

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

AUDIT REPORT

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

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
Fiscal Year Ended June 30, 2014

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DARBY PUBLIC SCHOOLS

RAVALLI COUNTY, MONTANA

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DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2014

BOARD OF TRUSTEES

Erik Abrahamsen
Kate Duggan
Christina Harrell
Tyson Lind
Jade Muir

Chairperson
Vice Chairperson
Trustee
Trustee
Trustee

DISTRICT OFFICIALS

Loyd Rennaker
Lisa Poe
Michael Williams
Bill Fullbright

District Superintendent
Business Manager
County Superintendent
County Attorney

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2014

The Business Manger of the Darby School District has provided this Management Discussion and Analysis (MD&A) to give the reader of these statements an overview of the financial position and activities of the school district for the year covered by this audit report.

FINANCIAL HIGHLIGHTS

The District's financial position was sufficient in 2014 with total net position increasing by 8%. Revenues, both general (defined as: all revenues unless they are required to be reported as program revenues, including all taxes) and program, have increased by 14%. General Fund expenses increased by 4%, while overall Program expenses have decreased by 1%.

The district did not achieve Annual Yearly Progress (AYP) for the seventh consecutive year. The district is now in corrective action year 3. Due to the changes in the assessment procedure for the state of Montana as they are switching to the Smarter Balanced Assessment our status could not change last year. The test was given as a pilot last year.

The General Fund budget including the budget amendment of \$2,531,234 increased \$44,779 from the 2012-13 budget. In recent years the District's enrollment has been decreasing but lately we have been holding steady. The state allows schools to use either the previous year's ANB or three-year averaging, whichever is to the district's advantage, to determine funding. Three year averaging helps mitigate the financial hardship of the drop in K-12 enrollment for Darby Schools.

The District has made significant progress in purchasing and receiving donations of BioMass fuel in the form of whole logs, then paying to have them chipped into useable fuel. This also helps to ensure a steady inventory of quality fuel. The District has been working in conjunction with the City of Darby to secure and store the fuel supply. We have purchased a used chipper this year in order to chip the donated logs ourselves.

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.

This annual report consists of financial statements for the District as a whole, with more detailed information for certain District funds which are considered major funds. Major funds are defined as the General Fund and other funds where the position, liabilities, revenue, or expenditures exceed 10% of total government fund amounts. This year the major funds are the General Fund, Bus Depreciation, Retirement and the Miscellaneous Fund.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

This report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using economic resources, measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements. Generally accepted accounting principles require that only major funds are disclosed in these financial statements.

- A. A. The Statement of Net Position shows the “assets” (what is owned), “liabilities” (what is owed) and the “net position” (the resources that would remain if all obligations were settled) of the School District. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in “fixed” or “capital” assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.
- B. The Statement of Activities, shows the amounts of program-specific and general school district revenues used to support the school district’s various functions.

REPORTING THE DISTRICT’S MOST SIGNIFICANT FUNDS

The fund statements provide detailed information about the funds used by the School District. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant, or “major” funds separately and combines the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school 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 column.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds, such as the general fund, and special revenue funds: transportation, bus depreciation, retirement, school foods, debt service and capital outlay. These funds use the modified accrual basis of accounting and represent the majority of the district’s activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. Most significant differences result from the use of different presentation basis. The district-wide statements are presented using the 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 RESPONSIBILITES

The District is the trustee, or fiduciary, for: Sadie Summers Scholarship Fund, Storer-Flightner Scholarship Fund, Rebekkah Club Scholarship Fund, Milo Wilson Scholarship Fund, Alma Hayes Scholarship Fund, Mary Beth Blinn Scholarship Fund and the student extracurricular fund. This report includes the activities in a separate Statement of Fiduciary Net position and Changes in Fiduciary Net position because the district cannot use these assets to fund its operations. The district is responsible for ensuring these assets are used for their intended purpose.

BUDGET-TO-ACTUAL COMPARISON

The budgetary comparison schedules show how actual expenditures compare to the original and final budgeted expenditures for the general fund. The Instructional – regular line was under spent by \$21,577. The special education budget was under spent by \$28,667 Vocational education budget was under spent by \$17,284. Operations and maintenance was over spent as \$55,466. General administration was over spent by \$7,436. School administration-Business was over spent by \$1,657. In FY14 there was an amendment to the General fund in the amount of \$65,000 and the Retirement fund for \$25,000.

THE DISTRICT AS A WHOLE

This section is an analysis of the district’s financial activities using information from the district-wide financial statements, in comparison with the previous years. One important question that will be asked and analyzed in future years about the District’s finances “is the District better or worse off as a result of the year’s activities”. The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis for accounting, with the addition of reporting depreciation on capital assets. This is similar to the basis of accounting used by most private-sector companies.

Changes in net position over time are one indicator of whether the District’s financial health is improving or deteriorating. However, there are other nonfinancial factors that influence the District’s fiscal health, such as changes in enrollment, changes in the State’s funding of educational costs, changes in the economy, changes in the District’s tax base, etc.

Changes in the District’s net position were as follows:

STATEMENT OF NET POSITION

	FY 2014	FY 2013	VARIANCE
Current Assets	\$1,177,463	\$1,227,732	\$ (50,269)
Capital Assets - net	\$2,774,730	\$2,568,204	\$206,526
Total Assets	<u>\$3,951,893</u>	<u>\$3,795,936</u>	<u>\$155,957</u>
Long-term debt outstanding	\$927,120	\$781,654	\$145,466
Other Liabilities	\$ 47,076	\$52,147	\$ (5,071)
Total Liabilities	<u>\$974,196</u>	<u>\$833,801</u>	<u>\$ 140,395</u>
Net Investment in capital assets	\$2,774,730	\$2,568,204	\$206,526
Restricted	\$747,215	\$773,491	\$ (26,276)
Unrestricted (deficit)	<u>\$ (544,248)</u>	<u>\$ (379,560)</u>	<u>\$ (164,388)</u>
Total Net Position	<u>\$2,977,697</u>	<u>\$2,962,135</u>	<u>\$15,562</u>

Changes in the District's revenues were as follows:

