

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30,2013

AUDIT REPORT

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

HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30,2013

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HOT SPRINGS PUBLIC SCHOOLS

SANDERS COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30,2013

BOARD OF TRUSTEES

Julie White
Frank Salmi
Dirk Roosma
Kim Baker
Lenny Page

Chairperson
Vice Chairperson
Trustee
Trustee
Trustee

DISTRICT OFFICIALS

Kevin Meredith
Carmen Jackson
Carol Turk
Robert Zimmerman

District Superintendent
Business Manager
County Superintendent
County Attorney

Hot Springs School District
Management Discussion and Analysis
As of June 30, 2013

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, 2013. Comparative information year ended June 30, 2012 and the year ended June 30, 2013 are required in the MD&A.

Using This Financial Report

The general format of this report is required by Statement #34 of the Governmental Accounting Standards Board (GASB). Components and purposes of the report are explained below.

Reporting the School District as a Whole

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

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

Reporting the District’s Most Significant Funds

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

The fund statements report balances and activities of the most significant, or “major” funds separately. The activities of less significant funds are combined under a single category. Significance of funds is determined using three factors; the proportional size of the fund, the relative importance of the activities of the fund to the district’s operations, and the existence of legal budget requirements. Internal Service Funds are never reported as major funds, but are combined and presented in a separate set of financial statements.

The Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance are shown for governmental funds such as the general funds, special revenue funds for transportation, school food service, debt service and capital outlay funds. These funds represent the majority of the district’s activities and are accounted for by using the modified accrual basis.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. The most significant differences are due to the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting, where as the statements for the governmental funds use the modified accrual basis. In addition, general capital assets and general long term debt are reported in the district-wide statements but not in the fund statements.

Reporting the District’s Trust and Fiduciary Responsibilities

The district is the trustee, or fiduciary for the student extracurricular fund. This report includes the activities of this fund in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position. This fund is excluded from the districts statements because the assets cannot be used to fund the districts operations.

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

The District as a Whole

Net assets can be a useful indicator of a government’s financial position. The Hot Springs School Districts assets exceeded liabilities by \$1,759,200 at fiscal year ending June 30, 2013

During fiscal year 2013 the District did receive more revenue than in the prior year. However, the District used Impact Aid funds for capital outlay, technology upgrades, and repairs to facilities and buses. These expenditures were unanticipated and spent more than revenue received.

The District did replace a vehicle and added bleachers to the football field, increasing capital assets.

The District’s long term capital lease to purchase two buses on behalf of M & MT Enterprises has expired. The liability has been removed from the District’s book. In addition, the District cleared approximately \$56,000 of accounts payable off the books for credit card purchases for year end supplies.

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

Assets	2011-2012	2012-2013
Current Assets	\$1,174,339.00	\$1,144,984.00
Noncurrent Assets, net depreciation	\$1,634,186.00	\$1,446,741.00
Total Assets	\$2,808,525.00	\$2,691,765.00
Liabilities		
Current Liabilities	\$169,215.00	\$91,102.00
Noncurrent Liabilities	\$774,238.00	\$841,463.00
Total Liabilities	\$943,453.00	\$932,565.00
Net Position	\$1,865,072.00	\$1,759,200.00
Net Position		
Invested in Capital Assets, net of related debt	\$1,104,186.00	\$1,056,781.00
Restricted	\$370,501.00	\$406,265.00
Unrestricted	\$390,385.00	\$296,154.00
Total Net Position	\$1,865,072.00	\$1,759,200.00

Revenues

Total revenues for the fiscal year ended June 30, 2013 were approximately \$2.64 million. Total revenue consists primarily of general revenues approximately 76%. The remaining 24% of revenues are program revenues.

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 **\$19,271** from school year 2012 to 2013. This is largely due to the capital outlay, technology upgrades, and repairs addressed above. The District continues to operate on a “bare bones” budget to avoid increasing taxes for the community members.

