

HOT SPRINGS PUBLIC SCHOOL

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2017

AUDIT REPORT

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

HOT SPRINGS PUBLIC SCHOOL

SANDERS COUNTY, MONTANA

Fiscal Year Ended June 30, 2017

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HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2017

BOARD OF TRUSTEES

Dirk Roosma
Julie White
Cam Ulvick
Ayla Blasuis
Lenny Page

Chairperson
Vice Chairperson
Trustee
Trustee
Trustee

DISTRICT OFFICIALS

Mike Perry
Carmen Jackson
Carol P. Turk
Robert Zimmerman

District Superintendent
Business Manager
County Superintendent
County Attorney

Hot Springs Public School, Sanders County, Montana
Management Discussion and Analysis
As of June 30, 2017

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, 2017. Comparative information year ended June 30, 2016 and the year ended June 30, 2017 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. 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 Principles (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.

Hot Springs Public School, Sanders County, Montana
Management Discussion and Analysis
As of June 30, 2017

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 most 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 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 Position can be a useful indicator of a government’s financial position. The Hot Springs School Districts assets exceeded liabilities by \$805,688 at fiscal year ending June 30, 2017.

Hot Springs School District - Net Position

	<u>FY16</u>	<u>FY17</u>	<u>Change Inc (Dec)</u>
Current and other assets	\$ 1,113,649	\$ 1,085,563	\$ (28,086)
Capital assets	<u>1,978,683</u>	<u>2,030,029</u>	<u>51,346</u>
Total Assets	\$ <u>3,092,683</u>	\$ <u>3,115,592</u>	\$ <u>23,260</u>
Long-term debt outstanding	\$ 466,359	\$ 468,981	\$ 2,622
Other liabilities	<u>1,691,458</u>	<u>1,840,823</u>	<u>149,465</u>
Total liabilities	\$ <u>2,157,817</u>	\$ <u>2,309,904</u>	\$ <u>152,087</u>
Invested in capital assets, net of debt	\$ 1,608,683	\$ 1,660,029	\$ 51,346
Restricted	358,606	385,249	26,643
Unrestricted (deficit)	<u>(1,032,774)</u>	<u>(1,239,590)</u>	<u>(206,816)</u>
Total net position	\$ <u>934,515</u>	\$ <u>805,688</u>	\$ <u>(128,827)</u>

Hot Springs Public School, Sanders County, Montana
Management Discussion and Analysis
As of June 30, 2017

Revenues

Total revenues for the fiscal year ended June 30, 2017 were approximately \$3.0 million. Total revenue consists primarily of general revenues approximately 79%. The remaining 21% of revenues are program revenues.

The District's program revenues are 96% funded by federal and state grants. The remaining balance consists of Special Education, School Food Services, Student Transportation, Local Donations, Drivers Ed Fees, and Adult Ed Fees.

Total revenues increased during 2017 due to a large influx of students. The District was able to make a budget amendment to accommodate financially for these students, increasing budget authority and state revenues.

Expenses

The districts spending increased by \$218,946 from school year 2016 to 2017. The large influx of students caused District spending to increase. In addition, the District purchased a Head Start building, remodeled the high school and business manager offices, installed a HVAC system in the art building and made improvements to the playground.

Hot Springs School District
Changes in Net Position

Revenues		
Program Revenues	<u>2015-2016</u>	<u>2016-2017</u>
Charges for Services	\$ 28,772	\$ 24,839
Operating Grants & Contributions	628,906	605,844
General Revenues		
Property Taxes	\$ 534,038	\$ 581,712
Nonrestricted Grants & Entitlements	1,335,328	1,404,223
Other State grants	42,626	60,586
Investment Earnings	15,284	1,566
Miscellaneous (other revenue)	4,015	11,853
State Entitlement (block grants)	103,953	103,953
State Technology	1,739	1,701
County Retirement	217,911	202,828
Impact Aid (P.L.874)	-	8,891
Total Revenues	<u>\$ 2,912,572</u>	<u>\$ 3,007,996</u>
Expenses		
Program Expenses		
Instructional - regular	\$ 1,290,974	\$ 1,426,514
Instructional - special education	233,084	217,131
Instructional - vocational education	150,714	150,815
Instructional - adult education	2920	46
Supporting services - operations & maintenance	244,895	302,067
Supporting services - general	8,835	13,829

Hot Springs Public School, Sanders County, Montana
Management Discussion and Analysis
As of June 30, 2017

Supporting services - educational media services	46,080	43,905
Administration - general	203,473	189,520
Administration - school	149,397	166,656
Administration - finance	71,901	81,715
Student transportation	226,869	243,310
Extracurricular	84,831	95,642
School food	117,302	128,189
Debt Service Expense - Interest	18,950	9,005
Unallocated Depreciation	<u>62,312</u>	<u>63,139</u>
Total Expenses	\$ <u>2,912,537</u>	\$ <u>3,131,483</u>
 Changes in Net Position	 \$ <u>35</u>	 \$ <u>(123,487)</u>

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

During fiscal year 2017 the District purchased a modular building for the head start, made improvements to the elementary playground, remodeled the high school and business offices, and installed a HVAC system in the new art building.

Hot Springs School District
Capital Assets

	<u>2015-2016</u>	<u>2016-2017</u>
Land & Land Improvements	\$ 100,040	\$ 100,040
Construction in Progress – Art/FCS Building	2,621	-
Buildings & Improvements - net depreciation	1,656,851	1,759,325
Machinery & Equipment - net depreciation	<u>219,171</u>	<u>170,664</u>
Total Expenditures Related to Gov't Activities	\$ <u>1,978,683</u>	\$ <u>2,030,029</u>

Debt Administration

In 2003 the District passed a 30-year general obligation bond to construct a new gymnasium. The general obligation bond was to be decreased by \$40,000 in fiscal year 2017. However, due to unforeseen circumstances, the bond payment was not applied until July 2018. This fund and payment of the debt is handled by the County and is outside of the Districts control.

Hot Springs Public School, Sanders County, Montana
Management Discussion and Analysis
As of June 30, 2017

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

Hot Springs School District
Debt Administration

	<u>2015-2016</u>	<u>2016-2017</u>
General Obligation Bonds	\$ 370,000	\$ 370,000
Net Pension Liability	1,566,935	1,800,559
Other Post-Employment Benefits	43,004	43,004
Compensated Absences	<u>53,355</u>	<u>55,977</u>
Total Expenditures Related to Gov't Activities	<u>\$ 2,033,294</u>	<u>\$ 2,269,540</u>

The District's Future

The District experienced a significant enrollment increase of approximately 50 students during FY 2017, allowing for a \$75,000 budget amendment increase. In FY2018 the District's enrollment decreased significantly and is now back within normal trends. The District will have to begin planning for the loss of funding due to the enrollment decrease.

The elementary heating system began to fail in the winter of 2017. The Board declared the failure an emergency and began the process of replacing the system. The District entered into a loan agreement with Valley Bank to fund 50% of the project and will use Impact Aid dollars to fund the remaining balance.

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

To the Board of Trustees
Hot Springs Public School
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 School, Sanders County, Montana, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hot Springs Public School, Sanders County, Montana, as of and for the year ended June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the total OPEB liability and related ratios, schedules of proportionate share of the net pension liability, and schedules of contributions on pages 2 through 6, 45 through 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018, on our consideration of the Hot Springs Public School, 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 School, Sanders County, Montana's internal control over financial reporting and compliance.

