

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2010

AUDIT REPORT

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

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2010

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HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2010

BOARD OF TRUSTEES

Terry Prongua
Julie White
Dick Roosma
Kim Baker
Frank Salmi
Carol Heath
Shiela Matt

Chairperson
Vice Chairperson
Trustee
Trustee
Trustee
Trustee
Trustee

DISTRICT OFFICIALS

Larry Markuson
Carmen Jackson
Kathy McEldery
Coleen Magera

District Superintendent
Business Manager
County Superintendent
County Attorney

**Hot Springs School District
Management Discussion and Analysis
As of June 30, 2010**

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, 2010. Comparative information year ended June 30, 2009 and the year ended June 30, 2010 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 Assets 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 Assets 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.

Budget to Actual Comparisons

The Budgetary Comparison Schedule shows 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 exist:

1. Instructional – At the school year end, the District uses remaining monies to purchase year end supplies and equipment. This can account for the majority of the variances with the District’s spending.
2. Support Services – Operations & Maintenance – The District budgets vacation and sick leave termination pay for staff to prepare for a potential termination. The District did not incur a change in staff for the fiscal year 2010 and the surplus in budget is directly related to the unused vacation and sick leave budgeted expenses.
3. Administration – See #2
4. Extracurricular –During the 2010 school year, the District athletic teams were not quite as successful as in the years past. Therefore the District did not expend the total budget for tournament expense for the State and Divisional tournaments.
5. School Food – Due to the Districts high percentage of students qualified for the Free & Reduced lunch program, the District continues to supplant the school lunch program.
6. Capital Outlay – The District did not have projects that would require major capital outlay.

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 \$1,938,727 at fiscal year ending June 30, 2010.

During the fiscal year 2010 the District replaced a yellow school bus with a Charter bus for the transportation of students for extracurricular activities and field trips. The bus cost of the bus was approximately \$142,000. The bus was an allowable purchase from with funds from the Bus Depreciation Funds. All capital assets are reported net depreciation.

In 2009 the District entered into a lease agreement with Northland Financial Services to lease two route buses on behalf of the bus contractor M & MT Enterprises. The payments on the lease are being deducted from the contractor’s payments, but the District must account for the liability incurred with the lease.

**Hot Springs School District
Condensed Statement of Net Assets**

| Assets | 2008-2009 | 2009-2010 |
|---|---------------------------|---------------------------|
| Current Assets | \$ 981,651 | \$ 898,248 |
| Non Current Assets | <u>1,810,924</u> | <u>1,840,559</u> |
| Total Assets | <u>\$2,792,575</u> | <u>\$2,738,807</u> |
| | | |
| Liabilities | | |
| Current Liabilities | \$ 78,112 | \$ 71,084 |
| Noncurrent Liabilities | <u>693,335</u> | <u>728,996</u> |
| Total Liabilities | <u>\$ 771,447</u> | <u>\$ 800,080</u> |
| | | |
| Net Assets | <u>\$2,021,128</u> | <u>\$1,938,727</u> |
| | | |
| Net Assets | | |
| Invested in Capital Assets, net of related debt | \$ 1,188,549 | \$ 1,230,559 |
| Restricted | 701,341 | 634,713 |
| Unrestricted | <u>131,238</u> | <u>73,477</u> |
| Total Net Assets | <u>\$2,021,128</u> | <u>\$1,938,727</u> |

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

| Revenues | 2008 - 2009 | 2009 – 2010 |
|---|---------------------------|---------------------------|
| Program Revenues | | |
| Charges For Services | \$ 28,127 | \$ 24,103 |
| Operating Grants & Contributions | 493,928 | 518,871 |
| General Revenues | | |
| Property Taxes | 464,763 | 493,248 |
| Nonrestricted Grants & Entitlements | 1,277,297 | 1,233,672 |
| Investment Earnings | 24,942 | 10,424 |
| Miscellaneous (other revenue) | 21,403 | 22,623 |
| State Entitlement (block grants) | 64,291 | 64,780 |
| State Technology | - | 1759 |
| County Retirement | 147,859 | 175,833 |
| Special Items-Gain (loss) on sale of Capital Assets | <u>(10,162)</u> | <u>-</u> |
| Total Revenues | <u>\$2,522,610</u> | <u>\$2,545,313</u> |

Expenses

Program Expenses

| | | |
|---|----------------------------|---------------------------|
| Instructional - regular | \$ 1,047,669 | \$ 1,180,509 |
| Instructional - special education | 130,165 | 177,819 |
| Instructional - vocational education | 151,645 | 134,815 |
| Instructional - adult education | 2752 | 4206 |
| Supporting services - operations & maintenance | 331,437 | 250,780 |
| Supporting services - general | 4,849 | 6,799 |
| Supporting services - educational media services | 35,265 | 43,167 |
| Administration - general | 110,610 | 126,919 |
| Administration - school | 168,030 | 162,936 |
| Administration - finance | 54,349 | 56,606 |
| Student transportation | 292,035 | 215,127 |
| Extracurricular | 78,845 | 70,816 |
| School food | 119,863 | 127,639 |
| Debt Service Expense - Interest | 33,145 | 32,190 |
| Unallocated Depreciation | <u>62,088</u> | <u>50,818</u> |
| Total Expenses | <u>\$2,622,359</u> | <u>\$2,641,146</u> |
| | | |
| Excess(deficiency) before special items and transfers | \$ (99,749) | \$ (95,833) |
| Gain (loss) on sale of Capital Assets | <u>(10,162)</u> | <u>3250</u> |
| Changes in Net Assets | <u>\$ (109,911)</u> | <u>\$ (92,583)</u> |

Revenues

Total revenues for the fiscal year ended June 30, 2011 were approximately \$2.54 million. Total revenue consists primarily of general revenues approximately 80%. The remaining 20% of revenues are program revenues.

Revenues remained fairly consistent between fiscal year 2009 and 2010. While revenues from property taxes increased due to the reappraisal of property values from the state, the economic down turn and decreasing enrollment absorbed any potential increase in revenue.

Program revenues are 47% funded by federal grant programs. 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 \$917 from school year 2009 to 2010. While the District purchased a Charter Bus for the use to transport students for extracurricular activities it tightened up spending in other areas. The District adopted a 4 day school week in 2010 allowing saving in student transportation and did not incur any large capital outlay projects. The combination of the 4 day school week, little to no capital outlay and frugal spending practices allowed the District to operate under a "bare bones" budget.

Hot Springs School District Spending Levels Compared to Resource Levels

| | | 2008-2009 | | 2009-2010 | |
|---|--|---------------------------|-----|---------------------------|-----|
| Expenses Supported with General Revenues | | \$2,100,304 | 80% | \$2,116,417 | 80% |
| (from taxes and other sources for general school use) | | | | | |
| Expenses Supported with Program Revenues | | <u>522,055</u> | 20% | <u>524,729</u> | 20% |
| Total Expenditures Related To Gov't Activities | | <u>\$2,622,359</u> | | <u>\$2,641,146</u> | |

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, drivers' 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.

In 2010 President Obama signed into law the American Recovery and Reinvestment Act. The District was awarded additional Title I, Part A monies. This grant, totaling \$112,643 will be available until September 2011.

