

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**AUDIT REPORT**

**Denning, Downey & Associates, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**TABLE OF CONTENTS**

Organization	1
Management Discussion and Analysis	2-7
Independent Auditor's Report	8-10
<b>Financial Statements</b>	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	11
Statement of Activities	12
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position - Fiduciary Fund Types	17
Statement of Changes in Net Position - Fiduciary Fund Types	18
Notes to Financial Statements	19-33
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule	34
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation	35
Schedule of Funding Progress – Other Post Employment Benefits Other Than Pensions	36
<b>Supplemental Information</b>	
Schedule of Enrollment	37-39
Schedule of Revenues and Expenditures – Extracurricular Fund – All Fund Accounts	40
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	41-42

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2014

**BOARD OF TRUSTEES**

Julie White  
Lenny Page  
Dirk Roosma  
Kim Baker  
Stacy Torgerson

Chairperson  
Vice Chairperson  
Trustee  
Trustee  
Trustee

**DISTRICT OFFICIALS**

Kevin Meredith  
Carmen Jackson  
Kathy McEldery  
Robert Zimmerman

District Superintendent  
Business Manager  
County Superintendent  
County Attorney

**Hot Springs School District  
Management Discussion and Analysis  
As of June 30, 2014**

**Management Discussion and Analysis**

The Business Manager/Clerk of the Hot Springs School District has 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 year ended June 30, 2014. Comparative information year ended June 30, 2013 and the year ended June 30, 2014 are required in the MD&A.

**Using This Financial Report**

The general format of this report is required by Statement #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.

- The Statement of Net Position demonstrates the resources the District would have remaining if all obligations were settled. The statement categorizes assets to show that some assets are very liquid. Liquid assets are cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Noncurrent assets are invested in “fixed” or “capital” assets. These assets are buildings, equipment and other long lived property such as land. Generally some assets are reserved to fund budgets of the following year until tax revenues are received.
- The Statement of Activities shows the amounts of revenues divided into two categories, program specific revenues and general school revenues. These revenues are used to support the District’s various functions.
- Both the Statement of Net Position and the Statement of Activities divide the District’s activities into three categories:
  1. Governmental Activities – School functions, including instruction, student services, administration, etc. These activities are funded through property taxes, and state and federal revenues.
  2. Proprietary (business-type) activities – The District does not have proprietary activities.
  3. Component Units – The District does not serve as a component unit.

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

The fund statements provide detailed information about the funds used by the District. State law and Generally Accepted Accounting Principals (GAAP) established the fund structure of school districts. School districts are required by state law to segregate money generated for a specific purpose, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant, or “major” funds separately. The activities of less significant funds are combined under a single category. Significance of funds is determined using three factors; the proportional size of the fund, the relative importance of the activities of the fund to the 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, school food service, debt service and capital outlay funds. These funds represent the majority of the district’s activities and are accounted for by using the modified accrual basis.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. The most significant differences are due to the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting, where as the statements for the 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 the student extracurricular fund. This report includes the activities of this fund in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets. This fund is excluded from the districts statements because the assets cannot be used to fund the districts operations.

The district is responsible for ensuring the assets of the extracurricular fund are used for their intended purpose.

### **The District as a Whole**

Net assets can be a useful indicator of a government’s financial position. The Hot Springs School Districts assets exceeded liabilities by **\$1,814,628** at fiscal year ending June 30, 2014.

During the 2013 legislative session, the Legislature adopted SB 175 that provided an increase in state entitlements. These entitlement changes and an increase in enrollment will result in an approximate increase of \$72,000 in funding for the District for fiscal year 2014.

In addition to the increase in funding at the state level, the District received a grant to build a new Art/FCS building. This grant will enable the District to enhance school safety by relocating the building to a more central location.

<b>Hot Springs School District - Net Position</b>
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	<b>Governmental Activities</b>		
	<b>FY14</b>	<b>FY13</b>	<b>Change Inc (Dec)</b>
Current and other assets	\$ 1,066,517	\$ 1,144,984	\$ (78,467)
Capital assets	1,846,446	1,546,781	299,665
Total assets	<u>2,912,963</u>	<u>2,691,765</u>	<u>221,198</u>
Long-term debt outstanding	\$ 962,950	\$ 896,464	\$ 66,486
Other liabilities	135,385	36,101	99,284
Total liabilities	<u>1,098,335</u>	<u>932,565</u>	<u>165,770</u>
Net investment in capital assets	1,396,446	1,056,781	339,665
Restricted	273,040	406,265	(133,225)
Unrestricted (deficit)	145,142	296,154	(151,012)
Total net position	<u>\$ 1,814,628</u>	<u>\$ 1,759,200</u>	<u>\$ 55,428</u>

### Revenues

Total revenues for the fiscal year ended June 30, 2014 were approximately \$2.96 million. Total revenue consists primarily of general revenues approximately 78%. The remaining 22% of revenues are program revenues.

The District's program revenues are 95% funded by federal and state grants. The remaining balance consists of Special Education, School Food Services, Student Transportation, Local Donations, Drivers Ed Fees, and Adult Ed Fees.