Hot Springs School District

Changes in Net Position

Revenues

Program Revenues	2011-2012	2012-2013
Charges For Services	\$26,295	\$28,734
Operating Grants & Contributions	544,397	592,533
Capital Grants & Contributions	0	0
General Revenues		
Property Taxes	477,764	475,294
Nonrestricted Grants & Entitlements	1,291,636	1,264,102
Investment Earnings	7,631	4,556
Miscellaneous (other revenue)	87,424	21,996
State Entitlement (block grants)	72,284	89,388
State Technology	1,735	0
County Retirement	115,130	163,178
Total Revenues	\$2,624,296	\$2,639,781

Expenses

Program Expenses

Instructional - regular	1,226,190	1,217,633
Instructional - special education	218,291	191,777
Instructional - vocational education	138,373	142,274
Instructional - adult education	1,412	0
Supporting services - operations & maintenance	275,888	268,926
Supporting services - general	4,063	7,895
Supporting services - educational media services	30,188	45,807
Administration - general	122,668	130,508
Administration - school	168,222	165,029
Administration - finance	61,781	63,125
Student transportation	231,468	250,416
Extracurricular	76,167	85,304
School food	99,325	109,927
Debt Service Expense - Interest	26,931	24,342
Unallocated Depreciation	50,818	48,023
Total Expenses	2,731,815	2,751,086

Excess(deficiency) before special items and transfers	(107,519)	(111,305)
Gain (loss) on sale of Capital Assets		
Changes in Net Position	(107,519)	(111,305)

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

	2011-2012		2012-2013	
Expenses Supported with General Revenues (from taxes and other sources for general school use)	2,161,123	79%	2,129,819	77%
Expenses Supported with Program Revenues	570,692	21%	621,267	23%
Total Expenditures Related To Gov't Activities	\$2,731,815		\$2,751,086	

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.

Due to the lack of revenue available to support its expenditures, the District and its employees have increased their search for state and local grants to help pay for programs.

Significant Events and Trends

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

Capital Assets

The District replaced a school van and added concrete bleachers to the area around the football field.

**Hot Springs School District
Capital Assets**

	2011-2012	2011-2012
Land & Land Improvements	\$ 100,040	\$ 100,040
Buildings & Improvements - net depreciation	\$ 1,298,338	\$ 1,285,175
Machinery & Equipment - net depreciation	\$ 235,808	\$ 161,566
Total Expenditures Related To Gov't Activities	\$ 1,634,186	\$ 1,546,781

Debt Administration

In 2003 the District passed a 30 year general obligation bond to construct a new gymnasium. The general obligation bond was decreased by \$40,000 in fiscal year 2013.

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

Hot Springs School District Debt Administration		
	2011-2012	2012-2013
General Obligation Bonds	\$ 490,000	\$ 450,000
Postemployment Benefits	\$ 255,957	\$ 358,745
Compensated Absences	\$ 28,281	\$ 32,718
Total Expenditures Related To Gov't Activities	\$ 774,238	\$ 841,463

The District's Future

During the 2013 legislative session, the Legislature adopted SB 175 that provided an increase in state entitlements. These entitlement changes and an increase in enrollment will result in an approximate increase of \$72,000 in funding for the District for fiscal year 2014. However, the funding components will not increase in fiscal year 2015.

During the 2013 legislative session the District received a grant to build a new Art/FCS building. This grant will enable the District to enhance school safety by relocating the building to a more central location. In addition, the District will install a new fire alarm system and increase school security. Construction will begin in March 2014.

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

Contact Information

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hot Springs Public Schools, Sanders County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hot Springs Public Schools, Sanders County, Montana, as of and for the year ended June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 7, 34 through 37, and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2014, on our consideration of the Hot Springs Public Schools, Sanders County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hot Springs Public Schools, Sanders County, Montana's internal control over financial reporting and compliance.

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

May 1, 2014

Hot Springs Public School, Sanders County, Montana
Statement of Net Position
June 30, 2013

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	\$	1,037,531
Taxes and assessments receivable, net		55,172
Accounts receivable - net		1,291
Due from other governments		50,990
Total current assets	\$	1,144,984
Noncurrent assets		
Capital assets - land	\$	100,040
Capital assets - depreciable, net		1,446,741
Total noncurrent assets	\$	1,546,781
Total assets	\$	2,691,765
LIABILITIES		
Current liabilities		
Accounts payable	\$	36,101
Current portion of long-term capital liabilities		40,000
Current portion of compensated absences payable		15,001
Total current liabilities	\$	91,102
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	358,745
Noncurrent portion of long-term capital liabilities		450,000
Noncurrent portion of compensated absences		32,718
Total noncurrent liabilities	\$	841,463
Total liabilities	\$	932,565
Net Position		
Invested in capital assets, net of related debt	\$	1,056,781
Restricted for capital projects		149,321
Restricted for debt service		46,869
Restricted for special projects		210,075
Unrestricted		296,154
Total net position	\$	1,759,200
Total liabilities and net position	\$	2,691,765