Capital Assets

In 2010 the district purchased a Charter Bus for approximately \$142,000.

**Hot Springs School District
Capital Assets**

| | 2008-2009 | 2009-2010 |
|---|----------------------------|----------------------------|
| Land & Land Improvements | \$ 100,040 | \$ 100,040 |
| Buildings & Improvements - net depreciation | 1,510,633 | 1,432,923 |
| Machinery & Equipment - net depreciation | <u>200,251</u> | <u>307,596</u> |
| Total Expenditures Related To Gov't Activities | <u>\$ 1,810,924</u> | <u>\$ 1,840,559</u> |

Debt Administration

The District entered into a long term capital lease on behalf of the M & MT Enterprises. The total lease obligation was \$95,928; of which \$19,440 was paid in fiscal year 2010. Lease payments are deducted from the payment made to M & MT Enterprises for the bus contract.

In 2004 the District passed a 30 year general obligation bond to construct a new gymnasium. The general obligation bond was decreased by \$30,000 in fiscal year 2010.

In fiscal year 2010 the current portion of the capital lease \$15,826 will be due.

In fiscal year 2011 GASB released GASB 45 requiring governments to report Post-employee Benefits. These liabilities total \$84,711 and increased the reported liabilities.

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

**Hot Springs School District
Debt Administration**

| | 2008-2009 | 2009-2010 |
|---|--------------------------|--------------------------|
| General Obligation Bonds | \$ 640,000 | \$ 610,000 |
| Capital Lease/Postemployment Benefits | 78,303 | 143,574 |
| Compensated Absences | <u>36,469</u> | <u>45,887</u> |
| Total Expenditures Related To Gov't Activities | <u>\$ 754,772</u> | <u>\$ 799,461</u> |

The District's Future

Declining enrollment has negatively affected the Districts state entitlements and budgeting authority. In fiscal year 2011 the District projects a maximum general fund budget of \$1,560,741. Negotiations with the Hot Springs Education Association resulted in 0% increase on the base, with money invested on behalf of qualifying employees into a Health Savings Account. Employee salaries and related expenses make up approximately 61% of the District's budget, monetary commitments has a large significance on the budget.

In the 2009 Legislative session the State was allocated \$121.628 million of the federal American Recovery and Investment Act for educational purposes. Of this allocation the legislature appropriated \$62.104 million to K-12 education. The monies will be allocated to schools based on the basic and per-ANB entitlements in each year of the biennium, resulting in an approximate increase of 3%.

During the 2011 biennium, the basic and per-ANB entitlement allotted for an increase of 1.6% and the restoration of the At Risk funding component. This may cause some hardship on the district's budgeting authority resulting in request of additional levying authority from local taxpayers and program cuts.

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, (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

INDEPENDENT AUDITOR'S REPORT

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

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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hot Springs Public Schools management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the Hot Springs Public Schools, Sanders County, Montana, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the District has implemented the Post Retirement Benefits other than Pensions, as required by the provisions of GASB Statement No. 45, as of June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2011, on our consideration of the Hot Springs Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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, 32 through 34, and 35 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 Americas, 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.

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 basic 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. The information has be subjected to the auditing procedures applied in the audit of the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Denning, Downey and Associates, CPA's, P.C.

June 21, 2011

Hot Springs Public Schools, Sanders County, Montana
Statement of Net Assets
June 30, 2010

| | | Governmental Activities |
|---|----|------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and investments | \$ | 802,006 |
| Taxes and assessments receivable, net | | 71,262 |
| Due from other governments | | 24,980 |
| Total current assets | \$ | 898,248 |
| Noncurrent assets | | |
| Capital assets - land | \$ | 100,040 |
| Capital assets - depreciable, net | | 1,740,519 |
| Total noncurrent assets | \$ | 1,840,559 |
| Total assets | \$ | 2,738,807 |
| LIABILITIES | | |
| Current liabilities | | |
| Due to other governments | \$ | 619 |
| Current portion of long-term liabilities | | 15,826 |
| Current portion of long-term capital liabilities | | 40,000 |
| Current portion of compensated absences payable | | 14,639 |
| Total current liabilities | \$ | 71,084 |
| Noncurrent liabilities | | |
| Noncurrent portion of long-term liabilities | \$ | 127,748 |
| Noncurrent portion of long-term capital liabilities | | 570,000 |
| Noncurrent portion of compensated absences | | 31,248 |
| Total noncurrent liabilities | \$ | 728,996 |
| Total liabilities | \$ | 800,080 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | \$ | 1,230,559 |
| Restricted for capital projects | | 14,899 |
| Restricted for debt service | | 46,059 |
| Restricted for special projects | | 573,755 |
| Unrestricted | | 73,455 |
| Total net assets | \$ | 1,938,727 |
| Total liabilities and net assets | \$ | 2,738,807 |

See accompanying Notes to the Financial Statements

Hot Springs Public Schools, Sanders County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2010

| | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Assets |
|--|------------------|-------------------------|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Primary Government |
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| Functions/Programs | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| Instructional - regular | \$ 1,180,509 | \$ 2,250 | \$ 196,204 | \$ (982,055) |
| Instructional - special education | 177,819 | - | 136,253 | (41,566) |
| Instructional - vocational education | 134,815 | - | 1,593 | (133,222) |
| Instructional - adult education | 4,206 | 1,134 | - | (3,072) |
| Supporting services - operations & maintenance | 250,780 | - | 29,945 | (220,835) |
| Supporting services - general | 6,799 | - | 1,750 | (5,049) |
| Supporting services - educational media services | 43,167 | - | 18,523 | (24,644) |
| Administration - general | 126,919 | - | - | (126,919) |
| Administration - school | 162,936 | - | - | (162,936) |
| Administration - business | 56,606 | - | - | (56,606) |
| Student transportation | 215,127 | - | 74,910 | (140,217) |
| Extracurricular | 70,816 | - | - | (70,816) |
| School food | 127,639 | 20,719 | 59,693 | (47,227) |
| Debt service expense - interest | 32,190 | - | - | (32,190) |
| Unallocated depreciation* | 50,818 | - | - | (50,818) |
| Total governmental activities | \$ 2,641,146 | \$ 24,103 | \$ 518,871 | \$ (2,098,172) |
| Total primary government | \$ 2,641,146 | \$ 24,103 | \$ 518,871 | \$ (2,098,172) |

General Revenues:

| | |
|---|--------------|
| Property taxes for general purposes | \$ 493,248 |
| Grants and entitlements not restricted to specific programs | 1,233,672 |
| Investment earnings | 10,424 |
| Miscellaneous (other revenue) | 22,623 |
| State entitlement (block grants) | 64,780 |
| State technology | 1,759 |
| County retirement | 175,833 |
| Gain (loss) on sale of capital assets | 3,250 |
| Total general revenues, special items and transfers | \$ 2,005,589 |
| Change in net assets | \$ (92,583) |
| Net assets - beginning | \$ 2,021,128 |
| Restatements | 10,182 |
| Net assets - beginning - restated | 2,031,310 |
| Net assets - end | \$ 1,938,727 |