### Expenses

The districts spending increased by \$143,920 from school year 2013 to 2014. This is largely due to the increases costs of the general operation and maintenance of the District. The District was required to increase special education staff to accommodate a high needs student, negotiations with the certified union, and an increase in health insurance costs contributed to the increase instructional related expenses.

In addition the District was required to pay approximately \$37,000 to the Teachers Retirement System. These funds were excess reserves held in the retirement fund, and by state law were forfeited to the Teachers Retirement System.

**Hot Springs School District  
Changes in Net Position**

<b>Revenues</b>		
<b>Program Revenues</b>	<u><b>2012-2013</b></u>	<u><b>2013-2014</b></u>
Charges For Services	\$ 28,734	\$ 31,786
Operating Grants & Contributions	592,533	625,000
Capital Grants and Contributions	-	286,561
<b>General Revenues</b>		
Property Taxes	475,294	508,039
Nonrestricted Grants & Entitlements	1,264,102	1,236,026
Investment Earnings	4,556	3,054
Miscellaneous (other revenue)	21,996	12,738
State Entitlement (block grants)	89,388	83,494
State Technology	-	3,381
County Retirement	<u>163,178</u>	<u>168,443</u>
<b>Total Revenues</b>	<b><u>\$ 2,639,781</u></b>	<b><u>\$ 2,958,522</u></b>
 <b>Expenses</b>		
<b>Program Expenses</b>		
Instructional - regular	\$ 1,217,633	\$ 1,298,190
Instructional - special education	191,777	238,654
Instructional - vocational education	142,274	138,907
Instructional – adult education	-	3,675
Supporting services - operations & maintenance	268,926	245,624
Supporting services - general	7,895	4,629
Supporting services - educational media services	45,807	47,903
Administration - general	130,508	140,218
Administration - school	165,029	177,328
Administration - finance	63,125	70,680
Student transportation	250,416	247,492
Extracurricular	85,304	79,887
School food	109,927	118,283
Community Services	-	2,998
Debt Service Expense - Interest	24,342	21,950
Unallocated Depreciation	<u>48,023</u>	<u>58,575</u>
<b>Total Expenses</b>	<b><u>\$ 2,751,086</u></b>	<b><u>\$ 2,895,006</u></b>
Excess(deficiency) before special items and transfers	\$ <u>(111,305)</u>	\$ <u>63,516</u>
Gain (loss) on sale of Capital Assets		
<b>Changes in Net Position</b>	<b><u>\$ (111,305)</u></b>	<b><u>\$ 63,516</u></b>

**Hot Springs School District  
Spending Levels Compared to Resource Levels**

	<u>2012-2013</u>		<u>2014-2015</u>	
Expenses Supported with General Revenues (from taxes and other sources for general school use)	\$ 2,129,819	77%	\$ 2,238,130	78%
Expenses Supported with Program Revenues	<u>621,267</u>	23%	<u>656,876</u>	22%
<b>Total Expenditures Related To Gov't Activities</b>	<b><u>\$ 2,751,086</u></b>		<b><u>\$ 2,895,006</u></b>	

The District supports the majority of its expenses with general revenues. General revenues encompass property taxes, state grant and entitlement monies, impact aid, interest on investments, and county retirement. Program revenues include adult education fees, driver's education fees, and federal grants.

**Significant Events and Trends**

The District receives funds through the Federal Government's Impact Aid Program. This program provides money for schools that are impacted by federal non-taxable land in their district. Currently Hot Springs School District does not supplant the general fund with Impact Aid dollars. The money is used for emergency situations and capital outlay.

**Capital Assets**

The District began construction on the Art and Family Consumer Science building. At school year end the building was approximately 50% complete. The District constructed a chain link fence around the new bus yard and replaced an older bus.

**Hot Springs School District  
Capital Assets**

	<u>2012-2013</u>	<u>2013-2014</u>
Land & Land Improvements	\$ 100,040	\$ 100,040
Construction In Progress – Art/FCS Building	-	332,428
Buildings & Improvements - net depreciation	1,285,175	1,223,402
Machinery & Equipment - net depreciation	<u>161,566</u>	<u>190,574</u>
<b>Total Expenditures Related To Gov't Activities</b>	<b><u>\$ 1,546,781</u></b>	<b><u>\$ 1,846,446</u></b>

**Debt Administration**

In 2003 the District passed a 30 year general obligation bond to construct a new gymnasium. The general obligation bond was decreased by \$40,000 in fiscal year 2014.

District paid Total District long term debt obligations are described below:

**Hot Springs School District  
Debt Administration**

	<u>2012-2013</u>	<u>2013-2014</u>
General Obligation Bonds	\$ 490,000	\$ 450,000
Postemployment Benefits	\$ 358,745	\$ 463,357
Compensated Absences	\$ 47,719	\$ 49,593
<b>Total Expenditures Related To Gov't Activities</b>	<b>\$ 896,464</b>	<b>\$ 962,950</b>

**The District's Future**

The Art/FCS building will be completed by August 2014. This project will enable the District to enhance school safety by relocating the building to a more central location. In addition, the District will install a new fire alarm system and increase school security.