See accompanying Notes to the Financial Statements

Hot Springs Public School, Sanders County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Program Revenues		Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Primary Government
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Governmental Activities</u>	
Primary government:				
Governmental activities:				
Instructional - regular	\$ 1,217,633	\$ 1,350	\$ 305,874	(910,409)
Instructional - special education	191,777	-	135,754	(56,023)
Instructional - vocational education	142,374	-	2,926	(139,448)
Supporting services - operations & maintenance	268,926	-	-	(268,926)
Supporting services - general	7,895	-	-	(7,895)
Supporting services - educational media services	45,807	-	-	(45,807)
Administration - general	130,508	-	-	(130,508)
Administration - school	165,029	-	-	(165,029)
Administration - business	63,125	-	-	(63,125)
Student transportation	250,416	-	74,912	(175,504)
Extracurricular	85,304	-	-	(85,304)
School food	109,927	27,384	73,067	(9,476)
Debt service expense - interest	24,342	-	-	(24,342)
Unallocated depreciation*	48,023	-	-	(48,023)
Total primary government	\$ 2,751,086	\$ 28,734	\$ 592,533	(2,129,819)

General Revenues:

Property taxes for general purposes	\$ 475,294
Grants and entitlements not restricted to specific programs	1,264,102
Investment earnings	4,556
Miscellaneous (other revenue)	21,996
State entitlement (block grants)	89,388
County retirement	163,178
Total general revenues, special items and transfers	\$ 2,018,514
Change in net position	\$ (111,305)
Net position - beginning	\$ 1,865,072
Restatements	5,433
Net position - beginning - restated	\$ 1,870,505
Net position - end	\$ 1,759,200

* 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 School, Sanders County, Montana
Balance Sheet
Governmental Funds
June 30, 2013

	General	Transportation	Bus Depreciation	Miscellaneous Programs	Other Governmental Funds	Total Governmental Funds
ASSETS						
Current assets:						
Cash and investments	\$ 697,235	\$ 49,280	\$ 144,471	\$ (3,247)	\$ 149,792	\$ 1,037,531
Taxes and assessments receivable, net	35,368	12,439	4,548	-	2,817	55,172
Accounts receivable - net	-	-	-	-	1,291	1,291
Due from other funds	50	-	-	157	1,809	2,016
Due from other governments	2,176	1,237	301	42,755	4,521	50,990
Total assets	<u>\$ 734,829</u>	<u>\$ 62,956</u>	<u>\$ 149,320</u>	<u>\$ 39,665</u>	<u>\$ 160,230</u>	<u>\$ 1,147,000</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 30,245	-	-	\$ 5,768	\$ 88	\$ 36,101
Due to other funds	1,966	-	-	-	50	2,016
Deferred revenue	35,368	12,439	4,548	-	2,817	55,172
Total liabilities	<u>\$ 67,579</u>	<u>\$ 12,439</u>	<u>\$ 4,548</u>	<u>\$ 5,768</u>	<u>\$ 2,955</u>	<u>\$ 93,289</u>
FUND BALANCES						
Restricted	\$ -	\$ 50,517	\$ 144,772	\$ 33,897	\$ 157,275	\$ 386,461
Assigned	21,148	-	-	-	-	21,148
Unassigned	646,102	-	-	-	-	646,102
Total fund balance	<u>\$ 667,250</u>	<u>\$ 50,517</u>	<u>\$ 144,772</u>	<u>\$ 33,897</u>	<u>\$ 157,275</u>	<u>\$ 1,053,711</u>
Total liabilities and fund balance	<u>\$ 734,829</u>	<u>\$ 62,956</u>	<u>\$ 149,320</u>	<u>\$ 39,665</u>	<u>\$ 160,230</u>	<u>\$ 1,147,000</u>

See accompanying Notes to the Financial Statements

Hot Springs Public School, Sanders County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2013

Total fund balances - governmental funds	\$	1,053,711
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,546,781
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.		55,172
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(896,464)
Total net position - governmental activities	\$	<u><u>1,759,200</u></u>