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

June 25, 2018

Hot Springs Public School, Sanders County, Montana
Statement of Net Position
June 30, 2017

	<u>Governmental</u> <u>Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 749,364
Taxes and assessments receivable, net	50,716
Due from other governments	9,969
Prepaid expenses	4,750
Total current assets	<u>\$ 814,799</u>
Noncurrent assets	
Capital assets - land	\$ 100,040
Capital assets - depreciable, net	1,929,989
Total noncurrent assets	<u>\$ 2,030,029</u>
Total assets	<u>\$ 2,844,828</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions	\$ 270,764
Total deferred outflows of resources	<u>\$ 270,764</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 3,115,592</u></u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 8,843
Current portion of long-term capital liabilities	100,000
Current portion of compensated absences payable	24,343
Total current liabilities	<u>\$ 133,186</u>
Noncurrent liabilities	
Noncurrent portion of long-term liabilities	\$ 43,004
Noncurrent portion of long-term capital liabilities	270,000
Noncurrent portion of compensated absences	31,634
Net pension liability	1,800,559
Total noncurrent liabilities	<u>\$ 2,145,197</u>
Total liabilities	<u>\$ 2,278,383</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions	\$ 31,521
Total Deferred Inflows of resources	<u>\$ 31,521</u>
NET POSITION	
Net investment in capital assets	\$ 1,660,029
Restricted for capital projects	184,258
Restricted for debt service	74,843
Restricted for special projects	126,148
Unrestricted	(1,239,590)
Total net position	<u>\$ 805,688</u>
TOTAL LIABILITIES, DEFERRED INFLOWS	
AND NET POSITION	<u><u>\$ 3,115,592</u></u>

See accompanying Notes to the Financial Statements

Hot Springs Public School, Sanders County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2017

<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>Changes in Net Position</u>
<u>Primary government:</u>		<u>Services</u>	<u>Grants and</u>	<u>Primary Government</u>
			<u>Contributions</u>	<u>Activities</u>
Governmental activities:				
Instructional - regular	\$ 1,426,514	\$ 2,050	\$ 293,574	\$ (1,130,890)
Instructional - special education	217,131	-	141,294	(75,837)
Instructional - vocational education	150,815	-	11,558	(139,257)
Instructional - adult education	46	100	-	54
Supporting services - operations & maintenance	302,067	-	-	(302,067)
Supporting services - general	13,829	-	-	(13,829)
Supporting services - educational media services	43,905	-	-	(43,905)
Administration - general	189,520	-	-	(189,520)
Administration - school	166,656	-	-	(166,656)
Administration - business	81,715	-	-	(81,715)
Student transportation	243,310	-	80,776	(162,534)
Extracurricular	95,642	-	-	(95,642)
School food	128,189	22,689	78,642	(26,858)
Debt service expense - interest	9,005	-	-	(9,005)
Unallocated depreciation*	63,139	-	-	(63,139)
Total governmental activities	\$ <u>3,131,483</u>	\$ <u>24,839</u>	\$ <u>605,844</u>	\$ <u>(2,500,800)</u>
General Revenues:				
Property taxes for general purposes			\$	581,712
Grants and entitlements not restricted to specific programs				1,404,223
Other state grants				60,586
Investment earnings				1,566
Miscellaneous (other revenue)				11,853
State entitlement (block grants)				103,953
State technology				1,701
County retirement				202,828
Impact Aid (P.L.874)				8,891
Total general revenues, special items and transfers			\$	<u>2,377,313</u>
Change in net position			\$	<u>(123,487)</u>
Net position - beginning			\$	934,515
Restatements				(5,340)
Net position - beginning - restated			\$	<u>929,175</u>
Net position - end			\$	<u>805,688</u>

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

Hot Springs Public School, Sanders County, Montana
Balance Sheet
Governmental Funds
June 30, 2017

	<u>General</u>	<u>Transportation</u>	<u>Bus Depreciation</u>	<u>Miscellaneous Programs</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Current assets:						
Cash and investments	\$ 394,439	\$ 40,881	\$ 160,132	\$ 16,295	\$ 137,617	\$ 749,364
Taxes and assessments receivable, net	28,775	12,116	4,247	-	5,578	50,716
Due from other governments	5,036	-	-	3,313	1,620	9,969
Prepaid expenses	-	-	4,750	-	-	4,750
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ <u>428,250</u>	\$ <u>52,997</u>	\$ <u>169,129</u>	\$ <u>19,608</u>	\$ <u>144,815</u>	\$ <u>814,799</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ <u>8,543</u>	\$ -	\$ -	\$ 15	\$ 285	\$ 8,843
Total liabilities	\$ <u>8,543</u>	\$ -	\$ -	\$ 15	\$ 285	\$ 8,843
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources	\$ <u>28,775</u>	\$ 12,116	\$ 4,247	\$ -	\$ 5,578	\$ 50,716
Total deferred inflows of resources	\$ <u>28,775</u>	\$ 12,116	\$ 4,247	\$ -	\$ 5,578	\$ 50,716
FUND BALANCES						
Restricted	\$ -	\$ 40,881	\$ 164,882	\$ 19,593	\$ 138,952	\$ 364,308
Unassigned fund balance	<u>390,932</u>	-	-	-	-	390,932
Total fund balance	\$ <u>390,932</u>	\$ 40,881	\$ 164,882	\$ 19,593	\$ 138,952	\$ 755,240
TOTAL LIABILITIES, DEFERRED INFLOWS AND CHANGES IN FUND BALANCES	\$ <u>428,250</u>	\$ <u>52,997</u>	\$ <u>169,129</u>	\$ <u>19,608</u>	\$ <u>144,815</u>	\$ <u>814,799</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, 2017

Total fund balances - governmental funds	\$ 755,240
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,030,029
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.	50,716
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(468,981)
Proportionate share of ending collective net pension liability	(1,800,559)
Deferred outflows related to net pension liability	270,764
Deferred inflows related to net pension liability	(31,521)
Total net position - governmental activities	\$ <u>805,688</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, 2017

	<u>General</u>	<u>Transportation</u>	<u>Bus Depreciation</u>	<u>Miscellaneous Programs</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Local revenue	\$ 307,535	\$ 142,833	\$ 49,076	\$ 9,637	\$ 106,495	\$ 615,576
County revenue	-	41,898	-	-	202,828	244,726
State revenue	1,523,152	53,856	-	117,481	13,457	1,707,946
Federal revenue	8,891	-	-	287,363	75,596	371,850
Total revenues	<u>\$ 1,839,578</u>	<u>\$ 238,587</u>	<u>\$ 49,076</u>	<u>\$ 414,481</u>	<u>\$ 398,376</u>	<u>\$ 2,940,098</u>
EXPENDITURES						
Instructional - regular	\$ 929,035	\$ -	\$ -	\$ 268,540	\$ 141,104	\$ 1,338,679
Instructional - special education	98,554	-	-	106,065	12,512	217,131
Instructional - vocational education	123,843	-	-	10,094	16,878	150,815
Instructional - adult education	-	-	-	-	46	46
Supporting services - operations & maintenance	285,573	-	-	-	16,494	302,067
Supporting services - general	10,700	-	-	2,286	843	13,829
Supporting services - educational media services	27,664	-	-	13,061	3,180	43,905
Administration - general	127,424	44,728	-	-	17,368	189,520
Administration - school	147,065	-	-	-	19,591	166,656
Administration - business	52,120	20,236	-	-	9,359	81,715
Student transportation	19,786	177,541	-	-	5,565	202,892
Extracurricular	87,186	-	-	250	8,206	95,642
School food	19,755	-	-	-	108,434	128,189
Debt service expense - interest	-	-	-	-	9,005	9,005
Capital outlay	102,069	-	-	-	63,544	165,613
Total expenditures	<u>\$ 2,030,774</u>	<u>\$ 242,505</u>	<u>\$ -</u>	<u>\$ 400,296</u>	<u>\$ 432,129</u>	<u>\$ 3,105,704</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (191,196)</u>	<u>\$ (3,918)</u>	<u>\$ 49,076</u>	<u>\$ 14,185</u>	<u>\$ (33,753)</u>	<u>\$ (165,606)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 734	\$ 734
Transfers out	(734)	-	-	-	-	(734)
Total other financing sources (uses)	<u>\$ (734)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 734</u>	<u>\$ -</u>
Net Change in Fund Balance	<u>\$ (191,930)</u>	<u>\$ (3,918)</u>	<u>\$ 49,076</u>	<u>\$ 14,185</u>	<u>\$ (33,019)</u>	<u>\$ (165,606)</u>
Fund balances - beginning	\$ 585,920	\$ 44,799	\$ 115,806	\$ 5,069	\$ 171,971	\$ 923,565
Restatements	(3,058)	-	-	339	-	(2,719)
Fund balances - beginning, restated	<u>\$ 582,862</u>	<u>\$ 44,799</u>	<u>\$ 115,806</u>	<u>\$ 5,408</u>	<u>\$ 171,971</u>	<u>\$ 920,846</u>
Fund balance - ending	<u>\$ 390,932</u>	<u>\$ 40,881</u>	<u>\$ 164,882</u>	<u>\$ 19,593</u>	<u>\$ 138,952</u>	<u>\$ 755,240</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, 2017

