

DRUMMOND PUBLIC SCHOOLS
DISTRICTS NUMBER 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA

**FINANCIAL AND
COMPLIANCE
REPORT**

FOR THE YEAR ENDED
JUNE 30, 2014

RONALD PAUL FOLTZ
Certified Public Accountant

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NUMBER 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

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**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NUMBER 11 & 2
GRANITE COUNTY
DRUMMOND, MONTANA**

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Patricia Bignell Chairman *

Matthew Piippo Vice-Chairman

Andy Weaver Trustee

Cari Verlanic Trustee

* Only serves on high school board.

OFFICIALS

Bryan Kott District Superintendent

Richard Parke Principal, Grades K - 6

Jamie Parke Clerk of the Board

Christopher G. Miller County Attorney

Vicki Harding County Superintendent of Schools



Drummond Public Schools

Districts 11 & 2

P.O. Box 349, 108 West Edwards
 Drummond, Montana 59832
 High School – 406-288-3281
 Elementary School – 406-288-3283
 Fax – 406-288-3299



Board of Trustees

Patti Bignell, Chrm.
 Matthew Piippo
 Andy Weaver
 Cari Verlanic

Bryan Kott, Supt.
 Rick Parke, Prin.
 Toby Wetsch, Clerk
 Lisa Villa, Secretary

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

This management's discussion and analysis provides an overview of the School's financial activities for the fiscal year ended June 30, 2014. Please read it along with the School's financial statements which begin on page 12.

FINANCIAL HIGHLIGHTS

As is well known in education circles in Montana, the school funding formula continues to be enrollment driven. The elementary and high school enrollment has continued to decline, lowering the districts three-year average that is used in calculating ANB. Correspondingly, the districts' budgets continue to decrease, however, the increase of funding from the state offset these losses and this allowed the districts to keep the higher budget authority of \$802,873.75 in the elementary district and \$803,807.48 in the high school district. These budgets would be similar to the 2012-2013 budget amounts for the two districts and also provide enough budget authority to begin work on installing the elevator in the new gym.

The districts continue to be involved in a dispute, regarding the work performed when constructing the new gym's foyer. Legal counsel is involved. An additional mediation settlement of \$19,700 was received from CTA Architects in July 2013.

The districts purchased 2 newer used vans; one is fitted as a Driver's Ed vehicle. They cost the district \$18,000 and \$18,900 and the 2 older vans were traded in for \$5,000 together.

The elementary purchased a new copier for \$10,254 and the district encumbered \$7,565 from Firefly to purchase a computer bank/work station. The districts also installed a new Gym Key Card system that cost \$10,000 that allows limited access to maintain safety.

The districts felt the impact of the 2013 legislative changes to the Teachers Retirement System. In September 2013, a payment of \$35,814.69 (\$20,047.51 from Elementary Retirement Fund and \$15,767.18 from High School Retirement Fund) was sent to Teachers Retirement System. The lowering of the allowable retirement fund operating reserve will negatively affect the cash balance in the retirement funds. Additionally, the districts are potentially looking at an increased amount of teachers retiring in the next two-five years, which will cause an increased burden on taxpayers with the lower reserves in the retirement funds.

USING THIS ANNUAL REPORT

This annual report consists of financial statements for the School as a whole with more detailed information for certain School funds. Government-wide financial statements, the Statement of Net

position and the Statement of Activities (pages 12 and 13) provide information about the activities of the School as a whole and present a long-term view of the School's finances (they include capital assets and long-term liabilities).

The fund financial statements present a short-term view of the School's activities (they include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future). They present detailed information about the School's General Fund. There is also summarized financial information about the student activity and scholarship trust funds for which the School acts as a trustee.

THE SCHOOL AS A WHOLE

One important question asked about the School's finances is, "Is the School 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 of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net position (the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources) over time is one indicator of whether the School's financial health is improving or deteriorating. However, you need to consider other nonfinancial factors in making an assessment of the School's health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, changes in the School's tax base, etc. to assess the overall health of the School.

Changes in the School's net position (rounded to the nearest \$1,000) were as follows:

	2014	2013	Change	%
Current assets	\$812,000	\$911,000	(\$99,000)	(11)%
Capital assets - net	2,846,000	2,806,000	40,000	1%
Total assets	<u>3,658,000</u>	<u>3,717,000</u>	<u>(59,000)</u>	<u>(2)%</u>
Current Liabilities	155,000	195,000	(40,000)	(21)%
Non-current Liabilities	803,000	915,000	(112,000)	(12)%
Total liabilities	<u>958,000</u>	<u>1,110,000</u>	<u>(152,000)</u>	<u>14%</u>
Net position	<u>\$2,700,000</u>	<u>\$2,607,000</u>	<u>\$93,000</u>	<u>4%</u>
Net position consist of:				
Net investment in capital assets	\$1,971,000	\$1,821,000	\$150,000	8%
Restricted	253,000	255,000	(2,000)	(1)%
Unrestricted	476,000	531,000	(55,000)	(10)%
Net position	<u>\$2,700,000</u>	<u>\$2,607,000</u>	<u>\$93,000</u>	<u>4%</u>