See accompanying Notes to the Financial Statements

Hot Springs Public School, Sanders County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Transportation	Bus Depreciation	Miscellaneous Programs	Other Governmental Funds	Total Governmental Funds
REVENUES						
Local revenue	\$ 303,599	\$ 119,326	\$ 42,558	\$ 29,587	\$ 56,037	\$ 551,107
County revenue	-	37,456	-	-	163,178	200,634
State revenue	1,268,862	48,396	-	129,291	46,220	1,492,769
Federal revenue	37,330	-	-	275,896	72,984	386,210
Total revenues	<u>\$ 1,609,791</u>	<u>\$ 205,178</u>	<u>\$ 42,558</u>	<u>\$ 434,774</u>	<u>\$ 338,419</u>	<u>\$ 2,630,720</u>
EXPENDITURES						
Instructional - regular	\$ 741,055	-	-	267,632	\$ 93,447	\$ 1,102,134
Instructional - special education	78,845	-	-	101,846	11,086	191,777
Instructional - vocational education	125,336	-	-	1,906	15,132	142,374
Supporting services - operations & maintenance	214,100	-	-	43,689	10,089	267,878
Supporting services - general	249	-	-	7,646	-	7,895
Supporting services - educational media services	29,399	-	-	14,670	1,738	45,807
Administration - general	97,633	27,120	-	-	5,755	130,508
Administration - school	145,704	-	-	-	19,325	165,029
Administration - business	46,482	11,914	-	-	4,729	63,125
Student transportation	34,694	160,623	-	-	3,739	199,056
Extracurricular	79,558	-	-	-	5,746	85,304
School food	-	-	-	2,034	107,893	109,927
Debt service expense - principal	-	23,037	-	-	40,000	63,037
Debt service expense - interest	-	792	-	-	23,550	24,342
Capital outlay	19,698	-	-	-	-	19,698
Total expenditures	<u>\$ 1,612,753</u>	<u>\$ 223,486</u>	<u>\$ 42,558</u>	<u>\$ 439,423</u>	<u>\$ 342,229</u>	<u>\$ 2,617,891</u>
Excess (deficiency) of revenues over expenditures	<u>(2,962)</u>	<u>(18,308)</u>	<u>-</u>	<u>(4,649)</u>	<u>(3,810)</u>	<u>12,829</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 1,467	-	-	-	\$ 1,636	\$ 3,103
Transfers out	(1,636)	-	-	-	(1,467)	(3,103)
Total other financing sources (uses)	<u>(169)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169</u>	<u>-</u>
Net Change in Fund Balance	<u>(3,131)</u>	<u>(18,308)</u>	<u>42,558</u>	<u>(4,649)</u>	<u>(3,641)</u>	<u>12,829</u>
Fund balances - beginning	\$ 664,956	\$ 68,825	\$ 102,214	\$ 38,546	\$ 160,916	\$ 1,035,457
Restatements	5,425	-	-	-	-	5,425
Fund balances - beginning, restated	<u>670,381</u>	<u>68,825</u>	<u>102,214</u>	<u>38,546</u>	<u>160,916</u>	<u>1,040,882</u>
Fund balance - ending	<u>\$ 667,250</u>	<u>\$ 50,517</u>	<u>\$ 144,772</u>	<u>\$ 33,897</u>	<u>\$ 157,275</u>	<u>\$ 1,053,711</u>

See accompanying Notes to the Financial Statements

**Hot Springs Public School, 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, 2013**

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

Net change in fund balances - total governmental funds	\$	12,829
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		19,698
- Depreciation expense		(107,103)
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)		9,061
The change in compensated absences is shown as an expense in the Statement of Activities		
		(4,215)
Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:		
- Long-term debt principal payments		63,037
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		(104,612)
Change in net position - Statement of Activities	\$	(111,305)

See accompanying Notes to the Financial Statements

Hot Springs Public School, Sanders County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2013

	<u>Private Purpose Trust Funds</u>		<u>Agency Funds</u>
ASSETS			
Cash and short-term investments	\$ 61,231	\$	106,480
Total assets	<u>\$ 61,231</u>	\$	<u>106,480</u>
LIABILITIES			
Warrants payable	\$ -	\$	97,873
Due to others	-		<u>8,607</u>
Total liabilities	<u>\$ -</u>	\$	<u>106,480</u>
NET POSITION			
Assets held in trust	<u>\$ 61,231</u>		

See accompanying Notes to the Financial Statements

Hot Springs Public School, Sanders County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013

		<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Student activities	\$	<u>75,629</u>
DEDUCTIONS		
Student activities	\$	<u>74,881</u>
Change in net position	\$	<u>748</u>
Net Position - Beginning of the year	\$	60,483
Net Position - End of the year	\$	<u><u>61,231</u></u>

See accompanying Notes to the Financial Statements

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

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.