STATEMENT OF ACTIVITIES			
	FY 2014	FY 2013	VARIANCE
Program revenues (by major source):			
Charges for services	\$70,446	\$67,758	\$2,688
Operating grants and contributions	\$1,299,857	\$942,574	\$357,283
General revenues (by major source):			
Property taxes for general purpose	\$1,278,801	\$1,142,602	\$136,199
Investment earnings	\$6,093	\$8,491	\$(2,398)
Miscellaneous (other revenue)	\$28,505	\$11,057	\$17,448
TOTAL REVENUE	\$4,579,289	\$4,082,566	\$496,723
	FY 2014	FY 2013	VARIANCE
Program Expenses:			
Instructional - regular	\$2,150,504	\$2,115,428	\$35,076
Instructional - special education	\$418,636	\$434,289	\$(15,653)
Instructional - vocational education	\$55,406	\$79,053	\$(23,647)
Instructional - adult education	\$19,157	\$20,500	\$(1,343)
Supporting services - general	\$79,613	\$73,550	\$6,063
Administration - school	\$197,352	\$177,994	\$19,358
Student Transportation	\$420,753	\$404,349	\$16,404
Extracurricular	\$124,733	\$132,778	\$(8,045)
Total Expenses	\$4,563,720	\$4,517,107	\$46,613
Increase (Decrease) in net position	\$15,569	\$(434,541)	\$450,110

ANALYSIS OF FINANCIAL INFORMATION

The following analysis is provided to help the reader understand the major operations of the school district, where the resources come from, what the resources are used for, and trends, decisions and events that are expected to affect the district's financial situation in the future. Historical information from one or more prior years is shown to illustrate trends, problems, and achievement of the district's goals.

1. What Does the School Do?

The District offers to children residing in its boundaries, a Free and Appropriate Education, provides transportation to and from school and provides breakfast and lunch for children that desire it.

2. Where do the Resources Come From?

The major funds of the District this year are the General, Transportation, Bus Depreciation Retirement and Miscellaneous Programs. The revenue for the General Fund is comprised of 34% local taxes and 66%, coming from the State. The Transportation Fund is funded with 61% local revenue, 18% county, and 21% state revenue. Bus Depreciation is 100% local revenue. Retirement is fully funded by the county.

3. What Does it Cost?

The major function of the General Fund is instruction of students. The cost in the General Fund of instruction, which includes instructional salaries/wages, books, testing, etc., for regular education, special education and vocational education students, was \$1,500,618. This was 48% of the total General Fund expenditures, compared to 62% the previous year. The next largest expenditures in the General Fund are in operations and maintenance at \$396,989 which was 18% of the total expenditures, compared to 15% the previous year. This figure includes salaries, repair, cleaning & maintenance supplies and utilities. Administration (building, general and school), was \$323,240 which was 13% of the General Fund, which compares to 12% in the previous school year. Extracurricular activities (including transportation for those activities) were \$110,982 or 5% of the General Fund budget, which is about the same percentage as the previous year. Bus Depreciation is a fund that is set up to replace school buses. The Retirement Fund is solely for the purpose of paying social security, TRS, PERS, and unemployment costs for employees of the District.

4. What are the Capital Assets and Debt of the District?

The District has \$2,775,820 in capital assets, with the following breakdown:

\$13,020 Capital assets land

\$2,762,800 Capital assets depreciable, net

5. Fund Deficit

There is one fund with a cash deficit, the Tuition Fund of \$2.09. The Tuition Fund is collecting back taxes and penalty and interest.

6. What Changes and Trends Affect the District's Future?

Although the Darby District demographics are changing, it appears that the majority of the people that are moving in are not families with school-age children. There are few employment opportunities in the area which pay a wage that can support a family.

The predicted trend for the near future is for Darby Schools to remain steady in enrollment.

There are no major subdivisions or major taxpayer additions known of at this time that would impact our tax base.

The District has a Technology Levy which gives the District the ability to keep our Technology current.

Even with the new funding challenges, the Darby staff remains committed to providing a high quality and a diverse education for the students. A wide array of extracurricular and athletic activities exists to encourage participation by the student population. Federal dollars and grants continue to provide professional development opportunities for the motivation and knowledge of staff.

CONTACT FOR FURTHER INFORMATION

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Darby Public Schools, Ravalli County, Montana, as of and for the year ended June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 7, 32 through 36, and 37 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 expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements.

The accompanying schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. 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 the schedule of enrollment and the schedule of expenditures of federal awards 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 March 4, 2015, on our consideration of the Darby Public Schools, Ravalli 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 Darby Public Schools, Ravalli County, Montana's internal control over financial reporting and compliance.

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

March 4, 2015

Darby Public School, Ravalli County, Montana
Statement of Net Position
June 30, 2014

		Governmental Activities
ASSETS		
Current assets:		
Cash and investments	\$	938,510
Taxes and assessments receivable, net		182,724
Due from other governments		55,929
Total current assets	\$	1,177,163
Noncurrent assets		
Capital assets - land	\$	13,020
Capital assets - depreciable, net		2,762,800
Total noncurrent assets	\$	2,775,820
Total assets	\$	3,952,983
LIABILITIES		
Current liabilities		
Accounts payable	\$	45,267
Due to other governments		1,809
Current portion of compensated absences payable		45,396
Total current liabilities	\$	92,472
Noncurrent liabilities		
Noncurrent portion of long-term liabilities	\$	732,973
Noncurrent portion of compensated absences		148,751
Total noncurrent liabilities	\$	881,724
Total liabilities	\$	974,196
NET POSITION		
Net investment in capital assets	\$	2,775,820
Restricted for capital projects		291,024
Restricted for debt service		15,269
Restricted for special projects		440,922
Unrestricted		(544,248)
Total net position	\$	2,978,787

See accompanying Notes to the Financial Statements

Darby Public School, Ravalli County, Montana
Statement of Activities
For the Fiscal Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
Primary government:		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>
Governmental activities:				<u>Governmental Activities</u>
Instructional - regular	\$ 2,149,414	\$ 33,509	\$ 415,580	\$ (1,700,325)
Instructional - special education	418,636	-	203,932	(214,704)
Instructional - vocational education	55,406	-	6,872	(48,534)
Instructional - adult education	19,157	-	-	(19,157)
Supporting services - operations & maintenance	448,352	-	397,880	(50,472)
Supporting services - general	79,613	-	-	(79,613)
Supporting services - educational media services	77,907	-	-	(77,907)
Administration - general	141,126	-	-	(141,126)
Administration - school	197,352	-	-	(197,352)
Administration - business	77,366	-	-	(77,366)
Student transportation	420,753	-	123,086	(297,667)
Extracurricular	124,733	-	-	(124,733)
School food	198,040	36,937	152,207	(8,896)
Unallocated depreciation*	154,775	-	-	(154,775)
Total primary government	\$ 4,562,630	\$ 70,446	\$ 1,299,557	\$ (3,192,627)
General Revenues:				
			\$	1,278,801
				1,355,820
				6,093
				28,505
				160,870
				5,311
				373,886
			\$	3,209,286
			\$	16,659
			\$	2,962,135
				(7)
			\$	2,962,128
			\$	2,978,787