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

Net change in fund balances - total governmental funds	\$ (165,606)
---	--------------

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	165,613
- Depreciation expense	(111,646)

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

- Long-term receivables (deferred revenue)	7,312
--	-------

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

(2,622)

Pension expense related to the net pension liability is shown as an expense on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance

(77,124)

State aid revenue related to the net pension liability is shown as a revenue on the Statement of Activities and not reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance

60,586

Change in net position - Statement of Activities

\$ (123,487)

See accompanying Notes to the Financial Statements

Hot Springs Public School, Sanders County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2017

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	\$ 71,389	\$ 97,742
Total assets	\$ 71,389	\$ 97,742
LIABILITIES		
Warrants payable	\$ -	\$ 87,233
Due to others	-	10,509
Total liabilities	\$ -	\$ 97,742
NET POSITION		
Assets held in trust	\$ 71,389	

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, 2017

		Private Purpose Trust Funds
ADDITIONS		
Contributions:		
Student activities	\$	84,836
Total additions	\$	84,836
DEDUCTIONS		
Student activities	\$	81,895
Total deductions	\$	81,895
Change in net position	\$	2,941
Net Position - Beginning of the year	\$	68,448
Net Position - End of the year	\$	71,389

See accompanying Notes to the Financial Statements

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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

Primary Government

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

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

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. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. The District does not charge indirect expenses to programs or functions.

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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:

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

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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.

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 Fund – This fund is authorized for the purpose of financing the replacement of buses and two-way radio equipment owned by the school district.

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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 post-employment 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 consists 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.

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, 2017 consisted of money market 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.

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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, 2017. 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 \$71,389 and the bank balance was \$70,099. The District's deposits at year-end were fully insured by the FDIC.

NOTE 3. RECEIVABLES

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

Property tax levies are set in August, after the County Assessor delivers the taxable valuation information to the County, 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 costs of inventories are recorded as an expenditure when purchased.

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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
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 2017 Basic Financial Statements.

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 100,040	\$ -	\$ -	\$ 100,040
Construction in progress	2,621	-	(2,621)	-
Total capital assets not being depreciated	<u>\$ 102,661</u>	<u>\$ -</u>	<u>\$ (2,621)</u>	<u>\$ 100,040</u>
Other capital assets:				
Buildings	\$ 2,987,004	\$ 165,613	\$ -	\$ 3,152,617
Machinery and equipment	675,417	-	-	675,417
Total other capital assets at historical cost	<u>\$ 3,662,421</u>	<u>\$ 165,613</u>	<u>\$ -</u>	<u>\$ 3,828,034</u>
Less: accumulated depreciation	<u>\$ (1,786,399)</u>	<u>\$ (111,646)</u>	<u>\$ -</u>	<u>\$ (1,898,045)</u>
Total	<u><u>\$ 1,978,683</u></u>	<u><u>\$ 53,967</u></u>	<u><u>\$ (2,621)</u></u>	<u><u>\$ 2,030,029</u></u>

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

Governmental Activities:	
Instructional – regular	\$ 8,089
Student transportation	40,418
Unallocated	<u>63,139</u>
Total governmental activities depreciation expense	<u><u>\$ 111,646</u></u>

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6. LONG TERM DEBT OBLIGATIONS

In the governmental-wide, proprietary, 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, 2017, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance <u>July 1, 2016</u>	<u>Additions</u>	Balance <u>June 30, 2017</u>	Due Within <u>One Year</u>
General obligation bonds	\$ 370,000	\$ -	\$ 370,000	\$ 100,000
Compensated absences	53,355	2,622	55,977	24,343
Net pension liability*	1,566,935	233,624	1,800,559	-
Other post-employment benefits**	43,004	-	43,004	-
Total	<u>\$ 2,033,294</u>	<u>\$ 236,246</u>	<u>\$ 2,269,540</u>	<u>\$ 124,343</u>

*See Note 9

**See Note 7

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, 2017 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2017</u>
Elementary Gym Bond	1/23/03	3.00%	20yrs	7/1/23	\$ 400,000	Varies	\$ 185,000
High School Gym Bond	1/23/03	3.00%	20yrs	7/1/23	400,000	Varies	185,000
					<u>\$ 800,000</u>		<u>\$ 370,000</u>

Reported in the governmental activities.

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

Annual requirement to amortize debt:

For Fiscal <u>Year Ended</u>		<u>Principal</u>		<u>Interest</u>
2018	\$	100,000	\$	22,814
2019		50,000		12,360
2020		50,000		10,160
2021		50,000		7,912
2022		60,000		5,608
2023		60,000		2,172
Total	\$	370,000	\$	61,026

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 each school year each teacher shall be credited with ten days of leave at full salary for personal illness or disability, personal medical appointments, quarantine or communicable disease, or illness in the immediate family.

With Board approval, an additional 30 days of sick leave will be allowed for catastrophic illness. The Board has the authority to verify the illness as catastrophic. If this does not allow sufficient time to return to work, any teacher may donate any of their own accumulated unused sick leave to such a person.

Unused days of sick leave each year will be allowed to accumulate to sixty (60) days. The school board will pay a rate of $\frac{1}{2}$ substitute rate for every unused sick leave day beyond sixty (60) days at the end of each school year. Upon termination, compensation will be determined by:

- a. For sixty (60) or fewer unused sick leave days
 - Termination Pay = $.125(Ns)(TS)/Nd$ where
 - Ns = Number of unused sick days sixty (60) or less
 - TS = Termination Salary
 - Nd = Total of PI and PIR days in current school year
- b. And, if applicable, the number of unused sick days over sixty (60) times $\frac{1}{2}$ substitute rate.

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

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description - The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. This creates a defined benefit Other Post-Employment Benefits Plan (OPEB), since retirees are usually older than the average age of the plan participants, they receive a benefit of lower insurance rates. The OPEB plan is a single-employer defined benefit plan administered by the District. The government has not created a trust to accumulate assets to assist in covering the defined benefit plan costs, and covers these when they come due. 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.

Benefits Provided - The government provides healthcare insurance benefits for retirees and their dependents upon reaching the age and service years defined in MCA 2-18-704. The benefit terms require that eligible retirees cover 100 percent of the health insurance premiums, but may pay the same premiums as the other members in the group health plan.

Employees Covered by Benefit Terms - At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefit payments	-
Active employees	<u>22</u>
Total employees	<u><u>22</u></u>

Total OPEB Liability

The District's total OPEB liability of \$43,004 at June 30, 2017, and was determined by using the alternative measurement method as of June 30, 2016.

Actuarial Assumptions and Other Input - The total OPEB liability in the June 30, 2017 alternative measurement method was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Average age of retirement (based on historical data)	62
Discount rate (average anticipated rate)	3.80%
Average salary increase (Consumer Price Index)	2.70%

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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

<u>Year</u>	<u>% Increase</u>
2017	5.30%
2018	6.20%
2019	6.30%
2020	6.10%
2021	6.30%
2022	6.30%
2022	6.30%
2023	6.30%
2024	6.10%
2025 and thereafter	5.90%

The discount rate was based on the 20-year General Obligation (GO) Bond Index.