The Affordable Care Act requires every citizen to obtain health insurance, and business to offer full time employees coverage. The District was one of the fortunate schools to receive an 11% decrease in health insurance costs due this requirement. This will be a savings of approximately \$16,000 for the district and will be realized in the 2014-15 school year.

The 2015 Legislature approved a 2% funding increase for the next biennium. In addition the School Safety Transfer was renewed. This allows district to transfer excess monies from budgeted and non-budgeted funds into the building reserve fund for school safety related projects. The district intends to use this authority to replace classroom door locking mechanisms and improve sight lines from the elementary building.

**Contact Information**

If you have any questions about this report or need additional information, please contact the Business Manager at the Hot Springs School District, PO Box 1005, Hot Springs, MT 59845, and (406) 741-2964.

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

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**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Hot Springs Public Schools  
Sanders County  
Hot Springs, Montana

**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 Hot Springs Public Schools, Sanders County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

## **Change in Accounting Principle**

As described in Note 1 to the financial statements, in 2014 the Hot Springs Public Schools, Sanders County, Montana adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 7, 34 through 35, and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2015, on our consideration of the Hot Springs Public Schools, Sanders County, Montana's 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 Hot Springs Public Schools, Sanders County, Montana's internal control over financial reporting and compliance.

*Derring, Downey and Associates, CPAs, P.C.*

June 15, 2015

**Hot Springs Public Schools, Sanders County**  
**Statement of Net Position**  
**June 30, 2014**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 823,214
Taxes and assessments receivable, net	47,762
Accounts receivable - net	894
Due from other governments	194,647
Total current assets	\$ 1,066,517
Noncurrent assets	
Capital assets - land	\$ 100,040
Capital assets - construction in progress	332,428
Capital assets - depreciable, net	1,413,978
Total noncurrent assets	\$ 1,846,446
Total assets	\$ 2,912,963
 <b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 131,905
Current portion of long-term capital liabilities	40,000
Current portion of compensated absences payable	16,913
Total current liabilities	\$ 188,818
Noncurrent liabilities	
Other credits	\$ 3,480
Noncurrent portion of long-term liabilities	463,357
Noncurrent portion of long-term capital liabilities	410,000
Noncurrent portion of compensated absences	32,680
Total noncurrent liabilities	\$ 909,517
Total liabilities	\$ 1,098,335
 <b>NET POSITION</b>	
Net investment in capital assets	\$ 1,396,446
Restricted for capital projects	114,147
Restricted for debt service	47,637
Restricted for special projects	111,256
Unrestricted	145,142
Total net position	\$ 1,814,628

See accompanying Notes to the Financial Statements

**Hot Springs Public Schools, Sanders County**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Changes in Net Position</u>
<b>Primary government:</b>		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Primary Government</u>
Governmental activities:			<u>Contributions</u>	<u>Contributions</u>	<u>Governmental</u>
					<u>Activities</u>
Instructional - regular	\$ 1,298,190	\$ 3,150	\$ 270,642	\$ 286,561	\$ (737,837)
Instructional - special education	238,654	-	157,579	-	(81,075)
Instructional - vocational education	138,907	-	15,387	-	(123,520)
Instructional - adult education	3,675	845	-	-	(2,830)
Supporting services - operations & maintenance	245,634	-	-	-	(245,634)
Supporting services - general	4,629	-	1,488	-	(3,141)
Supporting services - educational media services	47,903	-	16,315	-	(31,588)
Administration - general	140,218	-	-	-	(140,218)
Administration - school	177,328	-	-	-	(177,328)
Administration - business	70,680	-	-	-	(70,680)
Student transportation	247,495	-	78,266	-	(169,229)
Extracurricular	79,887	-	-	-	(79,887)
School food	118,283	27,791	85,323	-	(5,169)
Community services	2,998	-	-	-	(2,998)
Debt service expense - interest	21,950	-	-	-	(21,950)
Unallocated depreciation*	58,575	-	-	-	(58,575)
Total primary government	\$ <u>2,895,006</u>	\$ <u>31,786</u>	\$ <u>625,000</u>	\$ <u>286,561</u>	\$ <u>(1,951,659)</u>
General Revenues:					
				\$	508,039
					1,236,026
					3,054
					12,738
					83,494
					3,381
					168,443
Total general revenues, special items and transfers				\$	<u>2,015,175</u>
Change in net position				\$	<u>63,516</u>
Net position - beginning				\$	1,759,200
Restatements					(8,088)
Net position - beginning - restated				\$	<u>1,751,112</u>
Net position - end				\$	<u>1,814,628</u>

\* This amount excludes the depreciation that is included in the direct expenses of the various programs  
See accompanying Notes to the Financial Statements