* 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, Montana
Balance Sheet
Governmental Funds
June 30, 2010

| | General | Elementary Transportation | Elementary Miscellaneous Programs | Elementary Impact Aid | High School Transportation | High School Impact Aid | Other Governmental Funds | Total Governmental Funds |
|--|------------|---------------------------|-----------------------------------|-----------------------|----------------------------|------------------------|--------------------------|--------------------------|
| ASSETS | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and investments | \$ 189,923 | \$ 45,836 | \$ 24,458 | \$ 211,198 | \$ 43,795 | \$ 110,003 | \$ 176,793 | \$ 802,006 |
| Taxes and assessments receivable, net | 43,647 | 11,540 | - | - | 7,791 | - | 8,284 | 71,262 |
| Due from other funds | 609 | - | - | - | - | - | 1,947 | 2,556 |
| Due from other governments | 3,069 | 749 | 18,245 | - | 458 | - | 2,459 | 24,980 |
| Total assets | \$ 237,248 | \$ 58,125 | \$ 42,703 | \$ 211,198 | \$ 52,044 | \$ 110,003 | \$ 189,483 | \$ 900,804 |
| LIABILITIES | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Due to other funds | \$ 1,947 | - | \$ 609 | - | - | - | - | \$ 2,556 |
| Due to other governments | - | - | 609 | - | - | - | 10 | 619 |
| Deferred revenue | 43,647 | 11,540 | - | - | 7,791 | - | 8,284 | 71,262 |
| Total liabilities | \$ 45,594 | \$ 11,540 | \$ 1,218 | \$ - | \$ 7,791 | \$ - | \$ 8,294 | \$ 74,437 |
| FUND BALANCES | | | | | | | | |
| Reserved for encumbrances | \$ 19,903 | - | \$ 13,026 | - | - | - | 465 | \$ 33,394 |
| Reserved for debt service | - | - | - | - | - | - | 46,059 | 46,059 |
| Reserved for capital projects | - | - | - | - | - | - | 14,899 | 14,899 |
| Reserved for operations | 157,169 | 30,660 | - | - | 23,686 | - | 79,309 | 290,824 |
| Unreserved reported in general fund | 14,582 | - | - | - | - | - | - | 14,582 |
| Unreserved reported in special revenue funds | - | 15,925 | 28,459 | 211,198 | - | 110,003 | 40,457 | 426,609 |
| Total fund balance | \$ 191,654 | \$ 46,585 | \$ 41,485 | \$ 211,198 | \$ 44,253 | \$ 110,003 | \$ 181,189 | \$ 826,367 |
| Total liabilities and fund balance | \$ 237,248 | \$ 58,125 | \$ 42,703 | \$ 211,198 | \$ 52,044 | \$ 110,003 | \$ 189,483 | \$ 900,804 |

See accompanying Notes to the Financial Statements

Hot Springs Public Schools, Sanders County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2010

| | |
|---|----------------------------|
| Total fund balances - governmental funds | \$ 826,367 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 1,840,559 |
| 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. | 71,262 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. | (799,461) |
| Total net assets - governmental activities | \$ <u>1,938,727</u> |

See accompanying Notes to the Financial Statements

Hot Springs Public Schools, Sanders County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

| | General | Elementary Transportation | Elementary Miscellaneous Programs | Elementary Impact Aid | High School Transportation | High School Impact Aid | Other Governmental Funds | Total Governmental Funds |
|---|--------------|---------------------------|-----------------------------------|-----------------------|----------------------------|------------------------|--------------------------|--------------------------|
| REVENUES | | | | | | | | |
| Local revenue | \$ 292,121 | \$ 90,048 | \$ 6,624 | \$ 4,437 | \$ 71,138 | \$ 2,512 | \$ 86,203 | \$ 553,083 |
| County revenue | - | 22,473 | - | - | 14,982 | - | 175,833 | 213,288 |
| State revenue | 1,217,664 | 26,412 | 101,356 | - | 17,502 | - | 59,866 | 1,422,800 |
| Federal revenue | 45,620 | - | 212,826 | 24,938 | - | 5,519 | 63,396 | 352,299 |
| Total revenues | \$ 1,555,405 | \$ 138,933 | \$ 320,806 | \$ 29,375 | \$ 103,622 | \$ 8,031 | \$ 385,298 | \$ 2,541,470 |
| EXPENDITURES | | | | | | | | |
| Instructional - regular | \$ 768,775 | - | 201,632 | 10,068 | - | - | 99,148 | 1,079,623 |
| Instructional - special education | 89,087 | - | 77,939 | - | - | - | 10,793 | 177,819 |
| Instructional - vocational education | 117,795 | - | - | - | - | - | 17,020 | 134,815 |
| Instructional - adult education | 285 | - | - | - | - | - | 3,921 | 4,206 |
| Supporting services - operations & maintenance | 232,886 | - | 1,906 | - | - | 1,906 | 10,286 | 246,984 |
| Supporting services - general | 5,066 | - | 1,405 | - | - | - | 328 | 6,799 |
| Supporting services - educational media services | 22,109 | - | 19,042 | - | - | - | 2,016 | 43,167 |
| Administration - general | 83,837 | 19,320 | - | 337 | 11,641 | 338 | 11,446 | 126,919 |
| Administration - school | 144,504 | - | - | - | - | - | 18,432 | 162,936 |
| Administration - business | 23,756 | 16,464 | - | - | 9,966 | - | 5,716 | 55,902 |
| Student transportation | 14,269 | 85,262 | - | - | 57,062 | - | 5,262 | 161,855 |
| Extracurricular | 65,400 | - | - | - | - | - | 5,416 | 70,816 |
| School food | 1,003 | - | - | 20,155 | - | 19,979 | 86,002 | 127,139 |
| Debt service expense - principal | - | 11,664 | - | - | 7,776 | - | 30,000 | 49,440 |
| Debt service expense - interest | - | 2,633 | - | - | 1,756 | - | 27,801 | 32,190 |
| Capital outlay | - | - | - | - | - | - | 142,232 | 142,232 |
| Total expenditures | \$ 1,568,772 | \$ 135,343 | \$ 301,924 | \$ 30,560 | \$ 88,201 | \$ 22,223 | \$ 475,819 | \$ 2,622,842 |
| Excess (deficiency) of revenues over expenditures | \$ (13,367) | \$ 3,590 | \$ 18,882 | \$ (1,185) | \$ 15,421 | \$ (14,192) | \$ (90,521) | \$ (81,372) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfers in | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,377 | \$ 1,377 |
| Transfers out | (1,377) | - | - | - | - | - | - | (1,377) |
| Total other financing sources (uses) | \$ (1,377) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,377 | \$ - |
| Net change in fund balance | \$ (14,744) | \$ 3,590 | \$ 18,882 | \$ (1,185) | \$ 15,421 | \$ (14,192) | \$ (89,144) | \$ (81,372) |
| Fund balances - beginning | \$ 196,216 | \$ 42,995 | \$ 22,603 | \$ 212,383 | \$ 28,832 | \$ 124,195 | \$ 270,333 | \$ 897,557 |
| Restatements | 10,182 | - | - | - | - | - | - | 10,182 |
| Fund balances - beginning, restated | \$ 206,398 | \$ 42,995 | \$ 22,603 | \$ 212,383 | \$ 28,832 | \$ 124,195 | \$ 270,333 | \$ 907,739 |
| Fund balance - ending | \$ 191,654 | \$ 46,585 | \$ 41,485 | \$ 211,198 | \$ 44,253 | \$ 110,003 | \$ 181,189 | \$ 826,367 |