Financial Reporting Entity

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

Primary Government

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

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

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

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

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

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

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

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

Fund Financial Statements:

Basis of Presentation

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

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

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

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.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

Transportation Fund – Authorized by Section 20-10-143, MCA, for the purpose of financing the maintenance and operation of district owned school buses, contracts with private carriers for school bus service, individual transportation contracts, and any amount necessary for the purchase, rental, or insurance of yellow school buses or operation of the transportation program. The fund may be used only to support costs of home-to-school transportation.

Bus Depreciation Reserve Fund – Authorized by Section 20-10-147, MCA, for the purpose of financing the replacement of buses and two-way radio equipment owned by a school district. Fund may be used to replace route buses or athletic/activities buses and to purchase additional yellow school buses for routes.

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

Fiduciary Funds

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

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

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

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

The District's cash, except for the Student Extracurricular Fund (an expendable trust) is held by the County Treasurer and pooled with other County cash. School district cash which is not necessary for short-term obligations, the District participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2013, consisted of demand deposit accounts, savings accounts, money market accounts, and certificates of deposit. Interest earned on pooled investments is distributed to each contributing entity and fund on a pro rata basis.

The School District does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Sanders County deposits and investments is available from the Sanders County Treasurer's office, 1111 Main Street, Thompson Falls, Montana, 59873. Fair value approximates carrying value for investments as of June 30, 2013. 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 \$61,231 and the bank balance was \$61,436. The District's deposits at year-end are as follows:

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.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

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 inventories are recorded as an expenditure when purchased.

NOTE 5. CAPITAL ASSETS

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

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the District has included the value of all infrastructure into the 2013 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

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

Governmental activities:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 100,040	\$ -	\$ -	\$ 100,040
Other capital assets:				
Buildings & Improvements	\$ 2,414,930	\$ -	\$ -	\$ 2,414,930
Machinery and equipment	601,061	19,698	(14,600)	606,159
Total other capital assets at historical cost	<u>\$ 3,015,991</u>	<u>\$ 19,698</u>	<u>\$ (14,600)</u>	<u>\$ 3,021,089</u>
Less: accumulated depreciation	<u>\$ (1,481,845)</u>	<u>\$ (107,103)</u>	<u>\$ 14,600</u>	<u>\$ (1,574,348)</u>
Total	<u><u>\$ 1,634,186</u></u>	<u><u>\$ (87,405)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,546,781</u></u>

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

Governmental Activities:	
Instructional – regular	\$ 6,672
Supporting services – operations and maintenance	1,048
Student transportation	51,360
Unallocated	<u>48,023</u>
Total governmental activities depreciation expense	<u><u>\$ 107,103</u></u>

NOTE 7. 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.

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2013, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance			Balance	Due
	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>	<u>Within</u>
					<u>One Year</u>
General obligation bonds	\$ 530,000	\$ -	\$ (40,000)	\$ 490,000	\$ 40,000
Contracted debt	23,045	-	(23,045)	-	-
Compensated absences	43,504	4,215	-	47,719	15,001
Other post-employment benefits*	254,133	104,612	-	358,745	-
Total	<u>\$ 850,682</u>	<u>\$ 108,827</u>	<u>\$ (63,045)</u>	<u>\$ 896,464</u>	<u>\$ 55,001</u>

*See Note 8

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, 2013 were as follows:

<u>Purpose</u>	<u>Origination</u>	<u>Interest</u>		<u>Maturity</u>	<u>Principal</u>	<u>Annual</u>	<u>Balance</u>
	<u>Date</u>	<u>Rate</u>	<u>Term</u>	<u>Date</u>	<u>Amount</u>	<u>Payment</u>	<u>June 30, 2013</u>
Elementary Gym Bond	1/23/03	3.00%	20 yrs	7/1/23	\$ 400,000	Varies	\$ 245,000
High School Gym Bond	1/23/03	3.00%	20 yrs	7/1/23	<u>400,000</u>	Varies	<u>245,000</u>
					<u>\$ 800,000</u>		<u>\$ 490,000</u>

Annual requirement to amortize debt:

For Fiscal		
<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
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	60,000	2,820
Total	<u>\$ 490,000</u>	<u>\$ 129,528</u>

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

Compensated Absences

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

At the beginning of the 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 termination 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 8. POSTEMPLOYMENT HEALTHCARE PLAN

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

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

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

HOT SPRINGS PUBLIC SCHOOLS
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Actuarial Accrued Liability (AAL)	\$	589,745
Actuarial value of plan assets		-
Unfunded Actuarial Accrued Liability (UAAL)	\$	<u>589,745</u>
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	1,360,108
UAAL as a percentage of covered payroll		49.78%

