

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2011

AUDIT REPORT

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

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2011

TABLE OF CONTENTS

Organization	1
Management Discussion and Analysis	2-8
Independent Auditor's Report	9-10
Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Assets	11
Statement of Activities	12
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Fiduciary Funds – Statement of Fiduciary Net Assets	17
Fiduciary Funds – Statement of Changes in Fiduciary Net Assets	18
Notes to Financial Statements	19-32
Required Supplemental Information	
Budgetary Comparison Schedule	33
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation	34
Schedule of Funding Progress – Other Post Employment Benefits Other Than Pensions	35
Supplemental Information	
Schedule of Enrollment	36
Schedule of Revenues and Expenditures – Extracurricular Fund – All Fund Accounts	37
Single Audit Section	
Schedule of Expenditures of Federal Awards	38
Notes to the Schedule of Expenditures of Federal Awards	39
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	40-41

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

TABLE OF CONTENTS - Continued

Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	42-43
Schedule of Findings and Questioned Costs	44-49
Report on Prior Audit Recommendations	50
Auditee's Response to Findings	51-52

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

ORGANIZATION

Fiscal year Ended June 30, 2011

BOARD OF TRUSTEES

Terry Prongua
Julie White
Dirk Roosma
Kim Baker
Frank Salmi
Carol Heath
Sheila Matt

Vice Chairperson
Trustee
Trustee
Trustee
Trustee
Trustee
Trustee

DISTRICT OFFICIALS

Larry Markuson
Carmen Jackson
Carol Turk
Robert Zimmerman

District Superintendent
Business Manager
County Superintendent
County Attorney

Hot Springs School District, Sanders County, Montana
Management Discussion and Analysis
As of June 30, 2011

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, 2011. Comparative information year ended June 30, 2010 and the year ended June 30, 2011 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, whereas 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. The District was able to keep its special education costs down by replacing a teacher with 15 years of experience with a teacher who had 5 years of experience. This coupled with the IDEA ARRA grant allowed the District to save \$9500.
3. Support Services – Operations & Maintenance – The District had several capital outlay project during the fiscal year that were not budgeted items causing a budget shortfall.
4. Extracurricular –During the 2011 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 –The District continues to supplant the school lunch program.
6. Capital Outlay – see #3

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 **\$1,970,365** at fiscal year ending June 30, 2011.

In fiscal year 2009-2010 the federal government enacted the American Recovery and Reinvestment Act. This policy provided the District with an additional \$112,000 in Title I grant funding, and an additional \$39,000 in IDEA funding. This funding was restricted in nature but does increase spending authority. These funds will not be renewed for the fiscal year 2011-2012.

During the summer of 2010, The District's old gym and shop were damaged during a severe hail storm. The District received \$40,607 in insurance proceeds to repair the damage to the shop and old gym roof. The Board requested bids for the roof repair and accepted the lowest bid submitted by Sunrise Quality Construction. Sunrise began repair work on the gym in September, but did not finish the job and defrauded the District. The District had paid him for 70% of the work done.

In the spring of 2011 the Board hired PRC, Inc. repair the gym roof. PRC had to scrap the work done by the previous contractor and then replace the roof. The District has been included in the federal case against the owner of Sunrise Quality Construction and is awaiting retribution.

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

<u>Assets</u>	<u>2009-2010</u>	<u>2010-2011</u>
Current Assets	\$ 898,248	\$1,064,763
Non Current Assets	1,840,559	1,743,140
Total Assets	<u>\$2,738,807</u>	<u>\$2,807,903</u>
<u>Liabilities</u>		
Current Liabilities	\$ 71,084	\$ 87,368
Noncurrent Liabilities	728,996	750,170
Total Liabilities	<u>\$ 800,080</u>	<u>\$ 837,538</u>
Net Assets	<u>\$1,938,727</u>	<u>\$1,970,365</u>
<u>Net Assets</u>		
Invested in Capital Assets, net of related debt	\$1,230,559	\$1,173,140
Restricted	634,713	406,351
Unrestricted	73,455	390,874
Total Net Assets	<u>\$1,938,727</u>	<u>\$1,970,365</u>

Hot Springs School District

Changes in Net Assets

Revenues

	<u>2009 – 2010</u>	<u>2010-2011</u>
Program Revenues		
Charges For Services	\$ 24,103	\$ 27,558
Operating Grants & Contributions	518,871	647,333
Capital Grants & Contributions		3,327
General Revenues		
Property Taxes	493,248	484,849
Nonrestricted Grants & Entitlements	1,233,672	1,281,256
Investment Earnings	10,424	11,451
Miscellaneous (other revenue)	22,623	69,789
State Entitlement (block grants)	64,780	33,927
State Technology	1,759	1,736
County Retirement	<u>175,833</u>	<u>203,297</u>
Total Revenues	<u>\$2,545,313</u>	<u>\$2,764,523</u>

Expenses

Program Expenses		
Instructional - regular	\$1,180,509	\$1,141,491
Instructional - special education	177,819	246,274
Instructional - vocational education	134,815	140,294
Instructional - adult education	4,206	2,760
Supporting services - operations & maintenance	250,780	336,368
Supporting services - general	6,799	7,062
Supporting services - educational media services	43,167	39,998
Administration - general	126,919	126,530
Administration - school	162,936	172,154
Administration - finance	56,606	61,058
Student transportation	215,127	218,528
Extracurricular	70,816	56,740
School food	127,639	100,614
Debt Service Expense - Interest	32,190	29,865
Unallocated Depreciation	<u>50,818</u>	<u>46,427</u>
Total Expenses	<u>\$2,641,146</u>	<u>\$2,726,163</u>
Excess(deficiency) before special items and transfers	\$ (95,833)	\$ 38,360
Gain (loss) on sale of Capital Assets	3250	
Changes in Net Assets	<u>\$ (92,583)</u>	<u>\$ 38,360</u>

Revenues

Total revenues for the fiscal year ended June 30, 2011 were approximately \$2.76 million. Total revenue consists primarily of general revenues approximately 75%. The remaining 25% of revenues are program revenues.

