110,000	20,723
2019	115,000	15,125
2020	120,000	9,250
2021	<u>125,000</u>	<u>3,125</u>
Totals	<u>\$ 760,000</u>	<u>\$ 158,536</u>

6. c. CAPITAL LEASES

In 2010 the District entered a lease purchase agreement as a method of financing a 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 \$11,690. The present value of minimum lease payments as of June 30, 2014 was \$549.

NOTE 7. DEFERRED INFLOWS OF RESOURCES

7. a. PROPERTY TAXES

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 6,575	Taxes Receivable
Transportation	771	Taxes Receivable
Debt Service	<u>1,633</u>	Taxes Receivable
Total	<u>\$ 8,979</u>	

\* Denotes Major Funds

NOTE 8. DEFICIT FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>How to Correct</u>
Technology Fund	190	Future collections
Debt Service	<u>1,648</u>	Future collections
Total	<u>\$ 1,838</u>	

NOTE 9. PRIOR PERIOD ADJUSTMENTS

<u>Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ 948	Correction of prior year revenues
General*	51,455	GASB 54 reclassification of flexibility Fund
Flexibility Fund*	<u>(51,455)</u>	GASB 54 reclassification of flexibility Fund
Total	<u>\$ 948</u>	

NOTE 10. TRANSFERS

<u>Fund - From</u>	<u>Amount</u>	<u>Fund - To</u>
General*	<u>\$ 1,500</u>	Compensated Absences

HOBSON SCHOOL DISTRICT NO. 25

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

NOTE 11. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The School District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 18% of plan participants would elect to continue coverage after retirement.

Funding Policy - The government pays OPEB liabilities on a pay as you go basis. The trust fund for future liabilities has not been established. Funding status and progress as of June 30, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 173,460
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>173,460</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 938,282
UAAL as a percentage of covered payroll	18.49%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2013.

Annual Required Contribution (ARC)	\$ 27,951
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	27,951
Contribution made	<u>0</u>
Increase in net OPEB obligation	27,951
Net OPEB obligation - beginning of year	<u>111,804</u>
Net OPEB obligation - end of year	<u>\$ 139,755</u>

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

Actuarial Cost Method	Unit Credit Cost Method
Average age of retirement (based on historical data)	60
Discount rate (average anticipated rate)	3.00%
Average Salary Increase	3.00%
Health care cost rate trend	
Year	% Increase
2015 and after	3.00%

NOTE 12. 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 assessed. 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.

HOBSON SCHOOL DISTRICT NO. 25

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

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 13. 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

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	\$ 123,268	\$ 115,720	\$ 135,119
PERS	25,735	28,050	29,963
Total	<u>\$ 149,003</u>	<u>\$ 143,770</u>	<u>\$ 165,082</u>

NOTE 14. COOPERATIVE

SPECIAL EDUCATION

The Hobson School District No. 25 is a member of the Central Montana Learning Resource Center Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of Hobson School District No. 25, 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 Judith Basin 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.

HOBSON SCHOOL DISTRICT NO. 25

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

NOTE 15. JOINT VENTURE AGREEMENTS

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

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

15 a. MULTIDISTRICT COOPERATIVE

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

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

Fergus High School is the designated prime agency and is responsible for the financial administration of the multidistrict cooperative. The activity of the multidistrict cooperative is accounted for in fund 82 of the Fergus High School. During fiscal year ended June 30, 2014 Hobson School District paid Fergus High School \$198 for its share of the annual technical support fee.

HOBSON SCHOOL DISTRICT NO. 25

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u>
<u>7/1/2012</u>	<u>0</u>	<u>\$ 173,460</u>	<u>\$ 173,460</u>	<u>0%</u>	<u>\$ 938,282</u>	<u>18.49%</u>

This schedule is based on the actuarial values as of July 1, 2012. Information for prior years is not available.