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

Annual Required Contribution (ARC)	\$	104,612
Interest on net OPEB obligation		-
Adjustment to ARC		-
Annual OPEB cost (expense)	\$	<u>104,612</u>
Contributions made		-
Increase in net OPEB obligation	\$	104,612
Net OPEB obligation - beginning of year		<u>254,133</u>
Net OPEB obligation - end of year	\$	<u><u>358,745</u></u>

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

	Unit Credit Cost Method
Actuarial cost method	
Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	0.17%
Average salary increase (Consumer Price Index)	2.80%

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

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

<u>Year</u>	<u>% Increase</u>
2012	3.8%
2013	4.0%
2014	7.8%
2015	6.4%
2016	6.2%
2017	6.0%
2018	6.4%
2019	6.8%
2020	6.9%
2021	6.7%
2022 and thereafter	6.9%

NOTE 9. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2013, were as follows:

<u>Purpose</u>	<u>Due to/from other funds:</u> <u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Miscellaneous adjustment	General – Major Governmental	Miscellaneous Programs – Major Governmental	\$ 50
Miscellaneous adjustment	Miscellaneous Programs – Major Governmental	General – Major Governmental	157
To maintain appropriate fund balance	Compensated absences – Nonmajor Governmental	General – Major Governmental	<u>1,809</u>
			<u>\$ 2,016</u>

Interfund Transfers

The following is an analysis of operating transfers in and out during Fiscal Year 2013:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Miscellaneous adjustment due to K-12 conversion	General – Major Governmental	Compensated Absences – Nonmajor Governmental	\$ 1,467
To maintain appropriate fund balance	Compensated Absences – Nonmajor Governmental	General – Major Governmental	<u>1,636</u>
			<u>\$ 3,103</u>

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 10. STATE-WIDE RETIREMENT PLANS

The District participates in two cost-sharing, multiple-employer defined benefit pension plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries with amounts determined by the State. Teaching employees (including principals and superintendents) are covered by Montana Teachers Retirement Plan (TRS), and substantially all other District employees are covered by the Montana Public Employees Retirement System (PERS). The plans are established by Montana law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2013, were:

	<u>PERS**</u>	<u>TRS</u>
Employer	6.8%	7.47%
Employee	6.90%*	7.15%
State	0.37%	2.49%

* For PERS members hired after 7/1/2011 that rate is 7.9%

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

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

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

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

The District's contributions for the years ended June 30, 2011, 2012, and 2013, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>TRS</u>
2011	\$ 14,272	\$ 72,262
2012	\$ 14,086	\$ 73,934
2013	\$ 13,357	\$ 74,097

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 11. 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.

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Transportation	\$ 50,517	Student transportation
Bus Depreciation	144,772	Bus replacement
Miscellaneous Programs	33,897	Third party grant restrictions
Aggregate remaining fund:		
	10,692	Student food services
	78,197	Professional staff retirement
	1,679	Adult education
	460	Student instructional services
	1	Operations and maintenance
	7,978	Future vacation and/or sick leave payments
	21,613	Future technology upgrades
	36,276	Debt service
	<u>379</u>	Interlocal agreement
Total	<u>\$ 386,461</u>	

Other Significant Commitments

Encumbrances

<u>Fund</u>	<u>Amount of Encumbrance</u>
General	\$ <u>21,148</u>

NOTE 12. RESTATEMENTS

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General	\$ 820	Prior period revenue adjustment
Impact Aid	4,605	Prior period revenue adjustment
Governmental Activities	<u>8</u>	Long-term debt restatement
	<u>\$ 5,433</u>	

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 13. 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 \$4,988 for fiscal year ended June 30, 2013. 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 \$4,054 for the fiscal year ended June 30, 2013. Separate financial statements are available from the Sanders County Educational Services Cooperative, P.O. Box 129, Thompson Falls, MT 59873.