In fiscal year 2009-2010 the federal government enacted the American Recovery and Reinvestment Act. This policy provided the District with an additional \$112,000 in Title I grant funding, and an additional \$39,000 in IDEA funding. In addition, the District receives approximately \$22,000 from bus contractor M & MT Enterprises to pay for the bus lease agreement.

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 \$85 from school year 2010 to 2011. Due to decreasing enrollment, the District operates under a "bare bones" budget.

Hot Springs School District Spending Levels Compared to Resource Levels

	<u>2009-2010</u>		<u>2010-2011</u>	
Expenses Supported with General Revenues (from taxes and other sources for general school use)	\$2,098,172	80%	\$2,047,945	76%
Expenses Supported with Program Revenues	<u>542,974</u>	20%	<u>678,218</u>	24%
Total Expenditures Related To Gov't Activities	<u>\$2,641,146</u>		<u>\$2,726,163</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, driver's education fees, and federal grants.

Significant Events and Trends

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

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

The District did not experience incur material changes in capital assets.

Hot Springs School District **Capital Assets**

	<u>2009-2010</u>	<u>2010-2011</u>
Land & Land Improvements	\$ 100,040	\$ 100,040
Buildings & Improvements - net depreciation	1,437,629	1,386,811
Machinery & Equipment - net depreciation	<u>302,890</u>	<u>256,289</u>
Total Expenditures Related To Gov't Activities	<u>\$ 1,840,559</u>	<u>\$ 1,743,140</u>

Debt Administration

The District entered into a long term capital lease on behalf of the M & MT Enterprises. The total lease obligation remaining is \$43,000. Lease payments are deducted from the payment made to M & MT Enterprises for the bus contract.

In 2003 the District passed a 30 year general obligation bond to construct a new gymnasium. The general obligation bond was decreased by \$40,000 in fiscal year 2010.

In fiscal year 2011 the current portion of the capital lease (\$20,111) will be due.

In fiscal year 2011 GASB released GASB 45 requiring governments to report Post-employee Benefits. These liabilities total \$169,422 and increased the reported liabilities.

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

Hot Springs School District **Debt Administration**

	<u>2009-2010</u>	<u>2010-2011</u>
General Obligation Bonds	\$ 570,000	\$ 530,000
Capital Lease/Postemployment Benefits	127,748	190,738
Compensated Absences	<u>31,248</u>	<u>29,432</u>
Total Expenditures Related To Gov't Activities	<u>\$ 728,996</u>	<u>\$ 750,170</u>

The District's Future

Declining enrollment has negatively affected the District's state entitlements and budgeting authority. In fiscal year 2012 the District projects a maximum general fund budget of \$1,570,607. Negotiations between the Hot Springs Education Association and the Board are in the beginning stages. The association is requesting a new salary schedule, 3% increase on the base, and 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.

The District is facing an approximate budget shortfall of \$54,859 for fiscal year 2013. The Board elected to adopt a Reduction in Force (RIF) plan in lieu of a mill levy. The District will cut its music program, reduced the elementary secretary three hours per day, reduce the high school secretary one month, and eliminate two summer maintenance positions. These cuts will balance the budget.

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 - Suite 101 Kalispell, MT 59901

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, 2011, 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, 2011, 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 Fund Balance Reporting and Governmental Fund Type Definitions as required by the provisions of GASB Statement No. 54, as of June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2012, 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 8, 33 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 expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Hot Springs Public Schools, Sanders County, Montana. The accompanying schedule of revenues and expenditures for the extracurricular fund, the schedule of enrollment and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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.

May 23, 2012

Hot Springs Public Schools, Sanders County, Montana
Statement of Net Assets
June 30, 2011

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	\$	882,877
Taxes and assessments receivable, net		79,446
Due from other governments		102,440
Total current assets	\$	1,064,763
Noncurrent assets		
Capital assets - land	\$	100,040
Capital assets - depreciable, net		1,643,100
Total noncurrent assets	\$	1,743,140
Total assets	\$	2,807,903
LIABILITIES		
Current liabilities		
Accounts payable	\$	18,386
Current portion of long-term liabilities		20,111
Current portion of long-term capital liabilities		40,000
Current portion of compensated absences payable		8,871
Total current liabilities	\$	87,368
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	190,738
Noncurrent portion of long-term capital liabilities		530,000
Noncurrent portion of compensated absences		29,432
Total noncurrent liabilities	\$	750,170
Total liabilities	\$	837,538
NET ASSETS		
Invested in capital assets, net of related debt	\$	1,173,140
Restricted for capital projects		58,293
Restricted for debt service		37,160
Restricted for special projects		310,524
Restricted for other purposes		374
Unrestricted		390,874
Total net assets	\$	1,970,365
Total liabilities and net assets	\$	2,807,903