**Hot Springs Public Schools, Sanders County**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	<b>General</b>	<b>Miscellaneous Programs</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 675,736	\$ (92,527)	\$ 240,005	\$ 823,214
Taxes and assessments receivable, net	29,567	-	18,195	47,762
Accounts receivable - net	-	-	894	894
Due from other funds	601	1,905	12,398	14,904
Due from other governments	2,230	185,650	6,767	194,647
Total assets	\$ 708,134	\$ 95,028	\$ 278,259	\$ 1,081,421
Current liabilities:				
Accounts payable	\$ 33,124	\$ 91,059	\$ 7,722	\$ 131,905
Due to other funds	13,438	601	865	14,904
Total current liabilities	\$ 46,562	\$ 91,660	\$ 8,587	\$ 146,809
Noncurrent liabilities:				
Other credits	\$ 3,480	-	-	\$ 3,480
Total liabilities	\$ 50,042	\$ 91,660	\$ 8,587	\$ 150,289
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources	\$ 29,567	-	18,195	47,762
<b>FUND BALANCES</b>				
Restricted	\$ -	\$ 3,368	\$ 251,477	\$ 254,845
Assigned	6,081	-	-	6,081
Unassigned fund balance	622,444	-	-	622,444
Total fund balance	\$ 628,525	\$ 3,368	\$ 251,477	\$ 883,370

See accompanying Notes to the Financial Statements

**Hot Springs Public Schools, Sanders County**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Position**  
**June 30, 2014**

<b>Total fund balances - governmental funds</b>	\$ 883,370
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,846,446
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	47,762
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(962,950)
<b>Total net position - governmental activities</b>	<u>\$ 1,814,628</u>

See accompanying Notes to the Financial Statements

**Hot Springs Public Schools, Sanders County**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Miscellaneous Programs</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Local revenue	\$ 316,056	\$ 14,644	\$ 242,068	\$ 572,768
County revenue	-	-	207,621	207,621
State revenue	1,305,771	418,660	97,510	1,821,941
Federal revenue	-	286,634	76,968	363,602
Total revenues	<u>\$ 1,621,827</u>	<u>\$ 719,938</u>	<u>\$ 624,167</u>	<u>\$ 2,965,932</u>
<b>EXPENDITURES</b>				
Instructional - regular	\$ 765,761	\$ 275,023	\$ 146,197	\$ 1,186,981
Instructional - special education	103,876	119,623	15,155	238,654
Instructional - vocational education	121,998	-	16,909	138,907
Instructional - adult education	-	-	3,675	3,675
Supporting services - operations & maintenance	224,237	9,462	10,888	244,587
Supporting services - general	-	4,629	-	4,629
Supporting services - educational media services	30,016	15,251	2,636	47,903
Administration - general	93,556	-	46,662	140,218
Administration - school	156,120	-	21,208	177,328
Administration - business	52,465	-	18,215	70,680
Student transportation	15,886	72	179,857	195,815
Extracurricular	73,305	560	6,022	79,887
School food	-	-	118,283	118,283
Community services	-	2,998	-	2,998
Debt service expense - principal	-	-	40,000	40,000
Debt service expense - interest	-	-	21,950	21,950
Capital outlay	13,146	324,707	85,925	423,778
Total expenditures	<u>\$ 1,650,366</u>	<u>\$ 752,325</u>	<u>\$ 733,582</u>	<u>\$ 3,136,273</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (28,539)</u>	<u>\$ (32,387)</u>	<u>\$ (109,415)</u>	<u>\$ (170,341)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ 9,193	\$ 9,193
Transfers out	<u>(8,328)</u>	<u>-</u>	<u>(865)</u>	<u>(9,193)</u>
Total other financing sources (uses)	<u>\$ (8,328)</u>	<u>\$ -</u>	<u>\$ 8,328</u>	<u>\$ -</u>
Net Change in Fund Balance	<u>\$ (36,867)</u>	<u>\$ (32,387)</u>	<u>\$ (101,087)</u>	<u>\$ (170,341)</u>
Fund balances - beginning	\$ 667,250	\$ 33,897	\$ 352,564	\$ 1,053,711
Restatements	<u>(1,858)</u>	<u>1,858</u>	<u>-</u>	<u>-</u>
Fund balances - beginning, restated	<u>\$ 665,392</u>	<u>\$ 35,755</u>	<u>\$ 352,564</u>	<u>\$ 1,053,711</u>
Fund balance - ending	<u>\$ 628,525</u>	<u>\$ 3,368</u>	<u>\$ 251,477</u>	<u>\$ 883,370</u>

See accompanying Notes to the Financial Statements

**Hot Springs Public Schools, Sanders County**  
**Reconciliation of the Statement of Revenues, Expenditures.**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

Amounts reported for *governmental activities* in the statement of activities are different because:

**Net change in fund balances - total governmental funds** \$ (170,341)

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

- Capital assets purchased 423,778  
- Depreciation expense (116,025)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred revenue) (7,410)

The change in compensated absences is shown as an expense in the Statement of Activities

(1,874)

Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:

- Long-term debt principal payments 40,000

Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability (104,612)