See accompanying Notes to the Financial Statements

**Hot Springs Public Schools, Sanders County, Montana
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, 2010**

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

| | | |
|--|-----------|-------------------------------|
| Net change in fund balances - total governmental funds | \$ | (81,372) |
| 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 | | 142,232 |
| - Depreciation expense | | (115,847) |
| In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets: | | |
| - Gain on the sale of capital assets | | 3,250 |
| 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) | | 3,843 |
| The change in compensated absences is shown as an expense in the Statement of Activities | | (9,418) |
| Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets: | | |
| - Long-term debt principal payments | | 49,440 |
| 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: | | |
| - Postemployment benefits other than retirement liability | | (84,711) |
| Change in net assets - Statement of Activities | \$ | <u><u>(92,583)</u></u> |

See accompanying Notes to the Financial Statements

Hot Springs Public Schools, Sanders County, Montana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

| | Private Purpose Trust Funds | Agency Funds |
|---------------------------------|--|-------------------------|
| ASSETS | | |
| Cash and short-term investments | \$ 61,924 | \$ 106,155 |
| Total assets | \$ 61,924 | \$ 106,155 |
| LIABILITIES | | |
| Warrants payable | \$ - | \$ 98,505 |
| Due to others | - | 7,650 |
| Total liabilities | \$ - | \$ 106,155 |
| Assets held in trust | \$ 61,924 | |

See accompanying Notes to the Financial Statements

Hot Springs Public Schools, Sanders County, Montana
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

| | | <u>Private Purpose Trust Funds</u> |
|------------------------------------|----|--|
| ADDITIONS | | |
| Student activities | \$ | <u>62,178</u> |
| Total additions | \$ | <u>62,178</u> |
| DEDUCTIONS | | |
| Student activities | \$ | <u>58,953</u> |
| Total deductions | \$ | <u>58,953</u> |
| Change in net assets | \$ | <u>3,225</u> |
| Net Assets - Beginning of the year | \$ | 58,699 |
| Net Assets - End of the year | \$ | <u><u>61,924</u></u> |

See accompanying Notes to the Financial Statements

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

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.

The government adopted the provisions of Governmental Accounting Standards Board statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.

Financial Reporting Entity

In determining the financial reporting entity, the District complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the District appointed a voting majority of the units' board; the District is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Primary Government

The District was established under Montana law to provide elementary and secondary educational services to residents of the District. The District actually consists of two legally separate districts. The Elementary District provides education from kindergarten through the eighth grade and the High School District provides education from grades nine through twelve. 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.

Separate accounting records must be maintained for each District because of differences in funding and legal requirements. However, both districts are managed as a single system by a central board of trustees, elected in district-wide elections, and by a central administration appointed by and responsible to the Board. These financial statements present, as a single reporting entity, all activities over which the Board of Trustees exercises responsibility.

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 Assets 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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

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 Assets have been eliminated.

Measurement Focus and Basis of Accounting

Accrual

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type 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.

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:

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

- a. Total assets, liabilities, 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, liabilities, 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 30 days. Expenditures are recorded when the related fund liability is incurred, except for un-matured 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.

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.

Elementary Transportation Fund – This is a special revenue fund used to account for the elementary busing.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
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June 30, 2010

Elementary Miscellaneous Programs Fund – This fund accounts 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.

Elementary impact Aid Fund – this fund is for the purpose of the receipt and expenditure of Public Law 81-874 Impact Aid.

High School Transportation Fund – This is a special revenue fund used to account for the high schools busing.

High School Impact Aid Fund – This fund is for the purpose of the receipt and expenditure of Public Law 81-874 Impact Aid.

Fiduciary Funds

The District reports the Student Extracurricular funds as fiduciary funds as they represent assets held in a trust capacity for the student extracurricular activities and therefore cannot be used to support the District's own programs.

Claims and Payroll Clearing Fund – Are agency funds authorized by Section 20-0-220, MCA, for the purpose of reducing bookkeeping requirements associated with issuing warrants.

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, 2010, consisted of time deposits, demand deposits, money market deposits, and savings deposits.

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, 2010. 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.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

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 \$61,924 and the bank balance was \$61,124. 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 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 cost of inventory is recorded as an expenditure when purchased. At year end, if the inventory is significant, it must be recorded as an asset.

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:

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

| | | |
|-------------------------|-------|-------------|
| Buildings | | 20-50 years |
| Machinery and Equipment | | 8-20 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 2010 Basic Financial Statements. The government has no general infrastructure assets.

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

| | <u>Balance</u> <u>July 1, 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2010</u> |
|---|---------------------------------------|---------------------|--------------------|--|
| Capital assets not being depreciated: | \$ <u>100,040</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>100,040</u> |
| Land | | | | |
| Other Capital Assets: | | | | |
| Buildings | \$ 2,414,930 | \$ - | \$ - | \$ 2,414,930 |
| Machinery and Equipment | <u>502,666</u> | <u>152,232</u> | <u>(54,000)</u> | <u>600,898</u> |
| Total other Capital Assets at historical cost | \$ <u>2,917,596</u> | \$ <u>152,232</u> | \$ <u>(54,000)</u> | \$ <u>3,015,828</u> |
| Less Accumulated Depreciation | \$ <u>(1,206,712)</u> | \$ <u>(115,847)</u> | \$ <u>47,250</u> | \$ <u>(1,275,309)</u> |
| Total | \$ <u>1,810,924</u> | \$ <u>36,385</u> | \$ <u>(6,750)</u> | \$ <u>1,840,559</u> |

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

| | |
|--|------------------|
| Governmental Activities: | |
| Instructional – regular | \$ 6,757 |
| Supporting services – operations and maintenance | 3,796 |
| Administration – finance | 704 |
| Student transportation | 53,272 |
| School food | 500 |
| Unallocated depreciation | <u>50,818</u> |
| Total governmental activities depreciation expense | <u>\$115,847</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, 2010, the following changes occurred in liabilities reported in long-term debt:

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Governmental Activities:

| | <u>Balance</u> <u>July 1, 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2010</u> | <u>Due within</u> <u>one year</u> |
|----------------------------------|---------------------------------------|------------------|--------------------|--|--------------------------------------|
| General Obligation Bonds | \$ 640,000 | \$ - | \$ (30,000) | \$ 610,000 | \$ 40,000 |
| Loans/Contracted Debt | 78,303 | - | (19,440) | 58,863 | 15,826 |
| Compensated Absences | 36,469 | 9,418 | - | 45,887 | 14,639 |
| Other Post Employment Benefits * | - | 84,711 | - | 84,711 | - |
| Total | <u>\$ 754,772</u> | <u>\$94,129</u> | <u>\$ (49,440)</u> | <u>\$799,461</u> | <u>\$ 70,465</u> |