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

Darby Public School, Ravalli County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	General	Transportation	Bus Depreciation	Retirement	Miscellaneous Programs	Other Governmental Funds	Total Governmental Funds
ASSETS							
Current assets:							
Cash and investments	\$ 283,835	\$ 62,144	\$ 232,415	\$ 73,504	\$ 97,598	\$ 189,014	\$ 938,510
Taxes and assessments receivable, net	126,034	31,843	11,534	-	-	13,313	182,724
Due from other governments	-	-	-	-	55,929	-	55,929
Total assets	\$ 409,869	\$ 93,987	\$ 243,949	\$ 73,504	\$ 153,527	\$ 202,327	\$ 1,177,163
Current liabilities:							
Accounts payable	\$ 40,738	\$ -	\$ -	\$ 3,475	\$ 1,052	\$ 2	\$ 45,267
Due to other governments	-	-	-	-	1,809	-	1,809
Total liabilities	\$ 40,738	\$ -	\$ -	\$ 3,475	\$ 2,861	\$ 2	\$ 47,076
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows of resources	\$ 126,034	\$ 31,843	\$ 11,534	\$ -	\$ -	\$ 13,313	\$ 182,724
Total deferred inflows of resources	\$ 126,034	\$ 31,843	\$ 11,534	\$ -	\$ -	\$ 13,313	\$ 182,724
FUND BALANCES							
Restricted	\$ -	\$ 62,144	\$ 232,415	\$ 70,029	\$ 150,666	\$ 174,973	\$ 690,227
Assigned	75,891	-	-	-	-	-	75,891
Unassigned fund balance	167,206	-	-	-	-	14,039	181,245
Total fund balance	\$ 243,097	\$ 62,144	\$ 232,415	\$ 70,029	\$ 150,666	\$ 189,012	\$ 947,363

See accompanying Notes to the Financial Statements

Darby Public School, Ravalli County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund balances - governmental funds	\$	947,363
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,775,820
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.		182,724
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(927,120)
Total net position - governmental activities	\$	<u><u>2,978,787</u></u>

See accompanying Notes to the Financial Statements

Darby Public School, Ravalli County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	<u>General</u>	<u>Transportation</u>	<u>Bus Depreciation</u>	<u>Retirement</u>	<u>Miscellaneous Programs</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES							
Local revenue	\$ 820,250	\$ 206,880	\$ 68,101	\$ -	\$ 127,487	\$ 139,436	\$ 1,362,154
County revenue	-	64,224	-	373,886	-	-	438,110
State revenue	1,635,676	67,150	-	-	418,079	9,495	2,130,400
Federal revenue	-	-	-	-	400,476	148,024	548,500
Total revenues	<u>\$ 2,455,926</u>	<u>\$ 338,254</u>	<u>\$ 68,101</u>	<u>\$ 373,886</u>	<u>\$ 946,042</u>	<u>\$ 296,955</u>	<u>\$ 4,479,164</u>
EXPENDITURES							
Instructional - regular	\$ 1,158,660	-	-	\$ 312,506	\$ 459,387	\$ 43,126	\$ 1,973,679
Instructional - special education	297,934	-	-	35,061	85,641	-	418,636
Instructional - vocational education	44,024	-	-	4,804	6,578	-	55,406
Instructional - adult education	-	-	-	-	-	19,157	19,157
Supporting services - operations & maintenance	396,989	18,006	-	26,838	-	-	441,833
Supporting services - general	58,349	-	-	8,211	13,053	-	79,613
Supporting services - educational media services	68,609	-	-	9,298	-	-	77,907
Administration - general	110,105	19,173	-	11,252	-	596	141,126
Administration - school	150,356	25,722	-	21,274	-	-	197,352
Administration - business	47,779	22,067	-	7,520	-	-	77,366
Student transportation	15,810	259,376	-	22,159	9,749	-	307,094
Extracurricular	110,982	-	-	13,101	-	-	124,083
School food	-	-	-	12,345	12,955	170,424	195,724
Capital outlay	66,500	15,120	-	-	434,184	-	515,804
Total expenditures	<u>\$ 2,526,097</u>	<u>\$ 359,464</u>	<u>\$ -</u>	<u>\$ 484,369</u>	<u>\$ 1,021,547</u>	<u>\$ 233,303</u>	<u>\$ 4,624,780</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (70,171)</u>	<u>\$ (21,210)</u>	<u>\$ 68,101</u>	<u>\$ (110,483)</u>	<u>\$ (75,505)</u>	<u>\$ 63,652</u>	<u>\$ (145,616)</u>
Net Change in Fund Balance	<u>\$ (85,171)</u>	<u>\$ (21,210)</u>	<u>\$ 68,101</u>	<u>\$ (110,483)</u>	<u>\$ (75,505)</u>	<u>\$ 78,652</u>	<u>\$ (145,616)</u>
Fund balances - beginning	\$ 328,268	\$ 83,354	\$ 164,314	\$ 180,512	\$ 226,171	\$ 110,367	\$ 1,092,986
Restatements	-	-	-	-	-	(7)	(7)
Fund balances - beginning, restated	<u>\$ 328,268</u>	<u>\$ 83,354</u>	<u>\$ 164,314</u>	<u>\$ 180,512</u>	<u>\$ 226,171</u>	<u>\$ 110,360</u>	<u>\$ 1,092,979</u>
Fund balance - ending	<u>\$ 243,097</u>	<u>\$ 62,144</u>	<u>\$ 232,415</u>	<u>\$ 70,029</u>	<u>\$ 150,666</u>	<u>\$ 189,012</u>	<u>\$ 947,363</u>

See accompanying Notes to the Financial Statements

Darby Public School, Ravalli 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, 2014