**Change in net position - Statement of Activities** \$ 63,516

See accompanying Notes to the Financial Statements

**Hot Springs Public Schools, Sanders County**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and short-term investments	\$ 66,807	\$ 55,150
Total assets	\$ 66,807	\$ 55,150
<b>LIABILITIES</b>		
Warrants payable	\$ -	\$ 43,992
Accounts payable	-	11,158
Total liabilities	\$ -	\$ 55,150
<b>NET POSITION</b>		
Assets held in trust	\$ 66,807	

See accompanying Notes to the Financial Statements

**Hot Springs Public Schools, Sanders County**  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2014**

		<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>		
Contributions:		
Student activities	\$	<u>63,183</u>
Total additions	\$	<u>63,183</u>
 <b>DEDUCTIONS</b>		
Student activities	\$	<u>57,607</u>
Total deductions	\$	<u>57,607</u>
Change in net position	\$	<u>5,576</u>
 Net Position - Beginning of the year	 \$	 61,231
 Net Position - End of the year	 \$	 <u>66,807</u>

See accompanying Notes to the Financial Statements

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The School District complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard is effective for fiscal year ending June 30, 2014.

**Financial Reporting Entity**

In determining the financial reporting entity, the District complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the District appointed a voting majority of the component units' board; the District is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the District complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the District.

*Primary Government*

The District was established under Montana law to provide elementary and secondary educational services to residents of the District. The District provides education from kindergarten through the twelfth grade.

The District is managed by a Board of Trustees, elected in district-wide elections, and by an administration appointed by and responsible to the Board. The financial statements include all of the operations of the District controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the District is a primary government as defined by GASB Cod. Sec. 2100 and has no component units.

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**Basis of Presentation, Measurement Focus and Basis of Accounting.**

*Government-wide Financial Statements:*

*Basis of Presentation*

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. The District does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated.

*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**Fund Financial Statements:**

*Basis of Presentation*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

**Modified Accrual**

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The District defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Property taxes, charges for current services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the District.

Major Funds:

The District reports the following major governmental funds:

*General Fund* - This is the District's primary operating fund and it accounts for all financial resources of the District except those required to be accounted for in other funds.

*Miscellaneous Programs Fund* – Authorized by Section 20-9-507, MCA, for the purpose of accounting for local, state or federal grants and reimbursements. Donations and expendable trusts for scholarships or other purposes that support district programs are deposited in this fund.

***Fiduciary Funds***

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net assets. The fiduciary funds are:

*Agency Funds* – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consist of assets held by the District as an agent for individuals, private organizations, other local governmental entities and the District's claims and payroll clearing funds

*Student Extracurricular Activities Fund* – The Student Extracurricular Activities Fund is authorized by Section 20-9-504, MCA, to account for various student activities, such as athletics, clubs, classes, student government organizations, student publications and other such activities. Separate fund accounts within the Extracurricular Fund are maintained to account for these various activities. Unlike other district funds, the money for these activities may be maintained in bank accounts outside the control of the County Treasurer. The fund is administered by school district administrators, faculty members, and student organizations under the guidelines and policies established by the Board of Trustees and in accordance with the "Student Activity Fund Accounting" guidelines. Required guidelines are available from the Montana Association of School Business Officials (MASBO) or from OPI.

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

The District's cash, except for the Student Extracurricular Fund (an expendable trust) is held by the County Treasurer and pooled with other County cash. School district cash which is not necessary for short-term obligations, the District participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2014, consisted of demand deposits, savings, money market, and certificates of deposits. Interest earned on pooled investments is distributed to each contributing entity and fund on a pro rata basis.

The School District does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Sanders County deposits and investments is available from Sanders County Treasurer's office, 1111 Main Street, Thompson Falls, Montana, 59873. Fair value approximates carrying value for investments as of June 30, 2014. The County's investment pool is not rated.

Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorizes investments in U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

**Deposits**

The District's deposit balance at year end was \$67,607 and the bank balance was \$67,273. The District's deposits at year-end were fully insured by FDIC.

**NOTE 3. RECEIVABLES**

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

**NOTE 4. INVENTORIES**

The costs of inventories are recorded as an expenditure when purchased.

**NOTE 5. CAPITAL ASSETS**

The District's assets are capitalized at historical cost or estimated historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	20 – 50 years
Improvements	20 years
Machinery and equipment	15 – 20 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the District has included the value of all infrastructure into the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets was as follows:

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Governmental activities:

	Balance				Balance
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Restatements</u>	<u>June 30, 2014</u>
Capital assets not being depreciated:					
Land	\$ 100,040	\$ -	\$ -	\$ -	\$ 100,040
Construction in progress	-	332,428	-	-	332,428
Total capital assets not being depreciated	<u>\$ 100,040</u>	<u>\$ 332,428</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 432,468</u>
Other capital assets:					
Buildings & Improvements	\$ 2,414,930	\$ 5,425	\$ -	\$ 16,755	\$ 2,437,110
Machinery and equipment	606,159	85,925	(75,308)	-	616,776
Total other capital assets at historical cost	<u>\$ 3,021,089</u>	<u>\$ 91,350</u>	<u>\$ (75,308)</u>	<u>\$ 16,755</u>	<u>\$ 3,053,886</u>
Less: accumulated depreciation	\$ (1,574,348)	\$ (116,025)	\$ 75,308	\$ (24,843)	\$ (1,639,908)
Total	<u><u>\$ 1,546,781</u></u>	<u><u>\$ 307,753</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (8,088)</u></u>	<u><u>\$ 1,846,446</u></u>