NOTE 14. SERVICES PROVIDED BY OTHER GOVERNMENTS

County Provided Services

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

HOT SPRINGS PUBLIC SCHOOLS
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

NOTE 15. RISK MANAGEMENT

The District faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

Insurance Pools: 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 16. SUBSEQUENT EVENTS

The District is constructing a new art and home economics building in which the District received a Quality Schools Grant from the Montana Department of Environmental Quality of \$497,240 with the District paying the remaining costs of the buildings. The building is budgeted at \$577,240.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Hot Springs Public School, Sanders County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2013

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Local revenue	\$ 304,196	\$ 304,196	\$ 301,405	\$ (2,791)
County revenue	-	-	-	-
State revenue	1,268,862	1,268,862	1,268,862	-
Amounts available for appropriation	<u>\$ 1,573,058</u>	<u>\$ 1,573,058</u>	<u>\$ 1,570,267</u>	<u>\$ (2,791)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ 706,890	\$ 706,890	\$ 740,419	\$ (33,529)
Instructional - special education	84,729	84,729	78,845	5,884
Instructional - vocational education	121,773	121,773	123,624	(1,851)
Supporting services - operations & maintenance	255,674	255,674	207,849	47,825
Supporting services - general	4,659	4,659	248	4,411
Supporting services - educational media services	29,899	29,899	23,625	6,274
Administration - general	93,730	93,730	92,624	1,106
Administration - school	155,212	155,212	145,704	9,508
Administration - business	48,367	48,367	46,000	2,367
Student transportation	18,464	18,464	18,714	(250)
Extracurricular	61,210	61,210	77,719	(16,509)
Debt service expense - principal	-	-	-	-
Debt service expense - interest	-	-	-	-
Capital outlay	-	-	19,698	(19,698)
Total charges to appropriations	<u>\$ 1,580,607</u>	<u>\$ 1,580,607</u>	<u>\$ 1,575,069</u>	<u>\$ 5,538</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 1,467	\$ 1,467
Transfers out	-	-	(1,636)	(1,636)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (169)</u>	<u>\$ (169)</u>
Net change in fund balance			<u>\$ (4,971)</u>	
Fund balance - beginning of the year			\$ 165,227	
Restatements			820	
Fund balance - beginning of the year - restated			<u>\$ 166,047</u>	
Fund balance - end of the year			<u><u>\$ 161,076</u></u>	

Hot Springs Public School, Sanders County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2013

Transportation				
	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	
RESOURCES (INFLOWS):				
Local revenue	\$ 119,907	\$ 119,907	\$ 119,326	\$ (581)
County revenue	41,201	41,201	37,456	(3,745)
State revenue	52,141	52,141	48,396	(3,745)
Amounts available for appropriation	\$ 213,249	\$ 213,249	\$ 205,178	\$ (8,071)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ -	\$ -	\$ -	\$ -
Instructional - special education	-	-	-	-
Instructional - vocational education	-	-	-	-
Supporting services - operations & maintenance	-	-	-	-
Supporting services - general	-	-	-	-
Supporting services - educational media services	-	-	-	-
Administration - general	27,443	27,443	27,120	323
Administration - school	13,679	13,679	-	13,679
Administration - business	-	-	11,914	(11,914)
Student transportation	171,943	171,943	160,623	11,320
Extracurricular	-	-	-	-
Debt service expense - principal	21,214	21,214	23,037	(1,823)
Debt service expense - interest	783	783	792	(9)
Capital outlay	-	-	-	-
Total charges to appropriations	\$ 235,062	\$ 235,062	\$ 223,486	\$ 11,576
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ -	\$ -	\$ -	\$ -
Net change in fund balance			\$ (18,308)	
Fund balance - beginning of the year			\$ 68,825	
Restatements			-	
Fund balance - beginning of the year - restated			\$ 68,825	
Fund balance - end of the year			\$ 50,517	

Hot Springs Public School, Sanders County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2013

	Bus Depreciation			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
RESOURCES (INFLOWS):				
Local revenue	\$ 41,832	\$ 41,832	\$ 42,558	\$ 726
County revenue	-	-	-	-
State revenue	-	-	-	-
Amounts available for appropriation	\$ 41,832	\$ 41,832	\$ 42,558	\$ 726
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ -	\$ -	\$ -	\$ -
Instructional - special education	-	-	-	-
Instructional - vocational education	-	-	-	-
Supporting services - operations & maintenance	-	-	-	-
Supporting services - general	-	-	-	-
Supporting services - educational media services	-	-	-	-
Administration - general	-	-	-	-
Administration - school	-	-	-	-
Administration - business	-	-	-	-
Student transportation	-	-	-	-
Extracurricular	-	-	-	-
Debt service expense - principal	-	-	-	-
Debt service expense - interest	-	-	-	-
Capital outlay	144,046	144,046	-	144,046
Total charges to appropriations	\$ 144,046	\$ 144,046	\$ -	\$ 144,046
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-
Total other financing sources (uses)	\$ -	\$ -	\$ -	\$ -
Net change in fund balance			\$ 42,558	
Fund balance - beginning of the year			\$ 102,214	
Restatements			-	
Fund balance - beginning of the year - restated			\$ 102,214	
Fund balance - end of the year			\$ 144,772	