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

Net change in fund balances - total governmental funds	\$	(145,616)
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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		515,804
- Depreciation expense		(308,188)

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)		100,125
--	--	---------

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

(10,986)

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

- Post-employment benefits other than retirement liability		(134,480)
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Change in net position - Statement of Activities	\$	16,659
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See accompanying Notes to the Financial Statements

Darby Public School, Ravalli County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	\$ 103,850	\$ 187,263
Total assets	\$ 103,850	\$ 187,263
LIABILITIES		
Warrants payable	\$ -	\$ 56,756
Due to others	-	130,507
Total liabilities	\$ -	\$ 187,263
NET POSITION		
Assets held in trust	\$ 103,850	

See accompanying Notes to the Financial Statements

Darby Public School, Ravalli County, Montana
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

		<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Student activities	\$	95,945
Total contributions		<u>95,945</u>
Investment earnings:		
Interest and change in fair value of investments		<u>63</u>
Net investment earnings		<u>63</u>
Total additions	\$	<u>96,008</u>
DEDUCTIONS		
Student activities	\$	84,149
Community services		<u>275</u>
Total deductions	\$	<u>84,424</u>
Change in net position	\$	<u>11,584</u>
Net Position - Beginning of the year	\$	93,543
Restatements		<u>(1,277)</u>
Net Position - Beginning of the year - Restated	\$	<u>92,266</u>
Net Position - End of the year	\$	<u><u>103,850</u></u>

See accompanying Notes to the Financial Statements

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Reporting Entity

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 as defined in GASB 14, 39 or 61.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business type activities.

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not 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, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

Fund Financial Statements:

Basis of Presentation

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

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

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

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

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.

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Retirement Fund - This fund is used to account for employee benefits related to retirement.

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

Fiduciary Funds

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

Private-purpose Trust Funds – To report all other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

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

Student Extracurricular Activities Fund – The Student Extracurricular Activities Fund is authorized by Section 20-9-504, MCA, to account for various student activities, such as athletics, clubs, classes, student government organizations, student publications and other such activities. Separate fund accounts within the Extracurricular Fund are maintained to account for these various activities. Unlike other district funds, the money for these activities may be maintained in bank accounts outside the control of the County Treasurer. The fund is administered by school district administrators, faculty members, and student organizations under the guidelines and policies established by the Board of

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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 and the private purpose trust funds are held by the County Treasurer and pooled with other County cash. School district cash which is not necessary for short-term obligations, the District participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County’s investment portfolio as of June 30, 2014, consisted of Demand Deposits, Money Market, Savings, STIP, CD's and US Government Securities. Interest earned on pooled investments is distributed to each contributing entity and fund on a pro rata basis.

The School District does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Ravalli County deposits and investments is available from Ravalli County Treasurer’s office, 205 Bedford Street, Hamilton, MT 59840. Fair value approximates carrying value for investments as of June 30, 2014. The Ravalli County 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 \$104,166 and the bank balance was \$97,490. The District’s deposits at year-end were fully insured by FDIC.

NOTE 3. RECEIVABLES

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

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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.

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	25 - 50 years
Improvements	8 - 30 years
Equipment	5 - 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 not yet included the value of all infrastructure into the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Governmental activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Adjustments</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 13,020	\$ -	\$ -	\$ 13,020
Other capital assets:				
Buildings	\$ 3,959,361	\$ 449,304	\$ -	\$ 4,408,665
Improvements other than buildings	506,708	-	-	506,708
Machinery and equipment	1,922,138	66,500	46,324	2,034,962
Total other capital assets at historical cost	<u>\$ 6,388,207</u>	<u>\$ 515,804</u>	<u>\$ 46,324</u>	<u>\$ 6,950,335</u>
Less: accumulated depreciation	<u>\$ (3,833,023)</u>	<u>\$ (308,188)</u>	<u>\$ (46,324)</u>	<u>\$ (4,187,535)</u>
Total	<u><u>\$ 2,568,204</u></u>	<u><u>\$ 207,616</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,775,820</u></u>

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

Governmental Activities:

Instructional – regular	\$ 30,269
Supporting services – operations and maintenance	6,519
Student transportation	113,659
School food	2,316
Extracurricular	650
Unallocated	<u>154,775</u>
Total governmental activities depreciation expense	<u><u>\$ 308,188</u></u>

NOTE 6. LONG TERM DEBT OBLIGATIONS

In the governmental-wide financial statements, outstanding debt is reported as liabilities.

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

Governmental Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
Compensated absences	\$ 183,161	\$ 10,986	\$ 194,147	\$ 45,396
Other post-employment benefits*	598,493	134,480	732,973	-
Total	<u><u>\$ 781,654</u></u>	<u><u>\$ 145,466</u></u>	<u><u>\$ 927,120</u></u>	<u><u>\$ 45,396</u></u>

*See Note 7

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

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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.

Teachers earn 7.5 hours of sick leave for every 90 hours worked with a maximum of 120 hours per year accumulative to 675 hours for the term of the contract.

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

NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN

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

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

Funding Status and funding Progress. The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$ 1,057,759
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 1,057,759</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,894,201
UAAL as a percentage of covered payroll	55.84%

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

Annual Required Contribution (ARC)	\$	134,480
Interest on net OPEB obligation		-
Adjustment to ARC		-
Annual OPEB cost (expense)	\$	134,480
Contributions made		-
Increase in net OPEB obligation	\$	134,480
Net OPEB obligation - beginning of year		598,493
Net OPEB obligation - end of year	\$	732,973

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

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	60
Discount rate (average anticipated rate)	0.17%
Average salary increase (Consumer Price Index)	2.8%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>	

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

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 8. STATE-WIDE RETIREMENT PLANS

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

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

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

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

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

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

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

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

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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

	<u>PERS</u>	<u>TRS</u>
2012	\$ 39,082	\$ 114,617
2013	\$ 37,941	\$ 139,738
2014	\$ 43,027	\$ 146,114

NOTE 9. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

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

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

Restricted Fund Balance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Transportation	\$ 62,144	Student transportation
Bus Depreciation	232,415	Student transportation
Retirement	70,029	Instructional - regular
Miscellaneous programs	150,666	Instructional - regular
All other aggregate:		
	17,772	School food
	6,753	Instructional - adult education
	103,373	Instructional - regular
	<u>47,075</u>	Supporting services - operations and maintenance
Total	<u>\$ 690,227</u>	

Other Significant Commitments

Encumbrances

<u>Fund</u>	<u>Amount of Encumbrance</u>
General	<u>\$ 75,891</u>

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 10. 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>
Traffic education	\$ (7)	Prior period revenue adjustment
Extracurricular	<u>(1,277)</u>	Prior period revenue adjustment
	<u>\$ (1,284)</u>	

NOTE 11. 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.