* See Note 9

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, 2010 were as follows:

| <u>Purpose</u> | <u>Origination</u> <u>Date</u> | <u>Interest</u> <u>Rate</u> | <u>Term</u> | <u>Maturity</u> <u>Date</u> | <u>Principal</u> <u>Amount</u> | <u>Annual</u> <u>Payment</u> | <u>Balance</u> <u>June 30, 2010</u> |
|----------------------|-----------------------------------|--------------------------------|-------------|--------------------------------|-----------------------------------|---------------------------------|--|
| Elementary Gym Bond | 1/23/2003 | 3% | 20 yrs | 7/01/2023 | \$400,000 | Varies | \$305,000 |
| High School Gym Bond | 1/23/2003 | 3% | 20 yrs | 7/01/2023 | <u>400,000</u> | Varies | <u>305,000</u> |
| | | | | | <u>\$800,000</u> | | <u>\$610,000</u> |

Annual requirement to amortize debt:

| <u>For Fiscal</u> <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
|--|-------------------|-------------------|
| 2011 | \$ 40,000 | \$ 26,252 |
| 2012 | 40,000 | 24,648 |
| 2013 | 40,000 | 23,052 |
| 2014 | 40,000 | 21,448 |
| 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 | <u>60,000</u> | <u>2,820</u> |
| Total | <u>\$ 610,000</u> | <u>\$ 203,480</u> |

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Loans/Contracted Debt

| <u>Purpose</u> | <u>Origination Date</u> | <u>Interest Rate</u> | <u>Term</u> | <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Balance June 30, 2010</u> |
|-----------------------------|-------------------------|----------------------|-------------|----------------------|-------------------------|------------------------------|
| Midwest Leasing – Bus Lease | 08/07/2008 | 5.712% | 5 yrs | 08/01/2013 | <u>\$95,928</u> | <u>\$58,863</u> |

Annual requirement to amortize debt:

| <u>For Fiscal Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------|------------------|-----------------|
| 2011 | \$ 15,826 | \$ 2,729 |
| 2012 | 20,015 | 1,982 |
| 2013 | 21,213 | 783 |
| 2014 | <u>1,809</u> | <u>9</u> |
| Total | \$ <u>58,863</u> | \$ <u>5,503</u> |

Compensated Absences

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

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

Special Retirement Incentive

During fiscal year 2010 the district offered an early retirement incentive to those teachers who had 25 years or more of credible service in the Montana Teacher’s retirement system. There were two options for the incentive and both have a cash value of \$35,000.

Option A: Initial benefit of \$10,000 to be paid in June 2010 and the remaining \$25,000 to be paid in January 2011.

Option B: One time payment of \$35,000 cash incentive

During fiscal year 2010, one employee took advantage of option A.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 7. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2010 were as follows:

| <u>Purpose</u> | <u>Due to/from other funds:</u> | | <u>Amount</u> |
|------------------|---|--|-----------------|
| | <u>Receivable Fund</u> | <u>Payable Fund</u> | |
| Short-term loan | Compensated Absences – Nonmajor Governmental | General – Major Governmental | \$ 762 |
| Adult Ed overage | Adult Education – Nonmajor Governmental | General – Major Governmental | 285 |
| Short-term loan | Adult Education – Nonmajor Governmental | General – Major Governmental | 285 |
| Short-term loan | Compensated Absences – Nonmajor Governmental | General – Major Governmental | 615 |
| Short-term loan | General – Major Governmental | Miscellaneous Programs – Major Governmental | <u>609</u> |
| | | | <u>\$ 2,556</u> |

Interfund Transfers

The following is an analysis of operating transfers in and out during Fiscal Year 2010:

| <u>Purpose</u> | <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amount</u> |
|---------------------------------------|--|---------------------------------|----------------|
| To bring balance up to maximum 30% | Compensated Absences– Nonmajor Governmental | General–Major Governmental | \$ 762 |
| To bring balance up to maximum 30% | Compensated Absences– Nonmajor Governmental | General – Major Governmental | <u>615</u> |
| | | | <u>\$1,377</u> |

NOTE 8. 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.

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, 2010, were:

| | <u>PERS</u> | <u>TRS</u> |
|----------|-------------|------------|
| Employer | 6.80% | 7.47% |
| Employee | 6.90% | 7.15% |
| State | 0.370% | 2.49% |

HOT SPRINGS PUBLIC SCHOOLS
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

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. Public Employees Retirement Division, 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, 2008, 2009, and 2010, as listed below, were equal to the required contributions for each year.

| | <u>PERS</u> | <u>TRS</u> |
|------|-------------|------------|
| 2008 | \$13,854 | \$69,118 |
| 2009 | \$14,259 | \$72,218 |
| 2010 | \$14,844 | \$73,968 |

NOTE 9. 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, 2010, was as follows:

| | |
|---|-----------------------|
| Actuarial Accrued Liability (AAL) | \$ 582,080 |
| Actuarial value of plan assets | \$ <u> -</u> |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ <u>582,080</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0% |
| Covered payroll (active plan members) | \$ 889,458 |
| UAAL as a percentage of covered payroll | 65% |

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

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) | \$ 84,711 |
| Interest on net OPEB obligation | \$ - |
| Adjustment to ARC | \$ - |
| Annual OPEB cost (expense) | \$ 84,711 |
| Contributions made | \$ - |
| Increase in net OPEB obligation | \$ 84,711 |
| Net OPEB obligation - beginning of year | \$ - |
| Net OPEB obligation - end of year | <u>\$ 84,711</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) | 62 |
| Discount rate (average anticipated rate) | 0.34% |
| Average salary increase (Consumer Price Index) | 2.80% |
| <u>Health care cost rate trend (Federal Office of the Actuary)</u> | |

| <u>Year</u> | <u>% Increase</u> |
|----------------|-------------------|
| 2010 | 3.90% |
| 2011 | 5.20% |
| 2012 | 5.50% |
| 2013 | 6.10% |
| 2014 | 6.60% |
| 2015 | 6.70% |
| 2016 | 7.00% |
| 2017 | 6.80% |
| 2018 | 6.80% |
| 2019 and after | 6.60% |

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 10. FUND EQUITY

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses. The purpose for each is indicated below:

| | |
|--|-----------------------|
| <u>General Fund</u> | |
| Reserved for Operations | \$ 157,169 |
| Reserved for Encumbrances | <u>19,903</u> |
| Total General Fund | <u>\$ 177,072</u> |
| <u>Special Revenue Funds</u> | |
| Elementary Transportation Fund | |
| Reserved for Operations | \$ 30,660 |
| High School Transportation Fund | |
| Reserved for Operations | 23,686 |
| Elementary Retirement Fund | |
| Reserved for Operations | 40,876 |
| High School Retirement Fund | |
| Reserved for Operations | 38,433 |
| Elementary Miscellaneous Programs | |
| Reserved for Encumbrances | 13,026 |
| High School Miscellaneous Programs | |
| Reserved for Encumbrances | 465 |
| Elementary Bus Depreciation | |
| Reserved for Replacement | 7,942 |
| High School Bus Depreciation | |
| Reserved for Replacement | 6,957 |
| Elementary Compensated Absences Fund | |
| Reserved for Compensated Absences Liability | 3,850 |
| High School Compensated Absences Fund | |
| Reserved for Compensated Absences Liability | <u>4,373</u> |
| Total Special Revenue Funds | <u>\$ 170,268</u> |
| <u>Debt Service Funds</u> | |
| Elementary Debt Service Funds | |
| Reserved for General Obligation Bond Repayment | \$ 20,875 |
| High School Debt Service Funds | |
| Reserved for General Obligation Bond Repayment | <u>16,961</u> |
| Total Debt Service Funds | <u>\$ 37,836</u> |
| Total | <u>\$ 385,176</u> |