Life expectancy of employees was based on the United States Life Tables, 2011 for Males: Table 2 and Females: Table 3 as published in the National Vital Statistics Reports, Vol. 64, No. 11, September 22, 2015.

The turnover rates were determined from the periodic experience studies of the Montana public retirement systems for the covered groups as documented in the GASB 68 actuarial valuations.

Changes in the Total OPEB Liability

Balance at 6/30/2016	\$ <u>43,004</u>
Changes for the year:	
Service Cost	\$ -
Net Changes	<u>-</u>
Balance at 6/30/2017	\$ <u>43,004</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following summarizes the total OPEB liability reported, and how that liability would change if the discount rate used to calculate the OPEB liability were to decrease or increase 1%:

	1% Decrease (2.80%)	Discount Rate (3.80%)	1% Increase (4.80%)
Total OPEB Liability	\$ 48,209	\$ 43,004	\$ 38,639

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates -
The following summarizes the total OPEB liability reported, and how that liability would change if the healthcare trend rates used in projecting the benefit payments were to decrease or increase 1%:

	<u>1% Decrease</u>	<u>Healthcare Cost Trends*</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 37,596	\$ 43,004	\$ 49,607

**Reference the assumptions footnotes to determine the healthcare cost trends used to calculate the OPEB liability.*

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2017, the District did not recognize OPEB expense as the roll over amount was determined to be insignificant, and the assumptions determined to have not significantly changed. The District does not report any deferred outflows of resources and deferred inflows of resources related to OPEB as there were no differences between expected and actual experience or changes in assumptions performed in the alternative measurement method. In addition, since District records costs as they come due there are no deferred outflows of resources for contributions to the OPEB plan trust.

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

Interfund Transfers

The following is an analysis of operating transfers in and out during Fiscal Year 2017:

<u>Purpose</u>	<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Maintain Compensated Absences Fund	Compensated Absences – Nonmajor Governmental	General – Major Governmental	\$ <u>734</u>

NOTE 9. NET PENSION LIABILITY

Plan Descriptions

TRS

Teachers' Retirement System (TRS) is a mandatory-participation multiple-employer cost-sharing defined-benefit public pension plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana.

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

The TRS Board is the governing body of the System and the TRS staff administers the system in conformity with the laws set forth in Title 19, chapter 20 of the Montana Code Annotated, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana. Additional information pertaining to membership, benefit structure, and prior years' actuarial valuations, as well as links to applicable statutes and administrative rules, may be obtained by visiting the TRS web site at trs.mt.gov.

PERS

The PERS-Defined Benefit Retirement Plan (PERS) administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined contribution* and *defined benefit* retirement plans. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP. All new members from the universities also have third option to join the university system's Montana University System Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

TRS

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation - $1.85\% \times \text{AFC} \times \text{years of creditable service}$ - for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than $1.6667 \times \text{AFC} \times \text{years of creditable service}$)

A guaranteed annual benefit adjustment (GABA) is payable on January 1st of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA for Tier One members is 1.5% of the benefit payable as of January 1st. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

PERS

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months; Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months; Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011:	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
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Hired on or after July 1, 2011:	Age 65, 5 years of membership service; Age 70, regardless of membership service.
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Early retirement, actuarially reduced:

Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
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Hired on or after July 1, 2011:	Age 55, 5 years of membership service.
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Vesting

5 years of membership service

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Member's highest average compensation (HAC)

- Hired prior to July 1, 2011- highest average compensation during any consecutive 36 months;
- Hired on or after July 1, 2011-highest average compensation during any consecutive 60 months;

Compensation Cap

- Hired on or after July 1, 2013-110% annual cap on compensation considered as a part of a member's highest average compensation.

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

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Overview of Contributions

TRS

The System receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation as defined by GASB 68 and the State is treated as a non-employer contributing entity in TRS. The System receives 2.49% of reportable compensation from the State's general fund for School Districts and Other Employers. The System also receives 0.11% of reportable compensation from the State's general fund for all TRS Employers including State Agency and University System Employers. Finally, the State is also required to contribute \$25 million in perpetuity payable July 1st of each year.

MCA 19-20-605 requires each employer to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position. Pursuant to MCA 19-20-609, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of re-employed retiree compensation.

PERS

1. Rates are specified by state law for periodic employer and employee contributions.
 - a. Contributions are deducted from each member's salary and remitted by participating employers;
 - b. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
 - b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
3. Employer contributions to the system:
 - a. Local government entities are required to contribution 8.17% of members' compensation.
 - b. School district employers contributed 7.90% of members' compensation.
 - c. Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.
 - d. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

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- e. The Plan Choice Rate (PCR), that directed a portion of employer contributions for DC members to the PERS defined benefit plan, are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
- 4. Non Employer Contributions
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Severance Tax fund.

Stand-Alone Statements

TRS' stand-alone financial statements, actuarial valuations and experience studies can be found online at <https://trs.mt.gov/TrsInfo/NewsAnnualReports>

The PERS's financial statements of the Montana Public Employees Retirement Board (PERB) *Comprehensive Annual Financial Report* (CAFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or the MPERA website at <http://mpera.mt.gov/index.shtml>.

Net Pension Liability (NPL)

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Montana Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS and PERS that are used to provide pension benefits to the retired members. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest to PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer. The following table displays the amounts and the percentages of Net Pension Liability for the fiscal years ended June 30, 2016 and June 30, 2017 (reporting dates).

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	TRS NPL as of 6/30/16	TRS NPL as of 6/30/17	Percent of Collective NPL	PERS NPL as of 6/30/16	PERS NPL as of 6/30/17	Percent of Collective NPL	Total NPL as of 6/30/16	Total NPL as of 6/30/17	Percent of Collective NPL
Employer Proportionate Share	\$ 1,319,344	\$ 1,499,531	0.0821%	\$ 247,591	\$ 301,028	0.0177%	\$ 1,566,935	\$ 1,800,559	0.0998%
State of Montana Proportionate Share associated with Employer	890,593	980,240	0.0537%	11,634	14,069	0.0080%	902,227	994,309	0.0617%
Total	<u>\$ 2,209,937</u>	<u>\$ 2,479,771</u>	<u>0.1358%</u>	<u>\$ 259,225</u>	<u>\$ 315,097</u>	<u>0.0257%</u>	<u>\$ 2,469,162</u>	<u>\$ 2,794,868</u>	<u>0.1615%</u>

At June 30, 2017, the employer recorded a liability of \$1,800,559 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The employer's proportion of the net pension liability was based on the employer's contributions received by TRS and PERS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of TRS and PERS participating employers. At June 30, 2017, the employer's proportion was 0.0998 percent.

Changes in actuarial assumptions and methods: The following changes in assumptions or other inputs that affected the measurement of the Total Pension Liability have been made since the previous measurement date for TRS.

- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three year COLA deferral period for Tier 2 Members.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and , once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portions of the terminated members that are assumed to "retain membership in the System" are covered by the \$500 death benefit after termination.

There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability for PERS.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective NPL and the employer's reporting date there were some changes in proportion that may have an effect on the employer's proportionate share of the collective NPL.

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Pension Expense as of 6/30/17

	<u>TRS</u>	<u>PERS</u>	<u>Total</u>
Employer Proportionate Share	\$ 110,960	\$ 20,924	\$ 131,884
State of Montana Proportionate Share associated with the Employer	54,133	6,453	60,586
Total	<u>\$ 165,093</u>	<u>\$ 27,377</u>	<u>\$ 192,470</u>

At June 30, 2017, the employer recognized a Pension Expense of \$192,470 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$60,586 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Recognition of Beginning Deferred Outflow

At June 30, 2017, the employer recognized a beginning deferred outflow of resources for the employers FY 2017 contributions of \$100,149.