Special Education Cooperative

Darby Public Schools is a member of the Bitterroot Valley Special Education Cooperative. The Cooperative is comprised of 7 districts, each of which contributes to the operating costs of the Cooperative based on an annual fiscal budget adopted by the Cooperative and the benefits derived from the Cooperative's services. The Board of the Cooperative is made up of the six district superintendents. Separate financial statements can be obtained from Bitterroot Valley Education Cooperative, P.O. Box 187, Stevensville, MT 59870, (406) 777-2494.

Trapper Creek Job Corps Center

The District has a working relationship with the Trapper Creek Job Corps Center. The agreement is a joint effort to provide alternative educational opportunities for high school students who fall short of meeting the minimum requirements set forth by the district. The center is an institution of educational and vocational training for youth between the ages of 16 and 24 and is recognized as a school by the United States Department of Labor and is accredited by the Northwest Association of Schools and Colleges. Upon completion of the prescribed courses, the Center will submit the student's name to the Darby District Superintendent for awarding a high school diploma. Separate financial statements can be obtained from Trapper Creek Job Corps, 5139 West Fork Road, Darby, MT 59829.

Ravalli County Curriculum Consortium

The District is a member of the Ravalli County Curriculum Consortium. The purpose is to maintain and employ personnel to oversee and coordinate the operation and management of education services including joint purchases of material and the curriculum development process. The Cooperative member districts each contribute to the operating cost of the Cooperative based on the annual fiscal budget adopted by the Cooperative and the benefits derived from the Cooperative's services. The Victor School District is the prime fiscal agent.

DARBY PUBLIC SCHOOLS
RAVALLI COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Montana Youth ChalleNGe

The District has a Memorandum of Understanding with Montana Youth ChalleNGe Academy to provide academic, vocational and social skill training to qualified students. Credits earned were to be reported to the student's school district of residence. Montana Youth ChalleNGe Academy students are funded through the Department of Defense and the State of Montana. The Academy is accredited by the Northwest Association of Schools and Colleges. The student must be enrolled in the district of residence for the district to include the student in their enrollment count for the purposes of calculating ANB. The student must also be enrolled as a student in the Academy.

NOTE 12. RISK MANAGEMENT

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

Insurance 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.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Darby Public School, Ravalli County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	General			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY	WITH FINAL
			BASIS) See Note A	BUDGET
RESOURCES (INFLOWS):				
Local revenue	\$ 850,300	\$ 850,300	\$ 820,128	\$ (30,172)
County revenue	-	-	-	-
State revenue	1,616,382	1,616,382	1,616,382	-
Amounts available for appropriation	<u>\$ 2,466,682</u>	<u>\$ 2,466,682</u>	<u>\$ 2,436,510</u>	<u>\$ (30,172)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ 1,185,627	\$ 1,185,627	\$ 1,164,050	\$ 21,577
Instructional - special education	326,601	326,601	297,934	28,667
Instructional - vocational education	61,308	61,308	44,024	17,284
Supporting services - operations & maintenance	385,702	385,702	441,168	(55,466)
Supporting services - general	66,413	66,413	58,349	8,064
Supporting services - educational media services	68,789	68,789	68,609	180
Administration - general	104,593	104,593	112,029	(7,436)
Administration - school	146,193	146,193	165,356	(19,163)
Administration - business	49,436	49,436	47,779	1,657
Student transportation	24,110	24,110	15,810	8,300
Extracurricular	110,910	110,910	115,574	(4,664)
School food	-	-	-	-
Capital outlay	-	-	-	-
Other current charges	2,000	2,000	-	2,000
Total charges to appropriations	<u>\$ 2,531,682</u>	<u>\$ 2,531,682</u>	<u>\$ 2,530,682</u>	<u>\$ 1,000</u>
Net change in fund balance			<u>\$ (94,172)</u>	
Fund balance - beginning of the year			<u>\$ 255,988</u>	
Fund balance - end of the year			<u><u>\$ 161,816</u></u>	

Darby Public School, Ravalli County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	Transportation			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Local revenue	\$ 213,707	\$ 213,707	\$ 206,880	\$ (6,827)
County revenue	65,329	65,329	64,224	(1,105)
State revenue	73,617	73,617	67,150	(6,467)
Amounts available for appropriation	<u>\$ 352,653</u>	<u>\$ 352,653</u>	<u>\$ 338,254</u>	<u>\$ (14,399)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ -	\$ -	\$ -	\$ -
Instructional - special education	-	-	-	-
Instructional - vocational education	-	-	-	-
Supporting services - operations & maintenance	15,300	15,300	18,006	(2,706)
Supporting services - general	-	-	-	-
Supporting services - educational media services	-	-	-	-
Administration - general	18,467	18,467	19,173	(706)
Administration - school	26,052	26,052	25,722	330
Administration - business	21,999	21,999	22,067	(68)
Student transportation	281,522	281,522	259,376	22,146
Extracurricular	-	-	-	-
School food	-	-	-	-
Capital outlay	-	-	15,120	(15,120)
Other current charges	-	-	-	-
Total charges to appropriations	<u>\$ 363,340</u>	<u>\$ 363,340</u>	<u>\$ 359,464</u>	<u>\$ 3,876</u>
Net change in fund balance			<u>\$ (21,210)</u>	
Fund balance - beginning of the year			<u>\$ 83,354</u>	
Fund balance - end of the year			<u><u>\$ 62,144</u></u>	

Darby Public School, Ravalli County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