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 11. RESTATEMENTS

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

| <u>Fund</u> | <u>Amount</u> | <u>Reason for Adjustment</u> |
|-------------|-----------------|-------------------------------|
| General | <u>\$10,182</u> | Prior year revenue adjustment |

NOTE 12. JOINT VENTURES

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 also a member of the Northwest Montana Education Cooperative. The purpose is to maintain and employ personnel to oversee and coordinate the operation and management of education services including joint purchases of materials and the curriculum development process. The Cooperative is comprised of 22 member districts, each of which contributes to the operating costs of the Cooperative based on an annual fiscal budget adopted by the Cooperative and the benefits derived from the Cooperative's services. Every year, each member district appoints a member to the Joint Advisory Board. From this board, a five member Management Council is elected to administer the Cooperative. The County Superintendent of Schools is the prime fiscal agent. The District's contribution to the Cooperative was \$5,130 for fiscal year ended June 30, 2010. Separate financial statements are available from the Flathead County Education Cooperative.

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 \$3,592 for the fiscal year ended June 30, 2010. Separate financial statements are available from the Sanders County Educational Services Cooperative, P.O. Box 129, Thompson Falls, MT 59873.

NOTE 13. 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.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

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:

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 14. SUBSEQUENT EVENTS

In August 2010, the District had hail damage to the gym roof. Western States Insurance gave the District a settlement of \$40,493 to cover the cleanup costs and repairs. The District then contracted with a contractor who did not complete the project. The District paid \$14,416 to the contractor in up front costs before the work was completed and \$7,125 for cleanup costs. The District had to hire a new contractor to come in and redo the roof project. The District has a new contract at the cost of \$22,565.

Camas Prairie School District is closing at the end of the fiscal year 2011. Hot Springs School District will receive a significant portion of the closed school's assets in July 2011.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Hot Springs Public Schools, Sanders County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2010

| | General | | | | Elementary Transportation | | | |
|--|------------------|--------------|---|----------------------------|---------------------------|------------|---|----------------------------|
| | BUDGETED AMOUNTS | | ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A | VARIANCE WITH FINAL BUDGET | BUDGETED AMOUNTS | | ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A | VARIANCE WITH FINAL BUDGET |
| | ORIGINAL | FINAL | | | ORIGINAL | FINAL | | |
| RESOURCES (INFLOWS): | | | | | | | | |
| Local revenue | \$ 292,496 | \$ 292,496 | \$ 292,121 | \$ (375) | \$ 77,041 | \$ 90,048 | \$ 13,007 | |
| County revenue | - | - | - | - | 23,716 | 22,473 | (1,243) | |
| State revenue | 1,263,284 | 1,263,284 | 1,217,664 | (45,620) | 27,655 | 26,412 | (1,243) | |
| Federal revenue | - | - | 45,620 | 45,620 | - | - | - | |
| Amounts available for appropriation | \$ 1,555,780 | \$ 1,555,780 | \$ 1,555,405 | \$ (375) | \$ 128,412 | \$ 138,933 | \$ 10,521 | |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | | | | | |
| Instructional - regular | \$ 680,325 | \$ 680,325 | \$ 757,341 | \$ (77,016) | - | - | - | |
| Instructional - special education | 91,645 | 91,645 | 83,900 | 7,745 | - | - | - | |
| Instructional - vocational education | 125,409 | 125,409 | 118,391 | 7,018 | - | - | - | |
| Instructional - adult education | - | - | 285 | (285) | - | - | - | |
| Supporting services - operations & maintenance | 234,859 | 234,859 | 231,966 | 2,893 | - | - | - | |
| Supporting services - general | 3,831 | 3,831 | 5,076 | (1,245) | - | - | - | |
| Supporting services - educational media services | 30,036 | 30,036 | 22,087 | 7,949 | 25,497 | 19,320 | 6,177 | |
| Administration - general | 83,313 | 83,313 | 83,837 | (524) | - | - | - | |
| Administration - school | 152,889 | 152,889 | 144,618 | 8,271 | - | - | - | |
| Administration - business | 30,911 | 30,911 | 24,161 | 6,750 | 17,420 | 16,464 | 956 | |
| Student transportation | 21,290 | 21,290 | 14,269 | 7,021 | 99,922 | 85,262 | 14,660 | |
| Extracurricular | 57,744 | 57,744 | 65,400 | (7,656) | - | - | - | |
| School food | 3,570 | 3,570 | 1,003 | 2,567 | - | - | - | |
| Debt service expense - principal | - | - | - | - | - | - | 11,664 | (11,664) |
| Debt service expense - interest | - | - | - | - | - | - | 2,633 | (2,633) |
| Capital outlay | 45,620 | 45,620 | - | 45,620 | - | - | - | |
| Total charges to appropriations | \$ 1,561,442 | \$ 1,561,442 | \$ 1,552,334 | \$ 9,108 | \$ 142,839 | \$ 135,343 | \$ 7,496 | |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfers out | - | - | (1,377) | (1,377) | - | - | - | |
| Total other financing sources (uses) | - | - | (1,377) | (1,377) | - | - | - | |
| Net change in fund balance | \$ - | \$ - | \$ 1,694 | \$ - | \$ - | \$ 3,590 | \$ - | |
| Fund balance - beginning of the year | \$ - | \$ - | \$ 159,875 | \$ - | \$ - | \$ 42,995 | \$ - | |
| Restatements | - | - | 10,182 | - | - | - | - | |
| Fund balance - beginning of the year - restated | \$ - | \$ - | \$ 170,057 | \$ - | \$ - | \$ 42,995 | \$ - | |
| Fund balance - end of the year | \$ - | \$ - | \$ 171,751 | \$ - | \$ - | \$ 46,585 | \$ - | |