Deferred Inflows and Outflows

At June 30, 2017, the employer reported its proportionate share of TRS and PERS deferred outflows of resources and deferred inflows of resources related to TRS and PERS from the following sources:

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	<u>TRS Deferred Outflows of Resources</u>	<u>TRS Deferred Inflows of Resources</u>	<u>PERS Deferred Outflows of Resources</u>	<u>PERS Deferred Inflows of Resources</u>	<u>Total Deferred Outflows of Resources</u>	<u>Total Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 8,018	\$ 3,188	\$ 1,624	\$ 996	\$ 9,642	\$ 4,184
Changes in actuarial assumptions	9,543	9,425	-	-	9,543	9,425
Difference between projected and actual investment earnings	96,563	-	28,321	-	124,884	-
Difference between actual and expected contributions	11,272	17,912	-	-	11,272	17,912
Contributions paid subsequent to the measurement date - FY 2017 Contributions	97,118	-	18,305	-	115,423	-
Total	<u>\$ 222,514</u>	<u>\$ 30,525</u>	<u>\$ 48,250</u>	<u>\$ 996</u>	<u>\$ 270,764</u>	<u>\$ 31,521</u>

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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TRS: Year ended June 30, 2017:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	\$ 24,586	\$ 14,231	\$ 10,355
2018	\$ 9,799	\$ 13,081	\$ (3,282)
2019	\$ 56,347	\$ 3,206	\$ 53,141
2020	\$ 34,663	\$ -	\$ 34,663
2021	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -

PERS: Year ended June 30, 2017:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2017	\$ -	\$ -	\$ 1,371
2018	\$ -	\$ -	\$ 1,371
2019	\$ -	\$ -	\$ 16,094
2020	\$ -	\$ -	\$ 10,113
2021	\$ -	\$ -	\$ -
Thereafter	\$ -	\$ -	\$ -

Actuarial Assumptions

TRS

The Total Pension Liability as of June 30, 2016, is based on the results of an actuarial valuation date of July 1, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2016 valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total Wage Increases* 4% - 8.51% for Non-University
Members and 5.00% for
University Members
- Investment Return 7.75%
- Price Inflation 3.25%
- Postretirement Benefit Increases
 - Tier One Members: If the retiree has received benefits for at least 3 years, the retirement allowance will be increased by 1.5% on January 1st.
 - Tier Two Members, the retirement allowance will be increased by an amount equal to or greater than 0.5% but no more than 1.5% if the most recent actuarial valuation shows the System to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
 - For Males: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

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- For Females: 1992 Base Rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 Base Rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
 - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
 - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

*Total Wage Increases include 4.00% general wage increase.

PERS

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2015, with update procedures to roll forward the TPL to June 30, 2016. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- | | |
|--|----------|
| • General Wage Growth* | 4.00% |
| • *includes Inflation at | 3.00% |
| • Merit Increases | 0% to 6% |
| • Investment Return (net of admin expense) | 7.75% |
| • Admin Expense as a % of Payroll | 0.27% |
| • Postretirement Benefit Increases | |

Guaranteed Annual Benefit Adjustment(GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, Inclusive of other adjustments to the member's benefit.

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2014
- Member hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

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Discount Rate

TRS

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition to the contributions the State general fund will contribute \$25 million annually to the System payable July 1st of each year. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

PERS

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

TRS

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Real Rate of Return Arithmetic Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return*</u>
Broad US Equity	36.00%	4.80%	1.73%
Broad International Equity	18.00%	6.05%	1.09%
Private Equity	12.00%	8.50%	1.02%
Intermediate Bonds	23.40%	1.50%	0.35%
Core Real Estate	4.00%	4.50%	0.18%
High Yield Bonds	2.60%	3.25%	0.08%
Non-Core Real Estate	<u>4.00%</u>	7.50%	<u>0.30%</u>
Total	<u>100.00%</u>		<u>4.75%</u>
		Inflation	<u>3.25%</u>
		Expected arithmetic nominal return	8.00%

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*The long-term expected nominal rate of return above of 8.00% differs from the total TRS long-term rate of return assumption of 7.75%. The assumed rate is comprised of a 3.25% inflation rate and a real long-term expected rate of return of 4.50%.

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared every four years for the System. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017, is summarized in the above table.

PERS

<u>Asset Class</u>	<u>Target Asset Allocation</u>	Real Rate of Return Arithmetic <u>Basis</u>	Long-Term Expected Real <u>Rate of Return</u>
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	<u>8.00%</u>	4.00%	<u>0.32%</u>
Total	<u>100.00%</u>		<u>4.37%</u>
	Inflation		3.00%
	Portfolio Return Expectation		7.37%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website.

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The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2016, are summarized in the table above.

Sensitivity Analysis

	1.0% Decrease	Current	1.0% Increase
	-6.75%	Discount Rate	-8.75%
TRS	\$ 2,011,954	\$ 1,499,531	\$ 1,068,127
PERS	\$ 436,813	\$ 301,028	\$ 184,062

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Summary of Significant Accounting Policies

TRS

The Teachers' Retirement System (TRS) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the Teachers' Retirement System (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same accrual basis as they are reported by TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. TRS adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

PERS

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the NPL; Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

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Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

NOTE 10. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

Governmental Fund equity is classified as fund balance. The District, categorizes fund balance of the governmental funds into the following categories:

Restricted - constraint is externally imposed by a third party, State Constitution, or enabling legislation.

Unassigned – negative fund balance in all funds, or fund balance with no constraints in the General Fund.

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>Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Transportation	\$ 40,881	Student transportation
Bus Depreciation	164,882	Bus replacement
Miscellaneous Programs	19,593	Third party grantor restrictions
All other aggregate:	135	Student food services
	44,968	Employer costs of benefits
	5,771	Adult education
	155	Traffic education
	11,310	Future vacation and sick leave payments
	586	Technology upgrades
	60,515	Debt service
	15,129	Future capital costs
	<u>383</u>	Student instructional services
	<u>\$ 364,308</u>	

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NOTE 11. RESTATEMENTS

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

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General	\$ (3,058)	Correct overstated due from other government
Miscellaneous Programs	339	Correct unrecorded receivable balance
Governmental Activities	<u>(2,621)</u>	Capital asset adjustment
	<u>\$ (5,340)</u>	

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 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 \$3,380 for the fiscal year ended June 30, 2017. Separate financial statements are available from the Sanders County Educational Services Cooperative, P.O. Box 129, Thompson Falls, MT 59873.

NOTE 13. SERVICES PROVIDED BY OTHER GOVERNMENTS

County Provided Services

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

NOTE 14. RISK MANAGEMENT

The District faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries,

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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 15. SUBSEQUENT EVENTS

In the January 2018, the District purchased and received its new activities bus. The bus was paid for using the built up reserves in the Bus Depreciation Fund. The total cost paid, less the prepaid amount of \$4,750, was \$148,816.