See accompanying Notes to the Financial Statements

Hot Springs Public Schools, Sanders County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Changes in Net Assets</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Primary Government</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Governmental</u>
					<u>Activities</u>
Primary government:					
Governmental activities:					
Instructional - regular	\$ 1,141,491	\$ 1,825	\$ 299,672	\$ -	\$ (839,994)
Instructional - special education	246,274	-	198,358	-	(47,916)
Instructional - vocational education	140,294	-	9,358	-	(130,936)
Instructional - adult education	2,760	-	-	-	(2,760)
Supporting services - operations & maintenance	336,368	-	-	3,327	(333,041)
Supporting services - general	7,062	-	-	-	(7,062)
Supporting services - educational media services	39,998	-	-	-	(39,998)
Administration - general	126,530	-	-	-	(126,530)
Administration - school	172,154	-	-	-	(172,154)
Administration - business	61,058	-	-	-	(61,058)
Student transportation	218,528	-	74,663	-	(143,865)
Extracurricular	56,740	-	-	-	(56,740)
School food	100,614	25,733	65,282	-	(9,599)
Debt service expense - interest	29,865	-	-	-	(29,865)
Unallocated depreciation*	46,427	-	-	-	(46,427)
Total governmental activities	\$ 2,726,163	\$ 27,558	\$ 647,333	\$ 3,327	\$ (2,047,945)
Total primary government	\$ 2,726,163	\$ 27,558	\$ 647,333	\$ 3,327	\$ (2,047,945)
General Revenues:					
Property taxes for general purposes				\$ 484,849	
Grants and entitlements not restricted to specific programs				1,281,256	
Investment earnings				11,451	
Miscellaneous (other revenue)				69,789	
State entitlement (block grants)				33,927	
State technology				1,736	
County retirement				203,297	
Total general revenues, special items and transfers				\$ 2,086,305	
Change in net assets				\$ 38,360	
Net assets - beginning				\$ 1,938,727	
Restatements				(6,722)	
Net assets - beginning - restated				\$ 1,932,005	
Net assets - end				\$ 1,970,365	

* 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, 2011

		<u>General</u>		<u>Elementary Transportation</u>		<u>Elementary Miscellaneous Programs</u>		<u>Other Governmental Funds</u>		<u>Total Governmental Funds</u>
ASSETS										
Current assets:										
Cash and investments	\$	565,341	\$	37,489	\$	(20,539)	\$	300,586	\$	882,877
Taxes and assessments receivable, net		47,697		12,461		-		19,288		79,446
Due from other funds		2,250		38		-		533		2,821
Due from other governments		3,546		1,283		90,125		7,486		102,440
Total assets	\$	<u>618,834</u>	\$	<u>51,271</u>	\$	<u>69,586</u>	\$	<u>327,893</u>	\$	<u>1,067,584</u>
LIABILITIES										
Current liabilities:										
Accounts payable	\$	10,049	\$	1,857	\$	4,129	\$	2,351	\$	18,386
Due to other funds		508		-		-		2,313		2,821
Deferred revenue		47,697		12,461		-		19,288		79,446
Total liabilities	\$	<u>58,254</u>	\$	<u>14,318</u>	\$	<u>4,129</u>	\$	<u>23,952</u>	\$	<u>100,653</u>
FUND BALANCES										
Restricted	\$	-	\$	36,953	\$	65,457	\$	303,941	\$	406,351
Assigned		62,685		-		-		-		62,685
Unassigned		497,895		-		-		-		497,895
Total fund balance	\$	<u>560,580</u>	\$	<u>36,953</u>	\$	<u>65,457</u>	\$	<u>303,941</u>	\$	<u>966,931</u>
Total liabilities and fund balance	\$	<u>618,834</u>	\$	<u>51,271</u>	\$	<u>69,586</u>	\$	<u>327,893</u>	\$	<u>1,067,584</u>

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, 2011

Total fund balances - governmental funds	\$ 966,931
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,743,140
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.	79,446
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(819,152)
Total net assets - governmental activities	\$ <u>1,970,365</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, 2011

	General	Elementary Transportation	Elementary Miscellaneous Programs	Other Governmental Funds	Total Governmental Funds
REVENUES					
Local revenue	\$ 287,023	\$ 85,064	\$ 42,814	\$ 173,417	\$ 588,318
County revenue	-	22,325	-	218,180	240,505
State revenue	1,149,861	26,442	120,341	67,399	1,364,043
Federal revenue	162,914	-	288,968	72,917	524,799
Total revenues	<u>\$ 1,599,798</u>	<u>\$ 133,831</u>	<u>\$ 452,123</u>	<u>\$ 531,913</u>	<u>\$ 2,717,665</u>
EXPENDITURES					
Instructional - regular	\$ 752,300	-	\$ 211,836	\$ 94,192	\$ 1,058,328
Instructional - special education	69,835	-	167,689	8,750	246,274
Instructional - vocational education	117,341	-	-	22,953	140,294
Instructional - adult education	-	-	-	2,760	2,760
Supporting services - operations & maintenance	249,542	-	17,142	66,148	332,832
Supporting services - general	4,022	-	2,727	313	7,062
Supporting services - educational media services	27,376	-	10,512	2,110	39,998
Administration - general	80,841	23,293	-	22,396	126,530
Administration - school	153,224	-	-	18,930	172,154
Administration - business	27,950	17,410	-	14,994	60,354
Student transportation	10,458	89,562	-	65,552	165,572
Extracurricular	49,653	-	-	7,087	56,740
School food	9,162	-	-	91,202	100,364
Debt service expense - principal	-	11,329	-	46,107	57,436
Debt service expense - interest	-	1,869	-	27,996	29,865
Capital outlay	5,363	-	-	-	5,363
Total expenditures	<u>\$ 1,557,067</u>	<u>\$ 143,463</u>	<u>\$ 409,906</u>	<u>\$ 491,490</u>	<u>\$ 2,601,926</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 42,731</u>	<u>\$ (9,632)</u>	<u>\$ 42,217</u>	<u>\$ 40,423</u>	<u>\$ 115,739</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from the sale of general capital asset disposition	\$ -	-	-	\$ 40,494	\$ 40,494
Transfers in	2,250	-	-	-	2,250
Transfers out	-	-	-	(2,250)	(2,250)
Total other financing sources (uses)	<u>\$ 2,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,244</u>	<u>\$ 40,494</u>
Net Change in Fund Balance	<u>\$ 44,981</u>	<u>\$ (9,632)</u>	<u>\$ 42,217</u>	<u>\$ 78,667</u>	<u>\$ 156,233</u>
Fund balances - beginning	\$ 191,654	\$ 46,585	\$ 41,485	\$ 546,643	\$ 826,367
Restatements	323,945	-	(18,245)	(321,369)	(15,669)
Fund balances - beginning, restated	<u>\$ 515,599</u>	<u>\$ 46,585</u>	<u>\$ 23,240</u>	<u>\$ 225,274</u>	<u>\$ 810,698</u>
Fund balance - ending	<u>\$ 560,580</u>	<u>\$ 36,953</u>	<u>\$ 65,457</u>	<u>\$ 303,941</u>	<u>\$ 966,931</u>