Bus Depreciation				
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL
			(BUDGETARY	BUDGET
			BASIS) See Note A	
RESOURCES (INFLOWS):				
Local revenue	\$ 70,000	\$ 70,000	\$ 68,101	\$ (1,899)
County revenue	-	-	-	-
State revenue	-	-	-	-
Amounts available for appropriation	\$ 70,000	\$ 70,000	\$ 68,101	\$ (1,899)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ -	\$ -	\$ -	\$ -
Instructional - special education	-	-	-	-
Instructional - vocational education	-	-	-	-
Supporting services - operations & maintenance	-	-	-	-
Supporting services - general	-	-	-	-
Supporting services - educational media services	-	-	-	-
Administration - general	-	-	-	-
Administration - school	-	-	-	-
Administration - business	-	-	-	-
Student transportation	117,157	117,157	-	117,157
Extracurricular	-	-	-	-
School food	-	-	-	-
Capital outlay	117,157	117,157	-	117,157
Other current charges	-	-	-	-
Total charges to appropriations	\$ 234,314	\$ 234,314	\$ -	\$ 234,314
Net change in fund balance			\$ 68,101	
Fund balance - beginning of the year			\$ 164,314	
Fund balance - end of the year			\$ 232,415	

Darby Public School, Ravalli County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	Retirement			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS (BUDGETARY BASIS) See Note A	WITH FINAL BUDGET
RESOURCES (INFLOWS):				
Local revenue	\$ -	\$ -	\$ -	\$ -
County revenue	375,930	375,930	373,886	(2,044)
State revenue	-	-	-	-
Amounts available for appropriation	<u>\$ 375,930</u>	<u>\$ 375,930</u>	<u>\$ 373,886</u>	<u>\$ (2,044)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Instructional - regular	\$ 286,765	\$ 286,765	\$ 312,506	\$ (25,741)
Instructional - special education	44,000	44,000	35,061	8,939
Instructional - vocational education	8,800	8,800	4,804	3,996
Supporting services - operations & maintenance	29,000	29,000	26,838	2,162
Supporting services - general	8,250	8,250	8,211	39
Supporting services - educational media services	10,300	10,300	9,298	1,002
Administration - general	14,600	14,600	11,252	3,348
Administration - school	25,750	25,750	21,274	4,476
Administration - business	8,800	8,800	7,520	1,280
Student transportation	29,060	29,060	22,159	6,901
Extracurricular	9,225	9,225	13,101	(3,876)
School food	14,152	14,152	12,345	1,807
Capital outlay	-	-	-	-
Other current charges	-	-	-	-
Total charges to appropriations	<u>\$ 488,702</u>	<u>\$ 488,702</u>	<u>\$ 484,369</u>	<u>\$ 4,333</u>
Net change in fund balance			<u>\$ (110,483)</u>	
Fund balance - beginning of the year			<u>\$ 180,512</u>	
Fund balance - end of the year			<u><u>\$ 70,029</u></u>	

Darby Public School, Ravalli 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>	<u>Retirement</u>
Sources/Inflows of resources				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 2,436,510	\$ 338,254	\$ 68,101	\$ 373,886
Combined funds (GASBS 54) revenues	19,416	-	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	<u>\$ 2,455,926</u>	<u>\$ 338,254</u>	<u>\$ 68,101</u>	<u>\$ 373,886</u>
Uses/Outflows of resources				
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,515,682	\$ 359,464	\$ -	\$ 484,369
Combined funds (GASBS 54) expenditures	60,000	-	-	-
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	26,305	-	-	-
- Encumbrances reported at the end of the year	(75,890)	-	-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,526,097</u>	<u>\$ 359,464</u>	<u>\$ -</u>	<u>\$ 484,369</u>

Note B

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

Darby Public Schools
REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 1,132,049	\$ 1,132,049	0%	\$ 1,989,993	57%
July 1, 2012	\$ -	\$ 1,057,759	\$ 1,057,759	0%	\$ 1,894,201	55.8%

SUPPLEMENTAL INFORMATION

Darby Public Schools
Ravalli County, Montana
SCHEDULE OF ENROLLMENT
For the Fiscal Year Ended June 30, 2014

Fall Enrollment - October, 2013

Elementary School District

	FALL		
	Per Enrollment	Audit Per	
	<u>Reports</u>	<u>District Records</u>	<u>Difference</u>
Kindergarten Full	30	30	0
Grades 1-6	149	149	0
Grades 7-8	52	52	0
Total Elementary	<u>231</u>	<u>231</u>	<u>0</u>

High School District

	FALL		
	Per Enrollment	Audit Per	
	<u>Reports</u>	<u>District Records</u>	<u>Difference</u>
Grades 9-12	82	82	0
Job Corps students	1	1	0

Winter Enrollment - December, 2013

Elementary School District

	WINTER		
	Per Enrollment	Audit Per	
	<u>Reports</u>	<u>District Records</u>	<u>Difference</u>
Kindergarten Full	30	30	0
Grades 1-6	154	154	0
Grades 7-8	52	52	0
Total Elementary	<u>236</u>	<u>236</u>	<u>0</u>

High School District

	WINTER		
	Per Enrollment	Audit Per	
	<u>Reports</u>	<u>District Records</u>	<u>Difference</u>
Grades 9-12	85	85	0
Job Corps students	1	1	0

Spring Enrollment - February, 2014

Elementary School District

	SPRING		
	Per Enrollment	Audit Per	
	<u>Reports</u>	<u>District Records</u>	<u>Difference</u>
Kindergarten - Full	28	28	0
Grades 1-6	154	154	0
Grades 7-8	52	52	0
Total Elementary	<u>234</u>	<u>234</u>	<u>0</u>

High School District

	SPRING		
	Per Enrollment	Audit Per	
	<u>Reports</u>	<u>District Records</u>	<u>Difference</u>
Grades 9-12	81	81	0
Job Corps students	1	1	0
MT Youth Challenge	1	1	0

Darby Public Schools
Ravalli County, Montana
EXTRACURRICULAR FUND
SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS ACCOUNTS
Fiscal Year Ended June 30, 2014