HOT SPRINGS PUBLIC SCHOOL
SANDERS COUNTY, MONTANA
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June 30, 2017

At the end of the fiscal year, the District's heating and HVAC system failed and the District was required to significantly improve the system to adequately heat the school building. To help fund the project, Valley Bank provided a \$150,000 loan that will be paid back over the next five years. The other funding to upgrade the system is expected to come from built up reserves in the Impact Aid and Building Reserve Funds. The total cost of the project at the end of May 2018 was \$322,766.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Hot Springs Public School, Sanders County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2017

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET
	<u>ORIGINAL</u>	<u>FINAL</u>		
RESOURCES (INFLOWS):				
Local revenue	\$ 295,962	\$ 295,962	\$ 304,765	\$ 8,803
State revenue	1,448,310	1,523,160	1,523,152	(8)
Amounts available for appropriation	<u>\$ 1,744,272</u>	<u>\$ 1,819,122</u>	<u>\$ 1,827,917</u>	<u>\$ 8,795</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ 807,969	\$ 882,819	\$ 894,439	\$ (11,620)
Instructional - special education	110,334	110,334	94,563	15,771
Instructional - vocational education	127,644	127,644	123,843	3,801
Supporting services - operations & maintenance	241,370	241,370	239,355	2,015
Supporting services - general	8,622	8,622	8,674	(52)
Supporting services - educational media services	32,389	32,389	27,263	5,126
Administration - general	\$ 119,967	119,967	127,424	(7,457)
Administration - school	144,469	144,469	146,943	(2,474)
Administration - business	57,942	57,942	51,743	6,199
Student transportation	17,911	17,911	13,223	4,688
Extracurricular	75,655	75,655	86,259	(10,604)
School food	-	-	3,119	(3,119)
Total charges to appropriations	<u>\$ 1,744,272</u>	<u>\$ 1,819,122</u>	<u>\$ 1,816,848</u>	<u>\$ 2,274</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ (734)	\$ (734)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (734)</u>	<u>\$ (734)</u>
Net change in fund balance			<u>\$ 10,335</u>	
Fund balance - beginning of the year			\$ 172,376	
Restatements			<u>(3,058)</u>	
Fund balance - beginning of the year - restated			<u>\$ 169,318</u>	
Fund balance - end of the year			<u>\$ 179,653</u>	

Hot Springs Public School, Sanders County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2017

Transportation					
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A		VARIANCE WITH FINAL BUDGET
	<u>ORIGINAL</u>	<u>FINAL</u>			
RESOURCES (INFLOWS):					
Local revenue	\$ 143,050	\$ 143,050	\$ 142,833	\$	(217)
County revenue	42,244	42,244	41,898		(346)
State revenue	<u>57,223</u>	<u>57,223</u>	<u>53,856</u>		<u>(3,367)</u>
Amounts available for appropriation	\$ <u>242,517</u>	\$ <u>242,517</u>	\$ <u>238,587</u>	\$	<u>(3,930)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):					
Administration - business	\$ 18,511	\$ 18,511	\$ 20,236	\$	(1,725)
Student transportation	<u>177,830</u>	<u>177,830</u>	<u>177,541</u>		<u>289</u>
Total charges to appropriations	\$ <u>242,517</u>	\$ <u>242,517</u>	\$ <u>242,505</u>	\$	<u>12</u>
Net change in fund balance			<u>\$ (3,918)</u>		
Fund balance - beginning of the year			\$ <u>44,799</u>		
Fund balance - end of the year			<u>\$ 40,881</u>		

Hot Springs Public School, Sanders County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2017

Bus Depreciation					
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A		VARIANCE WITH FINAL BUDGET
	<u>ORIGINAL</u>	<u>FINAL</u>			
RESOURCES (INFLOWS):					
Local revenue	\$ 48,862	\$ 48,862	\$ 49,076		\$ 214
Amounts available for appropriation	\$ 48,862	\$ 48,862	\$ 49,076		\$ 214
CHARGES TO APPROPRIATIONS (OUTFLOWS):					
Capital outlay	\$ 164,668	\$ 164,668	\$ -		\$ 164,668
Total charges to appropriations	\$ 164,668	\$ 164,668	\$ -		\$ 164,668
Net change in fund balance			\$ 49,076		
Fund balance - beginning of the year			\$ 115,806		
Fund balance - end of the year			\$ 164,882		

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	\$ 1,827,917	\$ 238,587	\$ 49,076
Combined funds (GASBS 54) revenues	<u>9,661</u>		
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 1,837,578</u>	<u>\$ 238,587</u>	<u>\$ 49,076</u>
Uses/Outflows of resources			
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,816,848	\$ 242,505	\$ -
Combined funds (GASBS 54) expenditures	200,626	-	-
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	<u>11,300</u>	<u>-</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,028,774</u>	<u>\$ 242,505</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, Montana
Schedule of Changes in the
Total OPEB Liability and Related Ratios

	<u>2016</u>	<u>2017</u>
Total OPEB Liability		
Service Cost	\$ 2,700	\$ -
Net change in total OPEB liability	2,700	-
Total OPEB Liability - beginning	567,969	43,004
Restatement	(527,665)	-
Total OPEB Liability - ending	\$ <u>43,004</u>	\$ <u>43,004</u>
Covered-employee payroll	\$ 659,889	\$ 659,889
 Total OPEB liability as a percentage of covered -employee payroll	 6.5%	 6.5%

**The above schedule is presented by combining the required schedules from GASB 75 paragraphs 170a and 170b. The GASB requires that 10 years of information related to the OPEB liability be presented, but due to this being the first year of implementation only one year of data is available.*

Hot Springs Public School, Sanders County, Montana
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2017

	TRS 2017	TRS 2016	TRS 2015
Employer's proportion of the net pension liability	0.0821%	0.0803%	0.0815%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 1,499,531	\$ 1,319,344	\$ 1,254,032
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 980,240	\$ 890,593	\$ 861,497
Total	<u>\$ 2,479,771</u>	<u>\$ 2,209,937</u>	<u>\$ 2,115,529</u>
Employer's covered payroll	\$ 1,065,471	\$ 1,024,909	\$ 1,027,675
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	140.74%	128.73%	122.03%
Plan fiduciary net position as a percentage of the total pension liability	66.69%	69.30%	70.36%

	PERS 2017	PERS 2016	PERS 2015
Employer's proportion of the net pension liability	0.0177%	0.0177%	0.0175%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 301,028	\$ 247,591	\$ 218,316
State of Montana's proportionate share of the net pension liability associated with the Employer	\$ 14,069	\$ 11,634	\$ 10,206
Total	<u>\$ 315,097</u>	<u>\$ 259,225</u>	<u>\$ 228,522</u>
Employer's covered payroll	\$ 218,833	\$ 213,714	\$ 205,205
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	137.56%	115.85%	111.22%
Plan fiduciary net position as a percentage of the total pension liability	74.71%	78.40%	79.87%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Hot Springs Public School, Sanders County, Montana
Schedule of Contributions
For the Year Ended June 30, 2017

	TRS 2017	TRS 2016	TRS 2015
Contractually required contributions	\$ 97,118	\$ 92,376	\$ 87,835
Contributions in relation to the contractually required contributions	\$ 97,118	\$ 92,376	\$ 87,835
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered payroll	\$ 1,107,392	\$ 1,065,471	\$ 1,024,909
Contributions as a percentage of covered payroll	8.77%	8.67%	8.57%

	PERS 2017	PERS 2016	PERS 2015
Contractually required contributions	\$ 18,305	\$ 17,694	\$ 17,033
Contributions in relation to the contractually required contributions	\$ 18,305	\$ 17,694	\$ 17,033
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered payroll	\$ 223,232	\$ 218,833	\$ 213,714
Contributions as a percentage of covered payroll	8.20%	8.09%	7.97%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

Hot Springs Public School, Sanders County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2017

Teachers' Retirement System of Montana (TRS)

Changes of Benefit Terms:

The following changes to the plan provisions were made as identified:

The 2013 Montana Legislature passed HB 377 which provides additional revenue and created a two tier benefit structure. A Tier One Member is a person who first became a member before July 1, 2013 and has not withdrawn their member's account balance. A Tier Two Member is a person who first becomes a member on or after July 1, 2013 or after withdrawing their member's account balance, becomes a member again on or after July 1, 2013.

The second tier benefit structure for members hired on or after July 1, 2013 is summarized below.