Current assets decreased because expenses exceeded revenue for the year. Net investment in capital assets increased due to the District's capital outlay being greater than depreciation expense for the year and the reduction of capital debt. The decrease in current liabilities is due to a decrease in accounts payable and the majority of the decrease in non-current liabilities is from scheduled on-going debt payments being made.

Changes in the School's program revenues (rounded to the nearest \$1,000) were as follows:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Program revenues:				
Federal grants	\$180,000	\$184,000	(\$4,000)	(2)%
State program grants	204,000	192,000	12,000	6%
County revenues	23,000	25,000	(2,000)	(8)%
School food fees	32,000	36,000	(4,000)	(11)%
Tuition and other fees	20,000	26,000	(6,000)	(23)%
Total Program Revenues	<u>\$459,000</u>	<u>\$463,000</u>	<u>(\$4,000)</u>	<u>(1)%</u>

Program revenues were relatively constant between 2013 and 2014.

Changes in the School's general revenues (rounded to the nearest \$1,000) were as follows:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
General Revenues:				
School property taxes	\$723,000	\$627,000	\$96,000	15%
State equalization	897,000	918,000	(21,000)	(2)%
Other State revenue	185,000	198,000	(13,000)	(7)%
County	186,000	169,000	17,000	10%
Investment earnings	1,000	1,000	-	-
Other	15,000	67,000	(52,000)	(78)%
Total General Revenues	2,007,000	1,980,000	27,000	1%
Program Revenues	<u>459,000</u>	<u>463,000</u>	<u>(4,000)</u>	<u>(1)%</u>
Total Revenues	<u>\$2,466,000</u>	<u>\$2,443,000</u>	<u>\$23,000</u>	<u>1%</u>

School property taxes increased due to more mills being levied, which is partially due to decreased enrollment and the collection of \$50,000 in protested taxes in 2014. Other revenue decreased because of the \$64,000 of settlement proceeds on the elementary gym floor received in 2013 with no corresponding activity in 2014.

As shown below, all expenses were relatively constant between 2013 and 2014.

Changes in the School's expenses (rounded to the nearest \$1,000) were as follows:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>%</u>
Instruction:				
Regular programs	\$833,000	\$863,000	(\$30,000)	(3)%
Other programs	325,000	328,000	(3,000)	(1)%
Support Services - Regular Programs	163,000	149,000	14,000	9%
Support Services - Educational Media	19,000	18,000	1,000	6%
Operation and Maintenance	247,000	225,000	22,000	10%
Administration	298,000	291,000	7,000	2%
Student Transportation	111,000	111,000	-	-
School Food	120,000	119,000	1,000	1%
Extracurricular	130,000	116,000	14,000	12%
Interest Expense	30,000	31,000	(1,000)	(3)%
Unallocated Depreciation	96,000	79,000	17,000	22%
Total expenses	2,372,000	2,330,000	42,000	2%
Less program revenues	459,000	463,000	(4,000)	(1)%
Net expenses	1,913,000	1,867,000	46,000	2%
Less general revenues	2,007,000	1,980,000	27,000	1%
Change in net position	<u>\$94,000</u>	<u>\$113,000</u>	<u>(\$19,000)</u>	<u>(17)%</u>

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant of the School's funds. The School is required to provide detailed information for its "major" funds.

Major funds are defined as the general fund and other funds where the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures exceed 10% of total government fund amounts. Only the general fund qualified as a major fund.

The government fund statements provide a short-term view of the School's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash. There was no unusual activity. All budgeted fund expenditures were within the budget authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The capital asset balance increased as a result of capital outlay of \$137,000 exceeding depreciation expense of \$96,000. The School completed construction of a rock retaining wall for \$52,000, replaced the School's two vans at a cost of \$37,000, completed the purchase and set-up of a greenhouse for \$17,000, installed a gym card access system at a cost of \$10,000, and purchased an elevator kit and copier for \$20,000.

The change in long-term debt is due to scheduled bond payments. See Notes 5 and 6 for more information about capital assets and debt administration.

THE FUTURE OF THE DISTRICTS

As discussed earlier in the financial highlights section of the audit report, the elementary and high school enrollment has continued to decline. The greatest budgetary impact of the declining enrollment will be felt in the 2013-14 school year. The districts have been benefitting by using the three year average ANB previously, but the district will lose the highest ANB number of the three years for the 2013-14 school year. After 2013-14, the ANB numbers should start to level off.