FUND ACCOUNT	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers In(Out)</u>	<u>Ending Balance</u>
1 Miscellaneous	\$ 5	\$ (100)	\$ -	\$ -	\$ (95)
100 High School Administration	947	4,699	5,281	51	416
110 Elementary Administration	8,082	7,018	7,679	(348)	7,073
115 Elementary Ski	3,858	1,144	1,420	(1,943)	1,639
116 Ski PE 5-12	-	3,180	3,422	1,943	1,701
130 Driver's Ed	-	935	560	-	375
150 Book Deposit	1,493	-	1,400	-	93
170 Damages	436	60	-	-	496
180 Academic Excellence Fund	-	320	-	-	320
200 Athletics	(475)	21,338	18,066	239	3,036
201 Concessions	472	7,938	8,568	358	200
202 D Club	363	1,285	1,463	115	300
205 Weight Room	14	1,000	85	-	929
210 Football	241	1,008	910	-	339
215 Elementary 1-4	85	-	-	-	85
220 Girls Basketball	(605)	1,312	1,352	(115)	(760)
230 Boys Basketball	29	3,243	4,015	-	(743)
235 Golf	-	-	-	150	150
240 Volleyball	1,209	901	20	-	2,090
241 Junior High Volleyball	125	6	-	-	131
250 Tennis	133	70	70	-	133
260 Track	1,093	-	-	-	1,093
270 Wrestling	258	150	-	-	408
280 Cross Country	168	500	-	-	668
290 Pep Bus	232	-	-	-	232
320 FFA	545	-	-	-	545
330 Cheerleaders	127	-	-	-	127

Darby Public Schools
Ravalli County, Montana
EXTRACURRICULAR FUND

SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS ACCOUNTS - Continued
Fiscal Year Ended June 30, 2014

FUND ACCOUNT	Beginning Balance	Revenues	Expenditures	Transfers In(Out)	Ending Balance
341 Cases	\$ 285	\$ 1,130	\$ 1,352	\$ -	\$ 63
350 Youth Leg.	2,040	3,511	1,947	-	3,604
360 FCCLA	55	-	-	-	55
400 Music	(28)	1,195	671	-	496
500 Class of 2013	(550)	4	-	-	(546)
510 Class of 2014	1,797	1,510	2,776	(48)	483
520 Class of 2015	1,776	1,961	601	48	3,184
530 Class of 2016	1,576	1,874	9	85	3,526
540 Class of 2017	232	127	79	-	280
560 Class of 2019	363	834	609	-	588
570 Class of 2020	53	-	-	-	53
580 Class of 2021	26	-	-	-	26
590 Class of 2022	-	1,866	-	-	1,866
610 Tech Ed.	2,926	-	-	-	2,926
620 BPA	1,177	9	195	-	991
630 Spanish Club	3,186	11,099	3,690	-	10,595
640 Drama	4	-	-	-	4
650 Honor Society	327	16	190	-	153
660 Annual	3,071	1,966	2,612	-	2,425
670 Art	833	-	70	-	763
680 Scholarship	11,665	4,713	7,250	-	9,128
690 STUCO	1,064	447	820	-	691
700 High School Library	334	125	-	-	459
710 Elementary Library	1,611	2,728	2,678	-	1,661
755 Special Olympics	795	2,637	1,591	-	1,841
800 Junior High Boys Basketball	(54)	55	-	-	1
810 Junior High Football	255	-	-	-	255
820 Junior High Girls Basketball	2	-	-	-	2
830 Junior High STUCO	310	455	269	-	496
840 Junior High Annual	239	-	-	-	239
850 AD. Based Learning	113	-	-	-	113
880 DI	3,363	3,207	1,849	-	4,721
890 Junior High Reward Fund	420	56	80	-	396
895 District 13 C	200	1,080	500	(535)	245
Total	\$ 58,301	\$ 98,612	\$ 84,149	\$ -	\$ 72,764

SINGLE AUDIT SECTION

Darby Public Schools, Ravalli County, Montana
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditure June 30, 2014
<u>U.S. Department of Agriculture</u>			
<i>Passed through Montana Office of Public Instruction:</i>			
School Breakfast Program	10.553	N/A	\$ 52,198
National School Lunch Program	10.555	N/A	80,525
National School Lunch Program -Donated Commodities (1)	10.555	N/A	6,640
Summer Food Service Program for Children	10.559	N/A	4,802
Farm to School Grant Program	10.575	N/A	2,801
Fresh Fruit and Vegetable Program	10.582	N/A	10,499
Total U.S. Department of Agriculture			\$ 157,465
<u>U.S. Department of Education</u>			
<i>Passed through Bitterroot Valley Special Education Cooperative:</i>			
Special Education - Grants to States	84.027	N/A	\$ 71,614
Special Education - Preschool Grants	84.173	N/A	6,347
<i>Passed through Montana Office of Public Instruction:</i>			
Title I Grants to Local Educational Agencies	84.010A	041-0740-3113	23,029
Title I Grants to Local Educational Agencies	84.010A	041-0740-3114	206,400
Career and Technical Education - Basic Grants to States	84.048	041-0740-8114	5,096
Improving Teacher Quality State Grant	84.367A	041-0740-1414	62,990
Total U.S. Department of Education			\$ 375,476
Total Federal Financial Assistance			\$ 532,941

N/A = Not Applicable or Not Available

(1) This amount represents the value of commodities received under the child nutrition cluster. Individual inventory categories or items were not valued. Therefore, it was not possible to determine the value of commodities used (expenditures) or the value of the beginning and

DARBY PUBLIC SCHOOLS

RAVALLI COUNTY, MONTANA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2014

Basis of Presentation

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

- *Food Commodities (value equals the assessed value provided by the federal agency)*

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

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

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

Board of Trustees
Darby Public Schools
Ravalli County
Darby, 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 Darby Public Schools, Ravalli County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Darby Public Schools' basic financial statements and have issued our report thereon dated March 4, 2015.

Internal Control Over Financial Reporting

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

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. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as identified as items 2014-001 through 2014-003.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as identified as item 2014-004.

Compliance and Other Matters

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

Darby Public Schools's Response to Findings

Darby Public Schools's response to the findings identified in our audit is described in the Auditee's Response to Findings. Darby Public Schools'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 on 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.

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

March 4, 2015

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Trustees
Darby Public Schools
Ravalli County
Darby, Montana

Report on Compliance for Each Major Federal Program

We have audited Darby Public Schools, Ravalli County, Montana's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Darby Public Schools' major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Darby Public Schools, Ravalli County, Montana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of District's compliance.

Opinion on Each Major Federal Program

In our opinion, Darby Public Schools, Ravalli County, Montana, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Darby Public Schools, Ravalli County, Montana is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies. However, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness as described in the accompanying schedule of findings and questioned costs as items 2014-005.