- (1) **Final Average Compensation:** average of earned compensation paid in five consecutive years of full-time service that yields the highest average
- (2) **Service Retirement:** Eligible to receive a service retirement benefit if the member has been credited with at least five full years of creditable service and has attained the age of 60; or has been credited with 30 or more years of full-time or part-time creditable service and has attained age 55
- (3) **Early Retirement:** Eligible to receive an early retirement allowance if a member is not eligible for service retirement but has at least five years of creditable service and attained age 55
- (4) **Professional Retirement Option:** if the member has been credited with 30 or more years of service and has attained the age of 60 they are eligible for an enhanced allowance equal to 1.85% of average final compensation times all service at retirement. Otherwise, the multiplier used to calculate the retirement allowance will be equal to 1.67%
- (5) **Annual Contribution:** 8.15% of member's earned compensation
- (6) **Supplemental Contribution Rate:** On or after July 1, 2023, the TRS Board may require a supplemental contribution up to 0.5% if the following three conditions are met:
 - a. The average funded ratio of the System based on the last three annual actuarial valuations is equal to or less than 80%; and
 - b. The period necessary to amortize all liabilities of the System based on the latest annual actuarial valuation is greater than 20 years; and
 - c. A State or employer contribution rate increase or a flat dollar contribution to the Retirement System Trust fund has been enacted that is equivalent to or greater than the supplemental contribution rate imposed by the TRS Board.

Hot Springs Public School, Sanders County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2017

(7) **Disability Retirement:** A member will not be eligible for a disability retirement if the member is or will be eligible for a service retirement on the date of termination

(8) **Guaranteed Annual Benefit Adjustment (GABA):**

a. If the most recent actuarial valuation shows that Retirement System liabilities are at least 90% funded and the provision of the increase is not projected to cause the System's liabilities to be less than 85% funded, the GABA may increase from the 0.5% floor up to 1.5%, as set by the Board.

HB 377 increased revenue from the members, employers and the State as follows:

- Annual State contribution equal to \$25 million paid to the System in monthly installments.
- One-time contribution payable to the Retirement System by the trustees of a school district maintaining a retirement fund. The one-time contribution to the Retirement System shall be the amount earmarked as an operating reserve in excess of 20% of the adopted retirement fund budget for the fiscal year 2013. The amount received was \$22 million in FY 2014.
- 1% supplemental employer contribution. This will increase the current employer rates:
 - School Districts contributions will increase from 7.47% to 8.47%
 - The Montana University System and State Agencies will increase from 9.85% to 10.85%.
 - The supplemental employer contribution will increase by 0.1% each fiscal year for fiscal year 2014 thru fiscal year 2024. Fiscal years beginning after June 30, 2024 the total supplemental employer contribution will be equal to 2%.
- Members hired prior to July 1, 2013 (Tier 1) under HB 377 are required to contribute a supplemental contribution equal to an additional 1% of the member's earned compensation.
- Each employer is required to contribute 9.85% of total compensation paid to all re-employed TRS retirees employed in a TRS reportable position to the System.

Changes in actuarial assumptions and other inputs:

The following changes to the actuarial assumptions were adopted in 2016:

- The normal cost method has been updated to align the calculation of the projected compensation and the total present value of plan benefits so that the normal cost rate reflects the most appropriate allocation of plan costs over future compensation.
The following changes to the actuarial assumptions were adopted in 2015:
- Correctly reflect the proportion of members that are assumed to take a refund of contributions upon termination and appropriately reflect the three-year COLA deferral period for Tier 2 Members.

Hot Springs Public School, Sanders County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2017

- The 0.63% load applied to the projected retirement benefits of the university members “to account for larger than average annual compensation increases observed in the years immediately preceding retirement” is not applied to benefits expected to be paid to university members on account of death, disability and termination (prior to retirement eligibility).
- The actuarial valuation was updated to reflect the assumed rate of retirement for university members at age 60 is 8.50% as stated in the actuarial valuation report.
- The actuarial valuation was updated to reflect the fact that vested terminations are only covered by the \$500 death benefit for the one year following their termination and, once again when the terminated member commences their deferred retirement annuity (they are not covered during the deferral period). Additionally, only the portion of the terminated members that are assumed to “retain membership in the System” are covered by the \$500 death benefit after termination.

The following changes to the actuarial assumptions were adopted in 2014:

- Assumed rate of inflation was reduced from 3.50% to 3.25%
- Payroll Growth Assumption was reduced from 4.50% to 4.00%
- Assumed real wage growth was reduced from 1.00% to 0.75%
- Investment return assumption was changed from net of investment and administrative expenses to net of investment expenses only.
- Mortality among contributing members, service retired members, and beneficiaries was updated to the following:

For Males: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.

For Females: RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.

- Mortality among disabled members was updated to the following:

For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.

For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Hot Springs Public School, Sanders County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2017

Method and assumptions used in calculations of actuarially determined contributions:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	24 years
Asset valuation method	4-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 to 8.51 percent, including inflation for Non-University Members and 5.00% for University Members;
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

Public Employees Retirement System (PERS)

Changes of Benefit Terms

The following changes to the plan provision were made as identified:

2013 Legislative Changes:

House Bill 454 - Permanent Injunction Limits Application of the GABA Reduction passed under HB 454

Guaranteed Annual Benefit Adjustment (GABA) - for PERS

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007 and before July 1, 2013
- Members hired on or after July 1, 2013
 - a. 1.5% each year PERS is funded at or above 90%;
 - b. 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and,
 - c. 0% whenever the amortization period for PERS is 40 years or more.

2015 Legislative Changes:

General Revisions - House Bill 101, effective January 1, 2016

Second Retirement Benefit - for PERS

1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and
- GABA starts again the January immediately following second retirement.

Hot Springs Public School, Sanders County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year Ended June 30, 2017

- 2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
 - member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
 - GABA starts the January after receiving recalculated benefit for 12 months.
- 3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
 - refund of member's contributions from second employment plus regular interest (currently 0.25%);
 - no service credit for second employment;
 - start same benefit amount the month following termination; and,
 - GABA starts again the January immediately following second retirement.
- 4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
 - member receives same retirement benefit as prior to return to service;
 - member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
 - GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Revise DC Funding Laws - House Bill 107, effective July 1, 2015

Employer Contributions and the Defined Contribution Plan – for PERS and MUS-RP

The PCR was paid off effective March 2016 and the contributions of 2.37%, .47%, and the 1.0% increase previously directed to the PCR are now directed to the Defined Contribution or MUS-RP member's account.

Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following addition was adopted in 2014 based on implementation of GASB Statement 68:

Admin Expense as % of Payroll 0.27%

There were no changes following the 2013 Economic Experience study.

The following Actuarial Assumptions were adopted from the June 2010 Experience Study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Merit increase	0% to 6.0%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed mark
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

SUPPLEMENTAL INFORMATION

**Hot Springs Public School
Sanders County, Montana
SCHEDULE OF ENROLLMENT
For the Fiscal Year Ended June 30, 2017**

Fall Enrollment - October, 2016

Elementary School District

	FALL		
	Per Enrollment	Audit Per	
	<u>Reports</u>	<u>District Records</u>	<u>Difference</u>
Kindergarten Full	18	18	0
Grades 1-6	83	83	0
Grades 7-8	49	49	0
Total Elementary	150	150	0

High School District

	FALL		
	Per Enrollment	Audit Per	
	<u>Reports</u>	<u>District Records</u>	<u>Difference</u>
Grades 9-12	80	80	0
19 year-olds	0	0	0
Job Corps students	0	0	0

Part-time Students

Per Enrollment Reports					Audit per District Records				Difference
Grade	< 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	1	0	0	1	1	0	0	1	0

Spring Enrollment - February, 2017

Elementary School District

	SPRING		
	Per Enrollment	Audit Per	
	<u>Reports</u>	<u>District Records</u>	<u>Difference</u>
Kindergarten - Full	18	18	0
Grades 1-6	84	84	0
Grades 7-8	49	49	0
Total Elementary	151	151	0

High School District

	SPRING		
	Per Enrollment	Audit Per	
	<u>Reports</u>	<u>District Records</u>	<u>Difference</u>
Grades 9-12	81	81	0
19 year-olds	0	0	0
Early Graduates	0	0	0
Job Corps students	0	0	0