Hot Springs Public School, 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</u>	<u>Transportation</u>	<u>Bus Depreciation</u>
Sources/Inflows of resources			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,570,267	\$ 205,178	\$ 42,558
Combined funds (GASBS 54) revenues	<u>39,524</u>	<u>-</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 1,609,791</u>	<u>\$ 205,178</u>	<u>\$ 42,558</u>
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,575,069	\$ 223,486	\$ -
Combined funds (GASBS 54) expenditures	35,463	-	-
- Encumbrances reported at the beginning of the year	23,369	-	-
- Encumbrances reported at the end of the year	<u>(21,148)</u>	<u>-</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 1,612,753</u>	<u>\$ 223,486</u>	<u>\$ -</u>

Note B

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

Hot Springs Public School, Sanders County
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2013

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

SUPPLEMENTAL INFORMATION

Hot Springs Public School
Sanders County, Montana
SCHEDULE OF ENROLLMENT
For the Fiscal Year Ended June 30, 2013

Fall Enrollment - October, 2012

Elementary School District

	FALL		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
Pre-Kindergarten	0	0	0
Kindergarten Full	13	13	0
Kindergarten Part	0	0	0
Grades 1-6	84	84	0
Grades 7-8	34	34	0
Total Elementary	131	131	0

Part-time Students

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

High School District

	FALL		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
Grades 9-12	59	59	0
19 year-olds	0	0	0
Job Corps students	0	0	0

Part-time Students

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

Spring Enrollment - February, 2013

Elementary School District

	SPRING		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
Pre-Kindergarten	0	0	0
Kindergarten - Full	14	14	0
Kindergarten - Part	0	0	0
Grades 1-6	89	89	0
Grades 7-8	37	37	0
Total Elementary	140	140	0

Part-time Students

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

High School District

	SPRING		
	Per Enrollment	Audit Per	Difference
	<u>Reports</u>	<u>District Records</u>	
Grades 9-12	58	58	0
19 year-olds	0	0	0
Early Graduates	0	0	0
Job Corps students	0	0	0

Part-time Students

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

Hot Springs Public School
Sanders County, Montana
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS ACCOUNTS
Fiscal Year Ended June 30, 2013

FUND ACCOUNT	Beginning Balance	Revenues	Expenditures	Ending Balance
"H" Club	\$ 104	\$ -	\$ -	\$ 104
Class of 2013	1,140	160	1,300	-
Class of 2014	974	1,784	1,174	1,584
Class of 2015	879	248	225	902
Class of 2016	448	383	411	420
AAA	1,418	1,150	-	2,568
Annual	6,453	2,878	747	8,584
Athletics	3,882	42,357	42,869	3,370
Cheerleading	81	125	-	206
Counselor Fund	-	500	-	500
Cross Country	-	250	-	250
Crows Nest Fund	-	672	-	672
District Service	-	5,445	5,445	-
Drama	14	3,818	3,090	742
Elementary	2,918	207	-	3,125
Family Consumer Service	106	273	416	(37)
FCCLA	1,848	6,313	7,419	742
H.S. Volleyball	-	600	-	600
Junior High	794	-	57	737
Music	536	-	-	536
Native American Club	514	500	103	911
PEP Club	875	986	1,320	541
Registration & Misc.	1,060	4,690	3,717	2,033
RIF	2,358	1,830	1,643	2,545
Shop & Mechanics	1,220	142	-	1,362
Student Council	218	103	54	267
Tripp Memorial	382	-	-	382
Uncategorized	163	-	163	-
Vending H.S.	3,545	177	-	3,722
Petty Cash	800	-	-	800
Scholarship Fund	27,753	38	4,728	23,063
Total	\$ <u>60,483</u>	\$ <u>75,629</u>	\$ <u>74,881</u>	\$ <u>61,231</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hot Springs Public Schools, Sanders County, Montana, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hot Springs Public Schools's basic financial statements and have issued our report thereon dated May 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hot Springs Public Schools, Sanders County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hot Springs Public Schools, Sanders County, Montana's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

May 1, 2014

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>
Food Service Inventory	Implemented
Title I Highly Qualified	Implemented
Time and Effort Reporting – Schoolwide Title I	Implemented
NonPublic School Participation Documentation	Implemented

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

May 1, 2014