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

	General (Elem)			Bus Depreciation		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ 526,798	\$ 526,798	\$ 519,537	\$ 19	\$ 19	\$ 281
Interest	1,269	1,269	731	1,400	1,400	645
Charges for Services	-	-	-	-	-	-
Other	11	11	18	-	-	-
County	-	-	-	-	-	-
State	696,455	696,455	696,455	-	-	-
Total Revenues	<u>1,224,533</u>	<u>1,224,533</u>	<u>1,216,741</u>	<u>1,419</u>	<u>1,419</u>	<u>926</u>
<b>EXPENDITURES:</b>						
Current						
Instructional Services			829,119			-
Support Services			126			-
Educational Media Services			230			-
General Administrative Services			117,699			-
Operation & Maintenance Services			178,246			-
Transportation Services			-			21
School Food Services			32,192			-
Extracurricular			65,539			-
Capital Outlay			-			67,500
Total Expenditures	<u>1,224,779</u>	<u>1,224,779</u>	<u>1,223,151</u>	<u>351,484</u>	<u>351,484</u>	<u>67,521</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(246)</u>	<u>(246)</u>	<u>(6,410)</u>	<u>(350,065)</u>	<u>(350,065)</u>	<u>(66,595)</u>
<b>OTHER FINANCING SOURCES/USES</b>						
Fund Transfers (Out)			(1,500)			-
Total Other financial Sources/Uses	<u>-</u>	<u>-</u>	<u>(1,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>(246)</u>	<u>(246)</u>	<u>(7,910)</u>	<u>(350,065)</u>	<u>(350,065)</u>	<u>(66,595)</u>
<b>FUND BALANCE:</b>						
Beginning of the Year			291,556			350,065
Prior Period Adjustments			948			-
End of the Year			<u>\$ 284,594</u>			<u>\$ 283,470</u>

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

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

	Retirement			Flexibility Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>REVENUES:</b>						
District Levies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	92	-	-	61
Charges for Services	-	-	-	-	-	-
Other	-	-	-	2,640	2,640	-
County	138,160	138,160	138,160	-	-	-
State	-	-	-	14,582	14,582	14,582
Total Revenues	<u>138,160</u>	<u>138,160</u>	<u>138,252</u>	<u>17,222</u>	<u>17,222</u>	<u>14,643</u>
<b>EXPENDITURES:</b>						
Current						
Instructional Services	-	-	164,541	-	-	7,386
Support Services	-	-	-	-	-	-
Educational Media Services	-	-	-	-	-	-
General Administrative Services	-	-	-	-	-	-
Operation & Maintenance Services	-	-	-	-	-	-
Transportation Services	-	-	-	-	-	-
School Food Services	-	-	-	-	-	-
Extracurricular	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-
Total Expenditures	<u>165,000</u>	<u>165,000</u>	<u>164,541</u>	<u>68,677</u>	<u>68,677</u>	<u>7,386</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(26,840)</u>	<u>(26,840)</u>	<u>(26,289)</u>	<u>(51,455)</u>	<u>(51,455)</u>	<u>7,257</u>
<b>OTHER FINANCING SOURCES/USES</b>						
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>(26,840)</u>	<u>(26,840)</u>	<u>(26,289)</u>	<u>(51,455)</u>	<u>(51,455)</u>	<u>7,257</u>
<b>FUND BALANCE:</b>						
Beginning of the Year	-	-	59,840	-	-	51,455
Prior Period Adjustments	-	-	-	-	-	-
End of the Year	-	-	<u>\$ 33,551</u>	-	-	<u>\$ 58,712</u>

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

HOBSON SCHOOL DISTRICT NO. 25

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, Retirement, Adult Education, Technology, Flexibility) and debt service fund. 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 funds debt service are not included in the schedule because they are not 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.

HOBSON SCHOOL DISTRICT NO. 25

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

	Sub-fund	Sub-fund	
	General	Flexibility Fund	Total
REVENUES:			
District Levies	\$ 519,537	\$ -	\$ 519,537
Interest	731	61	792
Other	18	-	18
State	<u>696,455</u>	<u>14,582</u>	<u>711,037</u>
Total Revenues	<u>1,216,741</u>	<u>14,643</u>	<u>1,231,384</u>
EXPENDITURES:			
Current			
Instructional Services	829,119	7,386	836,505
Support Services	126	-	126
Educational Media Services	230	-	230
General Administrative Services	117,699	-	117,699
Operation & Maintenance Services	178,246	-	178,246
School Food Services	32,192	-	32,192
Extracurricular	<u>65,539</u>	<u>-</u>	<u>65,539</u>
Total Expenditures	<u>1,223,151</u>	<u>7,386</u>	<u>1,230,537</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	<u>(6,410)</u>	<u>7,257</u>	<u>847</u>
OTHER FINANCING SOURCES/USES			
Fund Transfers (Out)	<u>(1,500)</u>	<u>-</u>	<u>(1,500)</u>
Total Other financial Sources/Uses	<u>(1,500)</u>	<u>-</u>	<u>(1,500)</u>
NET CHANGES IN FUND BALANCES			
	<u>(7,910)</u>	<u>7,257</u>	<u>(653)</u>
FUND BALANCE:			
Beginning of the Year	291,556	-	291,556
Prior Period Adjustments	<u>948</u>	<u>51,455</u>	<u>52,403</u>
End of the Year	<u>\$ 284,594</u>	<u>\$ 58,712</u>	<u>\$ 343,306</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 are maintained as special revenue funds for accounting purposes, however, for external financial reporting they are added to the general fund because they have unassigned fund balance like the general fund.