Governmental capital assets depreciation expense was charged to functions as follows:

Governmental Activities:	
Instructional – regular	\$ 4,723
Supporting services – operations and maintenance	1,047
Student transportation	51,680
Unallocated	<u>58,575</u>
Total governmental activities depreciation expense	<u><u>\$ 116,025</u></u>

**NOTE 6. LONG TERM DEBT OBLIGATIONS**

In the governmental-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance			Balance	Due Within
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>	<u>One Year</u>
General obligation bonds	\$ 490,000	\$ -	\$ (40,000)	\$ 450,000	\$ 40,000
Compensated absences	47,719	1,874	-	49,593	16,913
Other post-employment benefits*	358,745	104,612	-	463,357	-
Total	<u><u>\$ 896,464</u></u>	<u><u>\$ 106,486</u></u>	<u><u>\$ (40,000)</u></u>	<u><u>\$ 962,950</u></u>	<u><u>\$ 56,913</u></u>

\*See Note 7

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

In prior years the general fund and the compensated absences fund was used to liquidate compensated absences and claims and judgments.

General Obligation Bonds - The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
Elementary Gym Bond	1/23/03	3.00%	20 yrs	7/1/23	\$ 400,000	Varies	\$ 225,000
High School Gym Bond	1/23/03	3.00%	20 yrs	7/1/23	<u>400,000</u>	Varies	<u>225,000</u>
					<u>\$ 800,000</u>		<u>\$ 450,000</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 40,000	\$ 19,852
2016	40,000	18,248
2017	50,000	16,612
2018	50,000	14,508
2019	50,000	12,360
2020	50,000	10,160
2021	50,000	7,912
2022	60,000	5,608
2023	60,000	2,820
Total	<u>\$ 450,000</u>	<u>\$ 108,080</u>

### Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. Non-teaching District employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for non-teaching employees. Upon retirement or termination, employees are paid for 100% of unused vacation leave and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

At the beginning of the schools year, each teacher shall be credited with ten days of leave at full salary for sick leave. Unused days of sick leave each year will be allowed to accumulate to 40 days at the end of each school year. Upon termination, compensation for accumulated leave will be determined as follows: 12.5% times the number of unused

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

sick days of 40 or less times termination salary divided by 187 if applicable, the number of sick days over 40 time \$15.

The liability associated with governmental fund-type employees is reported in the governmental-type activities.

**NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN**

*Plan Description.* The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

*Funding Policy.* The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

*Funding Status and funding Progress.* The funded status of the plan as of June 30, 2013, was as follows:

Actuarial Accrued Liability (AAL)	\$	589,745
Actuarial value of plan assets		-
Unfunded Actuarial Accrued Liability (UAAL)	\$	589,745
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	1,360,108
UAAL as a percentage of covered payroll		43.36%

*Annual OPEB Cost and Net OPEB Obligation.* 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (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 changes in the government's net OPEB obligation.

Annual Required Contribution (ARC)	\$	104,612
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HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Interest on net OPEB obligation	-	
Adjustment to ARC	-	
Annual OPEB cost (expense)	\$ 104,612	
Contributions made	-	
Increase in net OPEB obligation	\$ 104,612	
Net OPEB obligation - beginning of year	358,745	
Net OPEB obligation - end of year	\$ 463,357	

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)	62
Discount rate (average anticipated rate)	0.17%
Average salary increase (Consumer Price Index)	2.80%

Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2015	6.40%
2016	6.20%
2017	6.00%
2018	6.40%
2019	6.80%
2020	6.90%
2021	6.70%
2022 and after	6.90%

**NOTE 8. INTERFUND RECEIVABLES AND PAYABLES**

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

The composition of interfund balances as of June 30, 2014, were as follows:

<u>Purpose</u>	<u>Due to/from other funds:</u>		<u>Amount</u>
	<u>Receivable Fund</u>	<u>Payable Fund</u>	
Business Education equipment expenditure transfer	General – Major Governmental	Miscellaneous Programs – Major Governmental	\$ 601
Compensated absence transfer	Compensated Absences – Nonmajor Governmental	General – Major Governmental	1,053
Administrative salaries expenditure transfer	Transportation – Nonmajor Governmental	General – Major Governmental	3,005
SD348 School safety transfer	Building Reserve – Nonmajor Governmental	General – Major Governmental	7,275
SD348 School safety transfer	Building Reserve – Nonmajor Governmental	Adult Ed – Nonmajor Governmental	865
One time only, maintenance transfer	Miscellaneous Programs – Major Governmental	Flexibility – Major Governmental *	1,905
Agent fees expenditure transfers	Debt Service – Nonmajor Governmental	Impact Aid – Major Governmental *	<u>200</u>
			<u>\$ 14,904</u>