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, 2011

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

Net change in fund balances - total governmental funds \$ 156,233

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 5,363
- Depreciation expense (109,909)

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:

- Proceeds from the sale of capital assets (40,494)
- Gain on the sale of capital assets 38,674

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) 8,184

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

7,584

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 57,436

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 \$ 38,360

See accompanying Notes to the Financial Statements

Hot Springs Public Schools, Sanders County, Montana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	\$ 55,310	\$ 72,320
Total assets	\$ 55,310	\$ 72,320
LIABILITIES		
Warrants payable	\$ -	\$ 72,320
Total liabilities	\$ -	\$ 72,320
NET ASSETS		
Assets held in trust	\$ 55,310	

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, 2011

		<u>Private Purpose Trust Funds</u>
ADDITIONS		
Student activities	\$	46,279
Total additions	\$	<u>46,279</u>
 DEDUCTIONS		
Student activities	\$	52,893
Total deductions	\$	<u>52,893</u>
Change in net assets	\$	<u>(6,614)</u>
Net Assets - Beginning of the year	\$	61,924
Net Assets - End of the year	\$	<u><u>55,310</u></u>

See accompanying Notes to the Financial Statements

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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 District adopted the provisions of Governmental Accounting Standards Board statement No. 54 Fund Balance, Reporting and Governmental Fund Type Definitions for fiscal year ended June 30, 2011. The District included the Flexibility and Impact Aid funds as part of the General Fund. In prior years, the Flexibility and Impact Aid funds were reported as special revenue funds.

Financial Reporting District

In determining the financial reporting entity, the District complies with the provisions of GASB statement No. 14, *The Financial Reporting District*, 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 District (separate legal District 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 District, 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 District except fiduciary funds. The statements distinguish between governmental and business-type activities.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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

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

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net 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 District 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, 2011

- 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 unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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.

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 District and fund on a pro rata basis. The County's investment portfolio as of June 30, 2011, consisted of certificates of deposit, savings accounts, money market accounts, and demand deposit accounts.

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, 2011. The County's investment pool is not rated.

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

Deposits

The District's deposit balance at year end was \$55,310 and the bank balance was \$54,510. The District's deposits at year-end were fully insured by FDIC.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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:

Buildings	20-50 years
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 2011 Basic Financial Statements. The government has no general infrastructure assets.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets not being depreciated:	\$ <u>100,040</u>	\$ _____ -	\$ _____ -	\$ _____ -	\$ <u>100,040</u>
Land					
Other Capital Assets:					
Buildings	\$ 2,414,930	\$ _____ -	\$ _____ -	\$ _____ -	\$ 2,414,930
Machinery and Equipment	<u>600,898</u>	<u>5,363</u>	<u>(5,200)</u>	_____ -	<u>601,061</u>
Total other Capital Assets at historical cost	\$ <u>3,015,828</u>	\$ <u>5,363</u>	\$ <u>(5,200)</u>	\$ _____ -	\$ <u>3,015,991</u>
Less Accumulated Depreciation	\$(1,275,309)	\$(109,909)	\$ 3,380	\$ 8,947	\$(1,372,891)
Total	\$ <u>1,840,559</u>	\$ <u>(104,546)</u>	\$ <u>(1,820)</u>	\$ <u>8,947</u>	\$ <u>1,743,140</u>

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

Governmental Activities:	
Instructional – regular	\$ 6,036
Supporting services – operations and maintenance	3,536
Administration – finance	704
Student transportation	52,956
School food	250
Unallocated depreciation	<u>46,427</u>
Total governmental activities depreciation expense	\$ <u>109,909</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, 2011, 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, 2011

Governmental Activities:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due within</u> <u>one year</u>
General Obligation Bonds	\$ 610,000	\$ -	\$ (40,000)	\$ 570,000	\$ 40,000
Contracted Debt	58,863	-	(17,436)	41,427	20,111
Compensated Absences	45,887	-	(7,584)	38,303	8,871
*Other Post Employment Benefits	<u>84,711</u>	<u>84,711</u>	<u>-</u>	<u>169,422</u>	<u>-</u>
Total	<u>\$799,461</u>	<u>\$ 84,711</u>	<u>\$ (65,020)</u>	<u>\$ 819,152</u>	<u>\$ 68,982</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, 2011 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, 2011</u>
Elementary Gym Bond	01/23/2003	3%	20 yrs	07/01/2023	\$400,000	Varies	\$285,000
High School Gym Bond	01/23/2003	3%	20 yrs	07/01/2023	<u>400,000</u>	Varies	<u>285,000</u>
					<u>\$800,000</u>		<u>\$570,000</u>

Annual requirement to amortize debt:

<u>For Fiscal</u> <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
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>\$ 570,000</u>	<u>\$ 177,228</u>

Loans/Contracted Debt

<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>Balance</u> <u>June 30, 2011</u>
Midwest Leasing – Bus Lease	08/07/2008	5.712%	5 yrs	08/01/2013	<u>\$95,928</u>	<u>\$41,427</u>

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 20,111	\$ 1,885
2013	<u>21,316</u>	<u>680</u>
Total	\$ <u>41,427</u>	\$ <u>2,565</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.