Darby Public Schools, Ravalli County, Montana's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Darby Public Schools, Ravalli County, Montana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

March 4, 2015

DARBY PUBLIC SCHOOLS

RAVALLI COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(s) identified	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027 & 84.173	Special Education Cluster
84.010	Title I, Part A

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Section II – Financial Statement Findings

2014-001 Taxes Receivable and Deferred Revenues

Condition:

The District overstated taxes receivable and deferred revenue on the Trustees’ Financial Summary for the following funds: General, Transportation, Bus Depreciation, Tuition and Technology. The District understated taxes receivable and deferred revenue in the following fund: Adult Education.

Context:

We discovered while comparing reported taxes receivable to the County reported taxes receivable. The District has overstated taxes receivable and deferred revenues by \$155,029 on the Trustees’ Financial Summary.

Criteria:

Internal control procedures should be in place to ensure receivables reported agree to the County reports and to ensure fair presentation and disclosure on the financial statements.

Effect:

An over/understatement of taxes receivable and deferred revenues as follows:

General Fund	\$117,905
Transportation Fund	\$29,104
Bus Depreciation Fund	\$8,770
Tuition Fund	\$2
Adult Education	\$(4,912)
Technology	\$4,160

The above differences were corrected for the audit report.

Cause:

The District did not properly calculate the balances from the County reports.

Recommendation:

The District should implement control procedures to ensure the ending balances recorded agree to the subsidiary reports provided by the County.

Views of Responsible Officials and Planned Corrective Action:

Darby School District will implement control procedures to ensure the ending balances recorded agree to the subsidiary reports provided by the county.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

2014-002 Improper Coding

Condition:

The District improperly coded revenues and expenditures related to the Quality Planning School Grant to the Building Reserve Fund.

Context:

We detected while reviewing journal vouchers. Improper transfers of monies in the form of expenditures, revenues and interfund loans were noted.

Criteria:

Per MCA 90-6-801.819, Quality Schools Facility Grant Program...should be deposited into the Miscellaneous Programs Fund (15) using revenue source code 3720, and expenditures should be tracked using program 372.

Effect:

The above mentioned error had the following effects:

Building Fund: Overstated Assets, Revenues and Expenditures by \$142,201

Building Reserve Fund: Overstated Liabilities by \$142,201, Revenues by \$255,679 and Expenditures by \$291,983

Miscellaneous Fund: Understated Revenues by \$398,180 and Expenditures by \$434,184

These amounts have been corrected for the audit report.

Cause:

Journal vouchers prepared by the client attempting to move Quality Planning Grants revenues and expenditures into the Building Reserve Fund were not properly completed.

Recommendation:

The District should implement internal control procedures to include a review process to ensure all revenues are properly coded and all journal vouchers are correct.

Views of Responsible Officials and Planned Corrective Action:

Darby School District will implement internal control procedures to include a review process to ensure all revenues are properly coded and all journal vouchers are correct.

2014-003 Overstated extracurricular revenues, expenditures and fund balance due to inappropriate student activity accounts

Condition:

Per review of extracurricular accounts we noted that Lunch and Adult Education are all being accounted for in student activities.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Context:

We reviewed all activity the District reported for extracurricular for the year. We compared the activity to what was reported on the Trustees' Financial Summary. We also reviewed the types of accounts in the extracurricular funds.

Criteria:

Per MCA 20-9-504, the government of the pupils of the school within a district or the administration of a school on behalf of the pupils may establish an extracurricular fund for the purposes of the receipts and expenditures of money collected for pupil extracurricular functions.

Effect:

The extracurricular revenues, expenditures and fund balance are overstated by \$35,177, \$34,802 and \$2,689, respectively.

Cause:

Accounting for lunch and adult education (non-student monies) in the extracurricular funds have created the balances of revenue, expenditure and fund balance to be misstated.

Recommendation:

The District should establish internal control procedures to ensure non-student monies is not be accounted for in the extracurricular funds.

Views of Responsible Officials and Planned Corrective Action:

Darby School District will establish internal control procedures to ensure non-student monies are not to be accounted for in the extracurricular funds.

2014-004 Financial Statement Reporting

Condition:

In the Retirement/COBRA Fund cash was overstated by \$17,547 and other liabilities were overstated by \$17,547.

Context:

We reviewed what the District had reported for cash amounts compared to what the County has reported.

Criteria:

Generally Accepted Accounting Standards (GAAP) require that all closing, adjusting and eliminating entries be made in order for the financial statements to accurately present the financial condition of the government.

Effect:

The above deficiencies noted in the Condition were corrected for the audit report.

Cause:

The District did not have controls in place to be sure financial statement numbers reported were accurate.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation:

We recommend the District establish internal control procedures over financial statement reporting.

Views of Responsible Officials and Planned Corrective Action:

Darby School District will establish internal controls procedures over financial statement reporting.

Section III – Federal Award Findings and Questioned Costs

2014-005 Special Education Cluster – Cash Management

CFDA Title: IDEA Part B and IDEA Preschool

CFDA Number: 84.027 & 84.173

Federal Award Number: 2014

Federal Agency: U.S. Department of Education

Pass-through Entity: Bitterroot Valley Education Cooperative

Condition:

The District maintained excess cash for several months during the fiscal year.

Criteria:

OMB Compliance Supplement requires the District to minimize the time elapsing between the receipt of funds and transfer of funds therefore the District should have internal controls in place to ensure the timely disbursement of funds to limit the cash on hand.

Context:

We compared the expenditures by month to the revenues by month.

Effect:

The following months we noted a cash balance for each program as indicated:

Month	IDEA Part B	IDEA Preschool
March 2014	\$6,678	\$937
April 2014	\$7,662	\$1,126
May 2014	\$14,036	\$1,080
June 2014	\$5,817	

Cause:

The District prepared a cash payment plan which was not amended throughout the year as expenditure levels changed.

Recommendation:

The District should implement internal control procedures over cash management to ensure compliance with the OMB Compliance Supplement which requires the District to minimize the time between the receipt and expenditure of funds.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Views of Responsible Officials and Planned Corrective Action:

Darby School District will implement internal control procedures over cash management to ensure compliance with the OMB Compliance Supplement which requires the District to minimize time between the receipt and expenditure of funds.

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

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

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Trustees
Darby Public Schools
Ravalli County
Darby, Montana

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

<u>Recommendation</u>	<u>Action Taken</u>
Improper Restatements	Implemented
Claims Sample Internal Control	Implemented

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

March 4, 2015