- Reported with the General Fund in accordance with GASB 54

**Interfund Transfers**

The following is an analysis of operating transfers in and out during Fiscal Year 2014:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
To maintain allowable fund balance	Compensated Absences – Nonmajor Governmental	General – Major Governmental	\$ 1,053
Safety and security transfer	Building Reserve – Nonmajor Governmental	General – Major Governmental	7,275
Safety and security transfer	Building Reserve – Nonmajor Governmental	Adult Education – Nonmajor Governmental	<u>865</u>
			<u>\$ 9,193</u>

**NOTE 9. STATE-WIDE RETIREMENT PLANS**

The District participates in two cost-sharing, multiple-employer defined benefit pension plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries with amounts determined by the State. Teaching employees (including principals and superintendents) are covered by Montana Teachers Retirement Plan (TRS), and substantially all other District employees are covered by the Montana Public Employees Retirement System (PERS). The plans are established by Montana law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014, were:

	<u>PERS**</u>	<u>TRS</u>
Employer	7.80%	8.47%
Employee	7.90%*	8.15%
State	0.37%	2.49%

\* For PERS members hired prior 7/1/2011 that rate is 6.90%

\*\* For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the District's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.
2. Teachers' Retirement System, P.O. Box 200319, Helena, Montana 59620-0139 Phone: 1-406-444-3134.

The District's contributions for the years ended June 30, 2012, 2013, and 2014, as listed below, were equal to the required contributions for each year.

		<u>PERS</u>		<u>TRS</u>
2012	\$	14,086	\$	73,934
2013	\$	13,357	\$	74,097
2014	\$	16,008	\$	87,045

**NOTE 10. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Restricted Fund Balance**

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Miscellaneous Programs	\$ 3,368	Third party grant restrictions
All other aggregate:		
	48,582	Student transportation services
	102,282	Bus replacement
	12,464	Student food services
	19,251	Employer portion of staff benefits
	1,465	Student instructional services
	9,057	Future vacation and/or sick leave payments
	13,572	Future technology upgrades
	36,283	Debt service
	1	Operations and maintenance services
	8,140	Future capital costs
	380	Interlocal Agreement
	<u>\$ 254,845</u>	

**Other Significant Commitments**

Encumbrances	
General Fund	<u>\$6,081</u>

**NOTE 11. RESTATEMENTS**

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General	\$ (1,858)	Prior period expenditure adjustment
Miscellaneous Programs	1,858	Prior period revenue adjustment
Governmental Activities	<u>8,088</u>	Capital assets adjustment
Total	<u>\$ 8,088</u>	

**NOTE 12. JOINT VENTURES**

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

The District is a member of the Sanders County Educational Services Cooperative. The Cooperative is comprised of six member districts, each of which contributes to the operating costs of providing special educational services to the participating districts. Each year each member District appoints a member to the Joint Advisory Board. From this Board, a four member management council is elected to administer to the Cooperative. The District's contributions for the payment of the special educational services provided was \$4,092 for the fiscal year ended June 30, 2014. Separate financial statements are available from the Sanders County Educational Services Cooperative, P.O. Box 129, Thompson Falls, MT 59873.

**NOTE 13. SERVICES PROVIDED BY OTHER GOVERNMENTS**

**County Provided Services**

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

**NOTE 14. RISK MANAGEMENT**

The District faces considerable number of risks 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employee torts, and professional liability. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

Insurance Pools:

HOT SPRINGS PUBLIC SCHOOLS  
SANDERS COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

The Montana Schools Group Insurance Authority (MSGIA) was created pursuant to the Interlocal Cooperation Act by execution of an Interlocal Agreement creating the MSGIA. The MSGIA is responsible for paying all workers' compensation claims of the member school districts. Each member of the MSGIA is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program. The MSGIA purchases workers' compensation reinsurance to provide statutory excess limits. The MSGIA contracts with Montana School Boards Association (MTSBA) to provide third party administrative services to the program. The MTSBA provides general program management, claim management, and risk management services to its program members.

The Montana School Unemployment Insurance Program (MSUIP) was created pursuant to the Interlocal Cooperation Act by execution of an Interlocal Agreement creating the MSUIP. The MSUIP is responsible for paying all unemployment insurance claims of the member school districts. Each member of the MSUIP is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program. The MSUIP contracts with Montana School Boards Association (MTSBA) to provide third party administrative services to the program. The MTSBA provides general program management and technical services to its program members.

Separate audited financial statements are available from Montana Schools Group Insurance Authority for MSGIA and MSUIP.