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

HOBSON SCHOOL DISTRICT NO. 25

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

<u>Activity Account Name</u>	<u>Beginning Balance 7/1/2013</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Transfers</u>	<u>Ending Balance 6/30/2014</u>
Art	\$ 867	\$ -	\$ 17	\$ -	\$ 850
Athletic	10,173	17,476	19,898	(3,296)	4,455
Band	1,235	5,789	4,532	-	2,492
BPA	2,342	4,102	3,907	1,034	3,571
Cheerleaders	733	-	14	-	719
Class of 2013	732	-	732	-	-
Class of 2014	1,754	707	2,343	393	511
Class of 2015	678	496	866	874	1,182
Class of 2016	1,169	-	36	690	1,823
Class of 2017	607	210	12	208	1,013
Class of 2018	775	3,252	1,921	(569)	1,537
Class of 2019	2,885	1,634	1,224	(774)	2,521
Class of 2020	-	6,132	4,322	(387)	1,423
Drill Team	260	-	5	-	255
Elementary	2,353	5,637	4,887	651	3,754
FCCLA	695	-	14	-	681
FFA	11,057	17,337	22,524	575	6,445
General	51	-	26	-	25
Honor Society	425	380	1,063	230	(28)
Middle School	-	1,660	2,602	942	-
Mikkelsen/Verizon Scholarship	-	2,000	-	-	2,000
Pep Club	2,069	14,052	10,942	(3,662)	1,517
Plays	1	-	-	-	1
Prom	1	-	-	-	1
SAD	-	640	670	-	(30)
Student Council	947	-	658	-	289
Tri-City Co-Op	-	26,854	23,369	3,091	6,576
Yearbook	<u>2,044</u>	<u>696</u>	<u>1,086</u>	<u>-</u>	<u>1,654</u>
Total	<u>\$ 43,853</u>	<u>\$ 109,054</u>	<u>\$ 107,670</u>	<u>\$ -</u>	<u>\$ 45,237</u>

HOBSON SCHOOL DISTRICT NO. 25

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

FALL ENROLLMENT - OCTOBER, 2013

Elementary

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	11	11	0
Grade 1 - 6	50	50	0
Grade 7 - 8	<u>20</u>	<u>20</u>	<u>0</u>
Total	<u>81</u>	<u>81</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>27</u>	<u>27</u>	<u>0</u>

Part-time Students

Less than 181 hours	1	1	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>1</u>	<u>1</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 Full	11	11	0
Grade 1 - 6	50	50	0
Grade 7 - 8	<u>20</u>	<u>20</u>	<u>0</u>
Total	<u>81</u>	<u>81</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>28</u>	<u>28</u>	<u>0</u>

Part-time Students

Less than 181 hours	1	1	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>1</u>	<u>1</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 Full	11	11	0
Grade 1 - 6	49	49	0
Grade 7 - 8	<u>20</u>	<u>20</u>	<u>0</u>
Total	<u>80</u>	<u>80</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>26</u>	<u>26</u>	<u>0</u>

Part-time Students

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

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

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  
Hobson School District No. 25  
Judith Basin County  
Hobson, Montana 59452

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hobson School District No. 25 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hobson School District No. 25's basic financial statements and have issued our report thereon dated March 10, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hobson School District No. 25'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Hobson School District No. 25'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.

**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  
March 10, 2015

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

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SCHEDULE OF FINDINGS AND RESPONSES

There were no findings or recommendations in the prior audit report and none for the fiscal year ended June 30, 2014.