NOTE 7. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2011, were as follows:

<u>Purpose</u>	<u>Due to/from other funds:</u> <u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Maintain the compensated absences balance in compliance with state law	Elementary General – Major Governmental	Elementary Compensated Absences – Nonmajor Governmental	\$ 753
Maintain the compensated absences balance in compliance with state law	High School General – Major Governmental	High School Compensated Absences – Nonmajor Governmental	1,497
Retirement fund corrections	Elementary Retirement – Nonmajor Governmental	Elementary General – Major Governmental	508
Retirement fund	Elementary Transportation –	Elementary Retirement –	38

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

corrections	Major Governmental	Nonmajor Governmental	
Retirement fund	High School Transportation –	High School Retirement –	
corrections	Nonmajor Governmental	Nonmajor Governmental	<u>25</u>
			<u>\$2,821</u>

Interfund Transfers

The following is an analysis of operating transfers in and out during Fiscal Year 2011:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Maintain allowable balance in Compensated Absence Fund	Elementary General – Major Governmental	Elementary Compensated Absence – Nonmajor Governmental	\$ 753
Maintain allowable balance in Compensated Absence Fund	High School General – Major Governmental	High School Compensated Absence – Nonmajor Governmental	<u>1,497</u>
			<u>\$2,250</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, 2011, were:

	<u>PERS</u>	<u>TRS</u>
Employer	6.80%	7.47%
Employee	6.90%	7.15%
State	0.37%	2.49%

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.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

The District's contributions for the years ended June 30, 2009, 2010, and 2011, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>TRS</u>
2009	\$14,259	\$72,218
2010	\$14,844	\$73,968
2011	\$14,272	\$72,262

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, 2011, was as follows:

Actuarial Accrued Liability (AAL)	\$ 582,080
Actuarial value of plan assets	\$ _____ -
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%

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.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

Annual Required Contribution (ARC)	\$	84,711
Interest on net OPEB obligation	\$	-
Adjustment to ARC	\$	<u>-</u>
Annual OPEB cost (expense)	\$	84,711
Contributions made	\$	<u>-</u>
Increase in net OPEB obligation	\$	84,711
Net OPEB obligation - beginning of year	\$	<u>84,711</u>
Net OPEB obligation - end of year	\$	<u><u>169,422</u></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		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%

NOTE 10. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

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

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

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

Restricted Fund Balance

<u>Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Elementary Transportation	\$ 36,953	Student transportation
Elementary Bus Depreciation	29,028	Student transportation
Elementary Retirement	61,580	Instructional – regular
Elementary Miscellaneous Programs	65,457	Instructional – regular and special education
Elementary Adult Education	1,080	Adult education
Elementary Compensated Absences	3,149	Instructional – regular
Elementary Technology	3,906	Educational media services
Elementary Debt Service	18,233	Debt service
Elementary Building	7	Operations and maintenance
High School Transportation	46,125	Student transportation
High School Bus Depreciation	29,251	Student transportation
High School Food Services	8,659	School food
High School Retirement	76,750	Instructional – regular and vocational education
High School Miscellaneous Programs	4,284	Operations and maintenance
High School Adult Education	1,079	Adult education
High School Traffic Education	1,625	Instructional – regular
High School Compensated Absences	2,936	Instructional – regular
High School Technology	3,026	Educational media services
High School Debt Service	12,842	Debt Service
High School Building	7	Building
High School Interlocal Agreement	<u>374</u>	Instructional – regular
Total	<u>\$ 406,351</u>	

Other Significant Commitments

<u>Fund</u>	<u>Amount of Encumbrance</u>
General	<u>\$ 62,685</u>

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	\$ 1,288	Prior Period Revenue Adjustment
General	\$ 1,288	Prior Period Revenue Adjustment
General	\$ 321,369	GASB #54 Adjustment
Elementary Impact Aid	\$(211,198)	GASB #54 Adjustment
Elementary Flexibility	\$ (122)	GASB #54 Adjustment
High School Impact Aid	\$(110,003)	GASB #54 Adjustment
High School Flexibility	\$ (46)	GASB #54 Adjustment
Elementary Miscellaneous Programs	\$ (18,245)	Prior Period Due from Other Governments Adjustment
Governmental Activities	\$ 8,947	Prior Period Capital Asset Adjustment

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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 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 \$4,884 for fiscal year ended June 30, 2011. Separate financial statements are available from the Flathead County Education Cooperative.

The District is also 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, 2011. 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.

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.

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

June 30, 2011

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

The District obtained the Camas Prairie Public School remaining cash of approximately \$65,000 as of July 1, 2011 since the school was closed. In addition the District also receives a \$15,000 General Fund voted permissive levy, which increases the District's budget authority.