**NOTE 15. SIGNIFICANT CONSTRUCTION COMMITMENTS**

The District has committed funds thus far of \$332,428 towards the construction of the new art and home economics building. The construction of this new building is currently about 60% complete and expected to be completed in 2015.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Hot Springs Public Schools, Sanders County**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2014**

	<b>General</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Local revenue	\$ 308,840	\$ 308,840	\$ 314,545	\$ 5,705
State revenue	1,305,772	1,305,772	1,305,771	(1)
Amounts available for appropriation	<u>\$ 1,614,612</u>	<u>\$ 1,614,612</u>	<u>\$ 1,620,316</u>	<u>\$ 5,704</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Instructional - regular	\$ 757,087	\$ 757,087	\$ 746,659	\$ 10,428
Instructional - special education	91,599	91,599	94,188	(2,589)
Instructional - vocational education	115,768	115,768	121,302	(5,534)
Supporting services - operations & maintenance	221,244	221,244	218,189	3,055
Supporting services - educational media services	33,713	33,713	32,307	1,406
Administration - general	93,674	93,674	93,556	118
Administration - school	164,757	164,757	156,120	8,637
Administration - business	51,781	51,781	52,464	(683)
Student transportation	20,338	20,338	15,886	4,452
Extracurricular	64,650	64,650	74,850	(10,200)
Total charges to appropriations	<u>\$ 1,614,611</u>	<u>\$ 1,614,611</u>	<u>\$ 1,605,521</u>	<u>\$ 9,090</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	\$ -	\$ -	\$ (8,328)	\$ (8,328)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,328)</u>	<u>\$ (8,328)</u>
Net change in fund balance			<u>\$ 6,467</u>	
Fund balance - beginning of the year			\$ 161,076	
Restatements			<u>(1,858)</u>	
Fund balance - beginning of the year - restated			<u>\$ 159,218</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 165,685</u></u>	

**Hot Springs Public Schools, Sanders County  
Budgetary Comparison Schedule  
Budget-to-GAAP Reconciliation**

**Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures**

		<b>General</b>
<b>Sources/Inflows of resources</b>		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$	1,620,316
Combined funds (GASBS 54) revenues		1,511
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances- governmental funds.	\$	1,621,827
<b>Uses/Outflows of resources</b>		
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$	1,605,521
Combined funds (GASBS 54) expenditures		29,778
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for <i>budgetary</i> purposes, but in the year the supplies are received for <i>financial reporting</i> purposes.		
- Encumbrances reported at the beginning of the year		21,530
- Encumbrances reported at the end of the year		(6,463)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$	1,650,366

**Note B**

**The Miscellaneous Programs fund is a major special revenue fund in which a legally adopted budget is not required.**

**Hot Springs Public School, Sanders County, Montana**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 582,080	\$ 582,080	0%	\$ 889,458	65%
July 1, 2012	\$ -	\$ 289,745	\$ 589,745	0%	\$ 1,360,108	43%

## **SUPPLEMENTAL INFORMATION**







Hot Springs Public School  
Sanders County, Montana  
**EXTRACURRICULAR FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS ACCOUNTS**  
Fiscal Year Ended June 30, 2014

FUND ACCOUNT	Beginning Balance	Revenues	Expenditures	Ending Balance
"H" Club	\$ 104	\$ -	\$ -	\$ 104
Class of 2014	1,584	588	2,172	-
Class of 2015	902	3,069	1,247	2,724
Class of 2016	420	125	-	545
Class of 2017	-	164	-	164
AAA	2,568	2,176	847	3,897
Annual	8,584	1,036	2,476	7,144
Athletics	3,370	33,945	34,027	3,288
Cheerleading	206	-	-	206
Counselor Fund	500	-	-	500
Cross Country	250	425	-	675
Crows Nest Fund	672	4,084	-	4,756
Drama	742	530	588	684
Elementary	3,125	-	-	3,125
Family Consumer Service	(37)	734	576	121
FCCLA	742	5,837	5,526	1,053
H.S. Volleyball	600	861	240	1,221
Junior High	737	126	-	863
Library Fund	-	82	-	82
Music	536	-	-	536
Native American Club	911	126	113	924
PEP Club	541	26	221	346
Registration & Misc.	2,033	1,988	3,116	905
Library Fund RIF	2,545	1,518	1,519	2,544
Shop & Mechanics	1,362	-	-	1,362
Sportsman Club	-	200	126	74
Student Council	267	128	27	368
Tripp Memorial	382	-	-	382
Vending H.S.	3,722	135	-	3,857
Petty Cash	800	-	-	800
Scholarship Fund	23,063	5,280	4,786	23,557
Total	\$ <u>61,231</u>	\$ <u>63,183</u>	\$ <u>57,607</u>	\$ <u>66,807</u>

***Denning, Downey & Associates, P.C.***  
**CERTIFIED PUBLIC ACCOUNTANTS**

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

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

Board of Trustees  
Hot Springs Public Schools  
Sanders County  
Hot Springs, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hot Springs Public Schools, Sanders County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hot Springs Public Schools' basic financial statements and have issued our report thereon dated June 15, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hot Springs Public Schools, Sanders County, Montana'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 Hot Springs Public Schools, Sanders County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of Hot Springs Public Schools' internal control over financial reporting.

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

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

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or 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.

*Denning, Downey and Associates, CPAs, P.C.*

June 15, 2015