Hot Springs Public Schools, Sanders County, Montana
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2010

| | High School Transportation | | | |
|--|----------------------------|------------|--|-----------|
| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE |
| | ORIGINAL | FINAL | AMOUNTS (BUDGETARY BASIS) See Note A | |
| RESOURCES (INFLOWS): | | | | |
| Local revenue | \$ 62,652 | \$ 62,652 | \$ 71,138 | \$ 8,486 |
| County revenue | 15,811 | 15,811 | 14,982 | (829) |
| State revenue | 18,331 | 18,331 | 17,502 | (829) |
| Federal revenue | - | - | - | - |
| Amounts available for appropriation | \$ 96,794 | \$ 96,794 | \$ 103,622 | \$ 6,828 |
| CHARGES TO APPROPRIATIONS (OUTFLOWS): | | | | |
| Instructional - regular | - | - | - | - |
| Instructional - special education | - | - | - | - |
| Instructional - vocational education | - | - | - | - |
| Instructional - adult education | - | - | - | - |
| Supporting services - operations & maintenance | - | - | - | - |
| Supporting services - general | - | - | - | - |
| Supporting services - educational media services | - | - | - | - |
| Administration - general | 22,062 | 22,062 | 11,641 | 10,421 |
| Administration - school | - | - | - | - |
| Administration - business | 9,900 | 9,900 | 9,966 | (66) |
| Student transportation | 72,726 | 72,726 | 57,062 | 15,664 |
| Extracurricular | - | - | - | - |
| School food | - | - | - | - |
| Debt service expense - principal | - | - | 7,776 | (7,776) |
| Debt service expense - interest | - | - | 1,756 | (1,756) |
| Capital outlay | - | - | - | - |
| Total charges to appropriations | \$ 104,688 | \$ 104,688 | \$ 88,201 | \$ 16,487 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - |
| Net change in fund balance | | | \$ 15,421 | |
| Fund balance - beginning of the year | | | \$ 28,832 | |
| Restatements | | | - | |
| Fund balance - beginning of the year - restated | | | \$ 28,832 | |
| Fund balance - end of the year | | | \$ 44,253 | |

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

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

| | General | Elementary Transportation | High School Transportation |
|--|----------------|--------------------------------------|---------------------------------------|
| Sources/Inflows of resources | | | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | \$ 1,555,405 | \$ 138,933 | \$ 103,622 |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds. | \$ 1,555,405 | \$ 138,933 | \$ 103,622 |
| Uses/Outflows of resources | | | |
| Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 1,552,334 | \$ 135,343 | \$ 88,201 |
| 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 | 36,341 | - | - |
| - Encumbrances reported at the end of the year | (19,903) | - | - |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | \$ 1,568,772 | \$ 135,343 | \$ 88,201 |

Note B - The elementary miscellaneous program, elementary impact aid and high school impact aid funds are major special revenue funds in which a legally adopted budget is not required.

**Hot Springs Public Schools, Sanders County
REQUIRED SUPPLEMENTAL INFORMATION**

**Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2010**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial 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% |

SUPPLEMENTAL INFORMATION

**Hot Springs Public Schools
Sanders County, Montana
SCHEDULE OF ENROLLMENT
For the Year Ended June 30, 2010**

**Fall Enrollment - October, 2009
Elementary School District**

| | FALL | | |
|--|-----------------------------------|---------------------------------------|-------------------|
| | Per Enrollment Reports | Audit Per District Records | Difference |
| (a) Pre-Kindergarten | 0 | 0 | 0 |
| (b) Kindergarten Full | 12 | 13 | +1 |
| (c) Kindergarten Part | 0 | 0 | 0 |
| (d) Grades 1-6 | 96 | 96 | 0 |
| (e) Grades 7-8 | 35 | 35 | 0 |
| (f) Total Elementary (add lines a through e) | <u>143</u> | <u>144</u> | <u>+1</u> |

Part-time Students

| Grade | Per Enrollment Reports | | | | Audit per District Records | | | | Difference |
|---------------|------------------------|----------------|----------------|----------------|----------------------------|----------------|----------------|----------------|------------|
| | < 181 hrs/yr | 181-359 hrs/yr | 360-539 hrs/yr | 540-719 hrs/yr | < 181 hrs/yr | 181-359 hrs/yr | 360-539 hrs/yr | 540-719 hrs/yr | |
| Kinder - Full | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Kinder - Part | 0 | 0 | N/A | N/A | 0 | 0 | N/A | N/A | 0 |
| 1-6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7-8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

High School District

| | FALL | | |
|---|-----------------------------------|---------------------------------------|-------------------|
| | Per Enrollment Reports | Audit Per District Records | Difference |
| (g) Grades 9-12 | 64 | 64 | 0 |
| (h) 19 year-olds included on line (g) | 0 | 0 | 0 |
| (i) Job Corps students included on line (g) | 0 | 0 | 0 |

Part-time Students

| Grade | Per Enrollment Reports | | | | Audit per District Records | | | | Difference |
|-------|------------------------|----------------|----------------|----------------|----------------------------|----------------|----------------|----------------|------------|
| | < 181 hrs/yr | 181-359 hrs/yr | 360-539 hrs/yr | 540-719 hrs/yr | < 181 hrs/yr | 181-359 hrs/yr | 360-539 hrs/yr | 540-719 hrs/yr | |
| 9-12 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Spring Enrollment - February, 2010
Elementary School District**

| | SPRING | | |
|--|-----------------------------------|---------------------------------------|-------------------|
| | Per Enrollment Reports | Audit Per District Records | Difference |
| (j) Pre-Kindergarten | 2 | 2 | 0 |
| (k) Kindergarten - Full | 13 | 13 | 0 |
| (l) Kindergarten - Part | 0 | 0 | 0 |
| (m) Grades 1-6 | 96 | 96 | 0 |
| (n) Grades 7-8 | 36 | 36 | 0 |
| (o) Total Elementary (add lines j through n) | <u>147</u> | <u>147</u> | <u>0</u> |

Part-time Students

| Grade | Per Enrollment Reports | | | | Audit per District Records | | | | Difference |
|---------------|------------------------|----------------|----------------|----------------|----------------------------|----------------|----------------|----------------|------------|
| | < 181 hrs/yr | 181-359 hrs/yr | 360-539 hrs/yr | 540-719 hrs/yr | < 181 hrs/yr | 181-359 hrs/yr | 360-539 hrs/yr | 540-719 hrs/yr | |
| Kinder - Full | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Kinder - Part | 0 | 0 | N/A | N/A | 0 | 0 | N/A | N/A | 0 |
| 1-6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7-8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

High School District

| | SPRING | | |
|---|-----------------------------------|---------------------------------------|-------------------|
| | Per Enrollment Reports | Audit Per District Records | Difference |
| (p) Grades 9-12 | 61 | 61 | 0 |
| (q) 19 year-olds included on line (p) | 0 | 0 | 0 |
| (r) Early Graduates (not included on line (p) | 0 | 0 | 0 |
| (s) Job Corps students included on line (p) | 0 | 0 | 0 |

Part-time Students

| Grade | Per Enrollment Reports | | | | Audit per District Records | | | | Difference |
|-------|------------------------|----------------|----------------|----------------|----------------------------|----------------|----------------|----------------|------------|
| | < 181 hrs/yr | 181-359 hrs/yr | 360-539 hrs/yr | 540-719 hrs/yr | < 181 hrs/yr | 181-359 hrs/yr | 360-539 hrs/yr | 540-719 hrs/yr | |
| 9-12 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Hot Springs Public Schools
 Sanders County, Montana
 EXTRACURRICULAR FUND
SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS ACCOUNTS
 Fiscal Year Ended June 30, 2010