**REQUIRED SUPPLEMENTAL
INFORMATION**

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

	<u>General Fund</u>	<u>Elementary Transportation</u>
Sources/Inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,552,453	\$ 133,831
Combined funds (GASBS 54) revenues	47,345	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	\$ 1,599,798	\$ 133,831
Uses/Outflows of resources		
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,566,423	\$ 143,463
Combined funds (GASBS 54) expenditures	33,426	-
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	19,903	-
- Encumbrances reported at the end of the year	(62,685)	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 1,557,067	\$ 143,463

Note B

The Elementary Miscellaneous Programs fund is a 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, 2011

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, 2011**

Fall Enrollment - October, 2010

Elementary School District

	FALL		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
(a) Pre-Kindergarten	1	1	
(b) Kindergarten Full	9	9	0
(d) Grades 1-6	97	97	0
(e) Grades 7-8	33	33	0
(f) Total Elementary (add lines a through d)	140	140	0

High School District

	FALL		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
(g) Grades 9-12	59	59	
(h) 19 year-olds included on line (g)	1	1	0
(i) Job Corps students included on line (g)	0	0	0

Spring Enrollment - February, 2011

Elementary School District

	SPRING		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
(j) Pre-Kindergarten	1	1	
(k) Kindergarten - Full	8	8	0
(l) Grades 1-6	97	97	0
(m) Grades 7-8	31	31	0
(n) Total Elementary (add lines j through m)	137	137	0

High School District

	SPRING		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
(o) Grades 9-12	56	55	
(p) 19 year-olds included on line (o)	1	1	0
(q) Early Graduates (not included on line (o))	0	0	0
(r) Job Corps students included on line (o)	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, 2011

FUND ACCOUNT	Beginning Balance	Revenues	Expenditures	Ending Balance
"H" Club	\$ 104	\$ -	\$ -	\$ 104
Class of 2011	3,409	1,580	4,989	-
Class of 2012	1,590	955	577	1,968
Class of 2013	707	375	159	923
Class of 2014	448	613	125	936
Class of 2015	-	418	60	358
Class of 2016	-	198	-	198
Annual	8,206	2,275	2,994	7,487
Athletics	2,138	22,394	22,748	1,784
Cheerleading	81	-	-	81
District Service	-	5,526	5,526	-
Drama	331	870	952	249
Elementary Ed Tech	-	-	-	-
Elementary	3,113	60	-	3,173
Family Consumer Service	6	572	380	198
FCCLA	1,899	2,790	2,606	2,083
Junior High	560	1,324	1,187	697
Music	1,667	52	86	1,633
Native American Club	746	10	125	631
PEP Club	1,038	250	281	1,007
Registration & Misc.	2,402	5,104	5,164	2,342
RIF	2,412	260	301	2,371
Shop & Mechanics	1,287	21	109	1,199
Student Council	164	189	284	69
Tripp Memorial	282	100	-	382
Vending H.S.	3,307	238	-	3,545
Petty Cash	800	-	-	800
Scholarship Fund	24,997	335	4,240	21,092
Total	\$ <u>61,694</u>	\$ <u>46,509</u>	\$ <u>52,893</u>	\$ <u>55,310</u>

SINGLE AUDIT SECTION

Hot Springs Public Schools, Sanders County, Montana
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures June 30, 2011
<u>U.S. Department of Agriculture</u>			
<i>Passed through Montana Office of Public Instruction:</i>			
National School Breakfast Program	10.553	N/A	\$ 15,280
National School Lunch Program (Donated Food) (1)	10.555	N/A	5,313
National School Lunch Program	10.555	N/A	44,048
After School Snack Program	10.558	N/A	895
Fresh Fruit and Vegetable Program	10.582	N/A	4,872
Total U.S. Department of Agriculture			\$ 70,408
<u>U.S. Department of Interior</u>			
<i>Direct:</i>			
Indian Education - Assistance to Schools - Johnson O'Malley	15.130	N/A	\$ 562
Total U.S. Department of Interior			\$ 562
<u>U.S. Department of Education</u>			
<i>Direct:</i>			
Impact Aid	84.041	N/A	\$ 33,426
Title VI, Part B Subpart 2 Rural Education	84.358	S358A102814	6,231
Title VI, Part B Subpart 2 Rural Education	84.358	S358A092814	10,912
<i>Passed through Montana Office of Public Instruction:</i>			
Title I, Part A, Grants to Local Educational Agencies	84.010A	N/A	178,070
Career and Technical Education - Basic Grants to States	84.048A	4508158011BG	6,547
Title IV, Part A, Safe and Drug-Free Schools and Communities- State Grants	84.186	2411997706ALLO	1,094
ARRA - Title I, Schoolwide	84.389	N/A	61,226
ARRA - State Fiscal Stabilization Fund	84.394	N/A	65,332
ARRA - Education Jobs Fund	84.410	N/A	54,610
<i>Passed through Flathead Reservation and Lake County Coalition for Kids, Inc.:</i>			
Title IV, Part B, 21st Century Community Learning Centers -X-Treme Team	84.287	N/A	5,119
<i>Passed through Sanders County Special Education Cooperative:</i>			
ARRA- IDEA, Part B, Special Education Grants to States	84.391	N/A	38,512
Total U.S. Department of Education			\$ 461,079
<u>U.S. Department of Health and Human Services</u>			
<i>Passed through Montana Department of Health and Human Services:</i>			
Public Health Emergency Preparedness	93.069	N/A	\$ 319
Total U.S. Department of Health and Human Services			\$ 319
Total Federal Financial Assistance			\$ 532,368

(1) This amount represents the value of donated food received under the child nutrition cluster. Individual inventory categories or items were not valued. Therefore, it was not possible to determine the value of donated food used (expenditures) or value of the beginning and ending inventory balances.
N/A = Not Applicable or Not Available

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2011

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hot Springs Public Schools, Sanders County, Montana, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

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

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

**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, 2011, which collectively comprise the Hot Springs Public Schools' basic financial statements and have issued our report thereon dated May 23, 2012. 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 11-1 through 11-4. *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.