Part-time Students

Per Enrollment Reports					Audit per District Records				Difference
Grade	< 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	2	0	0	0	2	0

Hot Springs Public Schools
Sanders County, Montana
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS ACCOUNTS
Fiscal Year Ended June 30, 2017

FUND ACCOUNT	Beginning Balance	Adjustment	Revenues	Expenditures	Transfers In(Out)	Ending Balance
H Club	\$ 104	\$ -	\$ -	\$ -	\$ (104)	\$ -
Class of 2017	1,908	-	867	1,911	-	864
Class of 2018	746	-	2,384	807	-	2,323
Class of 2019	311	-	690	53	-	948
Class of 2020	-	-	854	496	-	358
Class of 2021	-	-	-	-	-	-
Class of 2022	-	-	64	-	-	64
AAA	3,045	-	2,773	855	-	4,963
Annual	7,393	-	528	-	-	7,921
Athletics	2,151	911	15,271	17,948	104	489
Concessions	2,154	2,332	16,128	12,862	-	7,752
Girls Basketball - HS	(817)	1,269	525	935	-	42
Boys Basketball - HS	2,210	(1,765)	533	905	-	73
Football HS	900	-	-	-	-	900
French Club	750	(750)	-	-	-	-
Baldy Press	1,987	-	1,085	1,338	-	1,734
Cheerleading	206	-	-	-	-	206
Chromebook Fines	-	-	335	-	-	335
Counselor Fund	500	-	-	50	-	450
Cross Country	675	-	825	-	-	1,500
Crows Nest Fund	488	-	-	-	-	488
District Service	(737)	-	18,400	18,112	-	(449)
Drama	586	-	276	-	-	862
Elementary	3,202	-	-	195	-	3,007
Family Consumer Service	64	-	-	-	-	64
FCCLA	611	-	2,783	2,332	-	1,062
Volleyball - HS	2,023	-	6,920	8,034	-	909
Interest Income	-	-	2	-	-	2
Volleyball - JH	19	-	-	66	-	(47)
JMG	499	-	1,707	1,459	-	747
Junior High	562	-	-	15	-	547
Just Do It Scholarship	-	-	471	-	-	471
Library Fund	249	-	185	10	-	424
Music	136	-	-	-	-	136
Native American Club	1,144	-	69	895	-	318
PEP Club	93	-	945	485	-	553
ProStart	1,084	-	151	-	-	1,235
Registration & Misc.	585	-	831	1,553	4,189	4,052
Library Fund RIF	3,617	(1,756)	1,846	1,885	-	1,822
Shop & Mechanics	887	-	76	-	-	963
Softball	-	-	4,647	4,943	-	(296)
Sportsman Club	374	-	-	-	(374)	-
State Football Apparel	-	-	2,192	2,032	-	160
Student Council	645	-	121	22	-	744
Track	-	-	337	360	-	(23)
Tripp Memorial	382	-	-	-	-	382
Vending H.S.	3,815	-	-	-	(3,815)	-
Petty Cash	1,600	-	-	-	-	1,600
Scholarship Fund***	22,300	(22,300)	-	-	-	-
Total	\$ 68,451	\$ (22,059)	\$ 84,821	\$ 80,558	\$ -	\$ 50,655

***The scholarship fund shouldn't have been reported in the schedule of activities in the prior fiscal year and has been removed for proper reporting going forward.

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***

To the Board of Trustees
Hot Springs Public School
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 School, Sanders County, Montana, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Hot Springs Public School's basic financial statements and have issued our report thereon dated June 25, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies listed as items 2017-001 and 2017-002.

2017-001 Student Activities Internal Controls

Condition:

The receipting activity of the fundraising events and sales, raffles, pop machine, and other miscellaneous activities are not adequately documented when brought to the front office for deposit. Therefore, there is nothing to reconcile the deposits to, and no way to verify the amount deposited is correct.

Context:

The auditor completed a test of the internal controls related to the activities receipting processes using inquiry, inspection, observation and documentation.

Criteria:

Adequate internal control procedures would require adequate supporting documentation for all revenues received in order to ensure all money collected is accounted for.

Effect:

Internal control procedures related to the receipting processes of fundraising events and sales, raffles, pop machine and other miscellaneous activities are not adequate to prevent the misstatement of Student Activities revenue.

Cause:

Supporting documentation is not being remitted to the business office with the deposits being made in these areas.

Recommendation:

We also recommend that the District require supporting documentation to be remitted with all cash deposits that is adequate to determine whether all money received was properly deposited.

2017-002 Student Activities Reporting

Condition:

The District had the following reporting errors in the student activities fund:

- (1) The District put on a fundraising event for two teachers, and reported the activity in an activity fund.
- (2) The District overstated its revenues and expenditures for reimbursement type activities.

Context:

The auditor completed detailed testing of the student activities fund through inquiry, observation, and inspection to address a specific risk noted in our risk assessment.

Criteria:

- (1) The Student Activities funds should only have receipts and disbursements related to student activities.
- (2) Transfers between funds and from the District to reimburse the activities should offset the expenditure account.

Effect:

- (1) The District is not in compliance with the requirements of operating a student activities fund causing the activities revenues and expenditures to be overstated \$9,516, and the Miscellaneous programs fund revenues and expenditures to be understated \$9,516.
- (2) The activities revenues and expenditures are overstated \$8,884 and \$8,596.

Cause:

- (1) A separate project reporter code was not set up in the Miscellaneous Programs fund to account for the funds raised and disbursed to the teachers.
- (2) The District did not remove the District Service Fund activity when reporting its student activities as the revenues and expenditures were separate.

Recommendation:

- (1) We recommend that the District not deposit or disburse any funds into the student activities accounts if the activity is not related to the students, and record this activity in the Miscellaneous Programs Fund.
- (2) We recommend that the District record refunds and reimbursements as an offset to the expenditures, or adjust the student activities schedule appropriately when reporting the activity of the Student Activities Funds.

Compliance and Other Matters

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

Hot Springs Public School's Response to Findings

Hot Springs Public School's response to the findings identified in our audit is described in the Auditee's Corrective Action Plan. Hot Springs Public School's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

June 25, 2018

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

To the Board of Trustees
Hot Springs Public School
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>
2016-001 Overstated Title I Revenues	Implemented
2016-002 Taxes Receivable	Implemented
2016-003 Timely Deposits	Implemented
Extracurricular Activities	
2016-004 Instructional Minutes	Implemented

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

June 25, 2018

Hot Springs Public Schools #14-J

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



Contact Person:

Carmen Jackson
Business Manager/Clerk
406-741-2964
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Expected Completion Date of Corrective Action Plan:
6/30/2019

CORRECTIVE ACTION PLAN

FINDING 2017-001: Student Activities Internal Controls

Response:

The District will begin utilizing a cash reconciliation form for raffles and other events including documentation of raffle ticket numbers sold corresponding with cash received. Regarding the pop machine revenue, checks stubs will be attached to the receipt.

FINDING 2017-002: Student Activities Reporting

Response:

The District will determine a documentation strategy for all unusual fundraising events such as the medical benefit for the staff members during 2017. The documentation will include items sold and profits raised/donated, along with an event sponsor signature.

The District recognizes the use of a “District Service” to reimburse some types of expenditures overstates revenues and expenses in the Activity Fund and will omit these expenses and revenues from the Activity Fund reporting at year end.

STATUS OF PRIOR AUDIT FINDINGS

FINDING 2016-001: Overstated Title I Revenues

Response:

This finding was resolved in fiscal year 2017.

FINDING 2016-002: Taxes Receivable

Response:

This finding was resolved in fiscal year 2017.

FINDING 2016-003: Timely Deposits – Extracurricular Activities

Response:

This finding was resolved in fiscal year 2017.

FINDING 2016-004: Instructional Minutes

Response:

This finding was resolved in fiscal year 2017.