The districts has finalized the dispute over the work performed when constructing the new gym's foyer. Legal counsel was involved. The total settlement of \$145,000 was received in December 2014.

The district is also facing other upcoming building projects to maintain the quality and safety of the schools: replacing the remaining cement retaining wall and making accommodations to the high school and gym to ensure ADA accessibility.

In conclusion, the districts are facing at least three financial challenges in the near future: the continued declining enrollment, the significant decrease in the allowable retirement fund operating reserves, and upcoming building projects.

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Drummond Public Schools
Districts Number 11 & 2
Granite County
Drummond, Montana

REPORT ON THE FINANCIAL STATEMENTS

I have audited the financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of Drummond Public Schools, Districts No. 11 & 2, Granite County, Drummond, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the accompanying 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 U.S. generally accepted accounting principles; 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Audit Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund, and the aggregate remaining fund information of Drummond Public Schools, Districts No. 11 & 2, Granite County, Drummond, Montana, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Report on Summarized Comparative Information

I have previously audited Drummond Public Schools' 2013 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated February 5, 2014. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 6 and the schedule of revenues and expenditures - budget and actual - general funds on page 30 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. I have applied certain limited procedures to the required supplemental information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures applied do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Drummond Public Schools' basic financial statements. The schedule of school district enrollment on page 32 and the schedule of revenues, expenditures, and changes in fund balance by student activity on pages 33 and 34 are supplementary information required by the State of Montana. These schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards.

In my opinion, the schedule of school district enrollment and the schedule of revenues, expenditures and changes in fund balances by student activity for the extracurricular fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other supplemental information listed in the accompanying table of contents, and appearing on pages 35 through 38, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, I have also issued a report dated August 6, 2015 on my consideration of Drummond Public Schools' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Drummond Public Schools' control over financial reporting and compliance.


August 6, 2015

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**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

(With comparative amounts as of June 30, 2013)

	2014	2013
ASSETS:		
Current Assets:		
Cash and Investments	\$682,763	\$789,047
Property Taxes Receivable	36,993	33,861
Protested Property Taxes Receivable	64,827	49,808
Due from other Governments	25,111	16,714
Other Receivables	2,700	21,986
Total Current Assets	812,394	911,416
Capital Assets	4,204,204	4,102,749
Less Accumulated Depreciation	(1,357,789)	(1,297,016)
Capital Assets - Net	2,846,415	2,805,733
Total Assets	3,658,809	3,717,149
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	14,049	62,116
Deferred Revenue	3,866	1,552
Current Portion of Compensated Absences	15,663	11,200
Current Portion of Early Retirement Incentive	12,030	10,606
Current Portion of Bonds Payable	110,000	110,000
Total Current Liabilities	155,608	195,474
Non-current Liabilities Less Current Portion	802,654	914,647
Total Liabilities	958,262	1,110,121
Net position:		
Net Investment in Capital Assets	1,971,415	1,820,733
Restricted	252,709	255,568
Unrestricted	476,423	530,827
Total Net position	\$2,700,547	\$2,607,128

See Notes to Financial Statements

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

(With comparative amounts for the year ended June 30, 2013)

	Expenses	Charges for Services	- Program Revenue - Contributions and Operating Grants	Net (Expense) Revenue 2014	2013
GOVERNMENT OPERATIONS					
Instruction:					
Regular Programs	\$833,210	\$19,892		(\$813,318)	(\$837,427)
Other Programs	324,671		\$183,320	(141,351)	(142,540)
Support Services	163,264	125,494		(37,770)	(35,334)
Educational Media Staff	18,882			(18,882)	(18,109)
General Administration	119,276			(119,276)	(135,424)
School Administration	118,660			(118,660)	(100,716)
Financial Administration	60,322			(60,322)	(54,273)
Operations and Maintenance	247,094			(247,094)	(224,913)
Transportation	110,738		45,496	(65,242)	(61,134)
School Food	119,837	31,411	53,227	(35,199)	(31,810)
Extracurricular	130,595			(130,595)	(116,078)
Depreciation - Unallocated	95,869			(95,869)	(78,529)
Interest Expense	29,710			(29,710)	(31,170)
Totals	<u>\$2,372,128</u>	<u>\$176,797</u>	<u>\$282,043</u>	(1,913,288)	(1,867,457)
GENERAL REVENUES:					
Property Taxes				722,820	626,843
State Equalization				897,372	918,257
Other State Revenue				185,063	197,820
County Property Taxes				186,084	169,597
Investment Earnings				900	475
Other				14,468	67,333
Total General Revenues				<u>2,006,707</u>	<u>1,980,325</u>
CHANGE IN NET POSITION				93,419	112,868
NET POSITION:					
Beginning of the Year				<u>2,607,128</u>	<u>2,494,260</u>
End of the Year				<u>\$2,700,547</u>	<u>\$2,607,128</u>