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 an instance of noncompliance or other matters that is required to be reported under *Governmental Auditing Standards* and which is described in the accompanying schedule of findings and questions costs as item 11-5.

Hot Springs Public Schools' response to the findings 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 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.

May 23, 2012

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 ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Hot Springs Public Schools, Sanders County, Montana, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Hot Springs Public Schools' major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion of the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in items 11-6 and 11-7 in the accompanying schedule of findings and questioned costs, Hot Springs Public Schools did not comply with requirements regarding special tests and provisions that are applicable to its Title I Cluster. Compliance with such requirements is necessary, in our opinion, for Hot Springs Public Schools to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Hot Springs Public Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11- 6 and 11-7 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-8 to be a significant deficiency.

Hot Springs Public Schools' Response to the Findings are 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 for the information of 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.

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

May 23, 2012

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2011

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	<i>Unqualified</i>
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified not considered to be material weaknesses	Yes
Type of auditor’s report issued on compliance for major programs:	<i>Qualified</i>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.410	ARRA - Education Jobs Funds
84.010, 84.389	Title I, Part A Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Section II – Financial Statement Findings

11-1 Managerial Review of Accounting Adjustments

Condition:

The business manager prepares and posts all adjusting journal entries to the accounting system without supervisory review or approval.

Criteria:

Internal control procedures should be in place to ensure the safeguarding of assets, presentation and disclosure.

Effect:

Internal control weakness in that the financial records could be adjusted with only the business manager aware of the adjustment. We reviewed a sample of adjusting journal entries as part of our audit procedures and the entries reviewed were appropriate for the District.

Cause:

The business manager had procedures in place in prior years, but with the change in personnel, the procedures were not followed for fiscal year ended June 30, 2011.

Recommendation:

The District should implement an approval process for all adjusting journal entries by supervisory personnel to ensure all adjustments to the accounting records are supported by documentation and appropriate and allowable.

11-2 Accounts Payable

Condition:

We noted several purchases paid with the BMO Mastercard in which the invoice date was for June 2011 but were reported as encumbrances and not as accounts payable. In addition, we noted an invoice which was for May 2011 services but the payment was not made until July 2011 and the related accounts payable and expenditure was not recorded as of June 2011.

Criteria:

According to generally accepted accounting principles, an accounts payable is recorded when the goods or services have been received but the payment has not been made. An encumbrance is recorded when the goods or services have been ordered but not received prior to year end.

Effect:

Encumbrances were overstated and accounts payable and expenditures were understated \$35,397 in the general fund. Accounts payable and expenditures were understated \$11,450 in the Elementary Miscellaneous Programs Fund.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Cause:

Errors were made when determining the amount of accounts payable to record at year end.

Recommendation:

The District should implement internal control procedures to ensure all accounts payable are properly recorded at year end.

11-3 Enrollment

Condition:

The District attendance records indicated 14 students enrolled in grade 10 for the Spring 2011 enrollment count but the AIM system and the enrollment report indicated 15 students enrolled in grade 10.

Criteria:

The internal control system of the District should reconcile the AIM student count to the District attendance records.

Effect:

Overstated grade 10 enrollment by one in the Spring of 2011. Our calculation indicated this has no effect on Average Number Belonging (ANB).

Cause:

One student was listed on the "Students Imported From AIM in Student Count for ANB" for grade 10 which the District attendance records has the student as withdrawn as of December 6, 2010.

Recommendation:

The District should implement internal control procedures which reconcile the AIM reports to the District attendance records.

11-4 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 safeguarding 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 District has obtained software to manage inventory for food service but has not fully implemented the software.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation:

The District should implement control procedures to track inventory. The records should include beginning inventory, receipt of goods, use of goods with ending inventory calculated by each inventory item used in the food service. The ending inventory should then be periodically compared to a manual count of the inventory items on hand and any differences investigated.

11-5 Audit Report Submission

Condition:

Under the auditee's responsibilities of OMB Circular A-133, the auditee is responsible for ensuring an audit is submitted nine months after the end of the audit period which is March 31, 2012 for fiscal year ended June 30, 2011.

Criteria:

OMB Circular A-133 § __.320 Report submission requires "(a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit."

Effect:

The audit report was submitted after the nine months after the end of the audit period.

Cause:

The District did not contract for an audit of fiscal year ended June 30, 2011 until December 2011 and then contracted for a non-federal audit.

Recommendation:

The District should evaluate the federal monies expended each year, including commodities received to determine if a single audit is required per OMB Circular A-133 to ensure compliance with the timeliness of the audit.

Section III – Federal Award Findings and Questioned Costs

11-6 Title I Highly Qualified Compliance

CFDA Title:	Title I, Part A
CFDA Number:	84.010, 84.389
Federal Award Number:	2011 and 2010
Federal Agency:	U.S. Department of Education
Pass-through Entity:	Montana Office of Public Instruction

Condition:

We noted two paraprofessionals paid from Title I in which there was no support indicating highly qualified.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Criteria:

According to the OMB Compliance Supplement related to Title I: “A paraprofessional must hold a high-school diploma or its recognized equivalent and meet one of the following requirements:

- (1) Have completed at least two years of study at an institution of higher education.
- (2) Have obtained an associate’s or higher degree.
- (3) Have met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness.”

Effect:

The District had not obtained support for two paraprofessionals paid from Title I indicating that they meet the highly qualified criteria.

Cause:

The District had not requested and obtained the required documentation.