| FUND ACCOUNT | Beginning Balance | Revenues | Expenditures | Ending Balance |
|-------------------------|----------------------|------------------|------------------|-------------------|
| "H" Club | \$ 104 | \$ - | \$ - | \$ 104 |
| Class of 2010 | 4,544 | 1,362 | 5,906 | - |
| Class of 2011 | 2,324 | 1,826 | 741 | 3,409 |
| Class of 2012 | 1,133 | 496 | 39 | 1,590 |
| Class of 2013 | 558 | 218 | 69 | 707 |
| Class of 2014 | 496 | - | 48 | 448 |
| Annual | 8,704 | 3,579 | 4,077 | 8,206 |
| Athletics | 3,688 | 22,661 | 24,211 | 2,138 |
| Cheerleading | 321 | 284 | 524 | 81 |
| District Service | - | 4,201 | 4,201 | - |
| Drama | 261 | 968 | 898 | 331 |
| Elementary Ed Tech | 2,339 | 398 | 82 | 2,655 |
| Elementary | 271 | 216 | 29 | 458 |
| Family Consumer Service | 97 | 829 | 690 | 6 |
| FCCLA | 2,383 | 6,795 | 7,279 | 1,899 |
| Junior High | 337 | 328 | 105 | 560 |
| Music | 1,720 | 287 | 340 | 1,667 |
| Native American Club | 706 | 220 | 180 | 746 |
| PEP Club | 773 | 1,214 | 949 | 1,038 |
| Registration & Misc. | 1,861 | 3,068 | 2,526 | 2,403 |
| RIF | 2,579 | 2,347 | 2,514 | 2,412 |
| Shop & Mechanics | 1,245 | 42 | - | 1,287 |
| Student Council | 185 | 286 | 308 | 163 |
| Tripp Memorial | 482 | 100 | 300 | 282 |
| Vending H.S. | 2,952 | 355 | - | 3,307 |
| Petty Cash | 800 | - | - | 800 |
| Scholarship Fund | 17,835 | 10,098 | 2,936 | 24,997 |
| Total | \$ <u>58,698</u> | \$ <u>62,178</u> | \$ <u>58,952</u> | \$ <u>61,694</u> |

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

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

**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 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, 2010, which collectively comprise the Hot Springs Public Schools' basic financial statements and have issued our report thereon dated June 21, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hot Springs Public Schools internal control over financial reporting as a basis for designing our auditing procedures 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 Hot Springs Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 statement will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we identified a certain deficiency in internal control over financial reporting, described below that we consider to be a material weakness as item 10-1 and other deficiencies that we consider to be significant deficiencies in internal control over financial reporting as items 10-2, 10-3 and 10-4. 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.

10-1 Due From Other Governments

Condition:

The District did not report Due from Other Governments of \$18,245 in the Elementary Miscellaneous Programs fund. The District received the following fiscal year 2010 revenues in August, 2010: School-wide of \$17,814 and Title IV, A of \$431.

Criteria:

According to Generally Accepted Accounting Principles, agencies are to promptly record receivables when the asset or revenue recognition criteria have been met or the underlying accounting event has occurred and the amount is determinable.

Effect:

Due from other governments and federal revenues were both materially understated by \$18,245. This has been corrected for the audit report.

Cause:

Revenue was received in August 2010, and the District did not report it as Due from Other Governments.

Recommendation:

The District should establish internal control procedures to ensure the correct presentation of the Due from Other Governments.

10-2 Enrollment Internal Control Weakness

Condition:

We noted the following errors in the Districts' enrollment records:

1. Kindergarten fall enrollment records indicated 13 students while the District reported 12 students. One student was marked as present while she never started school and was never removed from the fall roster.
2. 1st grade spring enrollment records indicated 22 students while the District reported 20 students to the Office of Public Instruction (OPI).
3. 2nd grade spring enrollment records indicated 13 students while the District reported 15 students to OPI.
4. 5th grade spring enrollment records indicated 17 students while the District reported 18 students to OPI.
5. 6th grade spring enrollment records indicated 12 students while the District reported 11 students to OPI.

Criteria:

Good internal control procedures include review and reconciliation between the enrollment records submitted to the Office of Public Instruction (OPI) and the actual enrollment records.

Effect:

The Average Number Belonging (ANB) was not affected. The District records in comparison to what was reported to OPI has a net difference of one student.

Cause:

Lack of good internal control procedures and policies regarding enrollment records.

Recommendation:

The District should establish internal control procedures that assure enrollment records are accurate. Accurate records ensure the ANB state funding amount is proper.

10-3 Food Service Inventory

Condition:

The District did not maintain a running inventory listing for food service.

Criteria:

Internal control should be place to ensure the safekeeping of assets.

Effect:

A control weakness in that only a beginning and ending inventory each year is completed and receipt of goods and usage reports are not reconciled to the change in inventory.

Cause:

The staff has not been completing the inventory requirements.

Recommendation:

The District should implement control procedures to track inventory receipt and usage to reconcile to the change in inventory each year.

10-4 Credit Card Documentation

Condition:

We noted the following during review of credit card expenditures:

1. Twenty-four receipts from vendors did not include the detail of the purchases.
2. Six receipts from vendors were not included with the claims.

Criteria:

A good control procedure ensures all receipts from vendors are received and include all supporting documentation.

Effect:

Inadequate supporting documentation was noted for credit card purchases.

Cause:

Some users of the credit card were not providing adequate documentation for charges; small dollars were passed on when paying claims.

Recommendation:

The District should implement procedures to ensure all credit card transactions have adequate supporting documentation.

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*.

Hot Springs Public Schools' response to the findings identified in our audit is described in the Auditee's Response to Findings. We did not audit Hot Springs Public Schools' Response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, the Board of Trustees, the Montana Department of Administration, the Montana Office of Public Instruction, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

June 21, 2011

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

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

**REPORT ON OTHER COMPLIANCE, FINANCIAL, AND INTERNAL ACCOUNTING
CONTROL MATTERS**

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

There were no other compliance, financial, or internal accounting matters.

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

June 21, 2011

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

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

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

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

The prior audit report contained two recommendations. The action taken on each recommendation is as follows:

| <u>Recommendation</u> | <u>Action Taken</u> |
|--|-------------------------|
| Credit Card Documentation and Electric Company Claims Transportation Fund | Repeated Implemented |

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

June 21, 2011

Hot Springs Public Schools #14-J

Proudly Serving Students in Grades K-12

301 Broadway Street • P.O. Box 1005 • Hot Springs, MT 59845



June 14, 2011

Department of Commerce
Local Government Service
P.O. Box 200547
Helena, MT 59620

Regarding: School District Audit - For Year Ended June 30, 2010

Dear Audit Review Supervisor:

School District #14-J has responded to the recommendations stated in the audit report submitted by Denning, Downey, & Associates P.C. for fiscal year ending June 30, 2010 as follows:

Due from Other Governments

The District will ensure that all grant revenues associated with grant expenditures will be accounted for as a Due from Other Governments when received in the following fiscal year.

Enrollment Records

All enrollment reports will be submitted to the building principal's to verify accuracy. Upon approval, the reports will be submitted to the State by the enrollment secretaries.

Food Service Inventory

In 2010 – 2011 the District entered into agreement with Food Service of America to provide at least 65% of the District's Food Service food supplies. With this contract a computer based inventory software program is available for the District's use. This software will enable the District to keep an accurate accounting of food inventory.

Credit Card Documentation

The District will require detailed receipts for all Credit Card Transactions.

Sincerely,

Larry L. Markuson

Larry Markuson
Superintendent

Cc: Office of Public Instruction
Denning, Downey & Associates, P.C.