Recommendation:

The District should obtain the required documentation related to all staff paid from Title I to ensure compliance with the highly qualified criteria.

11-7 Time and Effort Reporting – Schoolwide Program Title I

CFDA Title:	Title I, Part A Cluster
CFDA Number:	84.010, 84.389
Federal Award Number:	2011
Federal Agency:	U.S. Department of Education
Pass-through Entity:	Montana Office of Public Instruction

Condition:

The District did not have time and effort certifications for the Title I employees.

Criteria:

Per the OMB compliance supplement, “if a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort as follows:

- (a) An employee who works solely on a single cost objective (i.e., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds) must furnish a semi-annual certification that he/she has been engaged solely in activities that support the single cost objective. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

- (b) An employee who works on multiple activities or cost objectives (e.g., in part on a Federal program whose funds have not been consolidated in a consolidated schoolwide pool and in part on Federal programs supported with funds consolidated in a schoolwide pool or on activities that are not part of the same cost objective) must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(4), (5), and (6). The employee must document the portion of time and effort dedicated to:
- (i) The Federal program or cost objective; and
 - (ii) Each other program or cost objective supported by consolidated Federal funds or other revenue sources.”

Effect:

The District was not in compliance with the time and effort certification requirements of the Title I schoolwide program.

Cause:

The District was not aware of the requirement.

Recommendation:

The District should implement procedures to ensure semi-annual time and effort certifications are obtained from staff working in a schoolwide federal program.

11-8 Non-Public School Participation Documentation

CFDA Title:	Title I, Part A Cluster
CFDA Number:	84.010, 84.389
Federal Award Number:	2011 and 2010
Federal Agency:	U.S. Department of Education
Pass-through Entity:	Montana Office of Public Instruction

Condition:

The District did not maintain adequate supporting documentation of a mailing to the non-public schools offering participation in the federal programs for fiscal year 2011.

Criteria:

The OMB Compliance Supplement indicates the District must “after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families.”

Effect:

Supporting documentation was not available to indicate the District communicated timely with nonpublic schools.

Cause:

An error was made in not maintaining documentation related to the mailing of the letters to the nonpublic schools.

Recommendation:

The District should maintain certification of the mailing to the nonpublic schools each fiscal year.

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 four recommendations. The action taken on each recommendation is as follows:

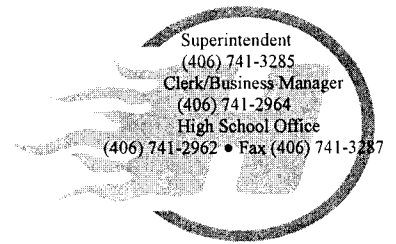
<u>Recommendation</u>	<u>Action Taken</u>
Due From Other Governments	Implemented
Enrollment Internal Control Weakness	Repeated
Food Service Inventory	Repeated
Credit Card Documentation	Implemented

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

May 23, 2012

Hot Springs Public Schools #14-J

Proudly Serving Students in Grades K-12
301 Broadway Street • P.O. Box 1005 • Hot Springs, MT 59845



April 17, 2012

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

Regarding: School District Audit - For Year Ended June 30, 2011

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, 2011 as follows:

Managerial Review of Accounting Adjustments

The District's Superintendent reviews all accounting adjustments made by the Business Manager. With a change in Administration the adjustment entries were not signed off. The Business Manager will make sure the adjustment entries are resented to the Superintendent on a quarterly basis for review, with a notation of date and signature by the Superintendent for verification.

Accounts Payable

The District will reconcile the BMO Credit Card statements with invoices of charges to determine the date of invoice. Accounts Payable will be recognized for all invoices dated prior to June 30th. In regards to the payment of Medicaid eligible services the date of services rendered will be the date to qualify the payment as accounts payable, rather than the date invoiced by the agency.

Enrollment Records

The District's enrollment records for the 10th grade counted 14 students, the OPI system AIM counted a student for ANB that was not included in the District's records. This student was withdrawn from AIM and District records prior to spring count day, however it was still picked up. The District will ensure that enrollment reporting to OPI will be triple checked with District records prior to submission.

Hot Springs Kids Are Great!

Food Service Inventory

The District has inventory software in place however with the turnover of three Head Cooks the District has not been able to put a policy into place with consistency. In fiscal year 2012 the Head Cook was able to input a beginning inventory and will continue to train on the software to fully implement usage. It is the Districts goal to have an effective system in place by fiscal year 2013.

Title I Highly Qualified Compliance

The District has two aides that do not have at least two years of study at a higher educational institute or passing a formal State or local academic assessment. The District will ensure all aides meet the Highly Qualified criteria by June 30, 2012.

Contact Person: Kevin Meredith, Superintendent

Time and Effort Reporting – Schoolwide Title I Program

The District will maintain records of certification of work performed by employees for federal program, per OMB Circular A-87. The District will implement this requirement for fiscal 2012.

Contact Person: Kevin Meredith, Superintendent

Non-Public School Participation Documentation

The District did not keep record of mailing of the annual Non-Public School Participation notices for fiscal year 2011. When the District mails the 2011 notifications we will have a representative from the Post Office sign an affidavit of mailing, or we will mail the notifications certified returned receipt.

Contact Person: Kevin Meredith, Superintendent

Audit Report Submission

The District was not informed that it qualified for a Federal Audit until February 2012. Due to scheduling conflicts with the auditing firm, the audit was not concluded until April. At fiscal year end the District will review financial records to determine A-133 audit compliance issues.

Contact Person: Kevin Meredith, Superintendent

Sincerely,

Kevin Meredith

Kevin Meredith
Superintendent

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