See Notes to Financial Statements

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

BALANCE SHEET - GOVERNMENT FUNDS

JUNE 30, 2014

	General Fund	Other Government Funds	Total Government Funds
ASSETS:			
Cash and Investments	\$358,722	\$324,041	\$682,763
Property Taxes Receivable	25,685	11,308	36,993
Protested Property Taxes Receivable	47,000	17,827	64,827
Due From Other Governments	3,107	22,004	25,111
Other Assets	2,027	673	2,700
TOTAL ASSETS	\$436,541	\$375,853	\$812,394
LIABILITIES:			
Accounts Payable	\$10,631	\$3,418	\$14,049
DEFERRED INFLOWS OF RESOURCES:			
Deferred Tax Revenue	72,685	29,135	101,820
Deferred Other Revenue		3,866	3,866
TOTAL DEFERRED INFLOWS OF RESOURCES	72,685	33,001	105,686
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	83,316	36,419	119,735
FUND BALANCE:			
Restricted		223,574	223,574
Assigned	12,692	115,860	128,552
Unassigned	340,533		340,533
TOTAL FUND BALANCE	353,225	339,434	692,659
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$436,541	\$375,853	\$812,394

See Notes to Financial Statements

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

**RECONCILIATION OF THE GOVERNMENT FUNDS
BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET POSITION**

JUNE 30, 2014

Total fund balance reported in the government funds statement	\$692,659
Add capital assets not reported in the government funds statement	4,204,204
Less accumulated depreciation	(1,357,789)
Less liabilities not reported in the government funds statement:	
Early Retirement Incentive	(14,482)
Bonds payable	(875,000)
Estimated retiree health care costs	(30,256)
Compensated absences	(20,609)
Deferred revenues for property taxes which are recognized as revenue in the government-wide statement of net position	<u>101,820</u>
Net position	<u><u>\$2,700,547</u></u>

See Notes to Financial Statements

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENT FUNDS**

FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Other Government Funds	Total Government Funds
REVENUES:			
District Property Taxes	\$486,247	\$218,522	\$704,769
Intergovernmental			
County		208,832	208,832
State	1,096,579	169,233	1,265,812
On-Behalf of Payments - Retirement Plans		21,013	21,013
Federal		180,399	180,399
Tuition and Fees		19,892	19,892
Interest Income	495	405	900
School Food		31,411	31,411
Contributions and Other	23,796	(9,328)	14,468
TOTAL REVENUES	1,607,117	840,379	2,447,496
EXPENDITURES:			
Instruction:			
Regular Programs	680,379	148,937	829,316
Other Programs	171,844	152,827	324,671
Instructional Support:	39,979	142,167	182,146
Administration	254,844	43,414	298,258
Operation and Maintenance	237,757	9,337	247,094
Transportation		110,738	110,738
Food Services	27,015	92,822	119,837
Extracurricular	121,247	9,348	130,595
Debt Service		139,710	139,710
Capital Outlay	121,009	15,542	136,551
TOTAL EXPENDITURES	1,654,074	864,842	2,518,916
Excess (Deficiency) of Revenues Over Expenditures ...	(46,957)	(24,463)	(71,420)
Transfers	(1,929)	1,929	
Change in Fund Balance	(48,886)	(22,534)	(71,420)
FUND BALANCE:			
Beginning of the year	402,111	361,968	764,079
End of the year	<u>\$353,225</u>	<u>\$339,434</u>	<u>\$692,659</u>

See Notes to Financial Statements

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

Changes in fund balance as report in the government funds statement		(\$71,420)
Expenditures reported in the government funds statement not included in the statement of activity:		
Capital outlays	\$136,551	
Principal payments on bonds	<u>110,000</u>	246,551
Increase in current property taxes receivable not reflected in the government funds statement		18,051
Increase in compensated absence liability not reflected in the government funds statement		(6,432)
Decrease in early retirement incentive liability not reflected in the government funds statement		6,730
Increase in estimated retiree health care costs liability		(4,192)
Depreciation expense on the statement of activity not included in the government funds statement		<u>(95,869)</u>
Changes in net position reported on the Statement of Activity		<u><u>\$93,419</u></u>

See Notes to Financial Statements

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

**STATEMENT OF FIDUCIARY NET POSITION AND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

**STUDENT ACTIVITY AND
SCHOLARSHIP FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Scholarship Fund	Student Activity Fund	Total
FIDUCIARY NET POSITION			
ASSETS:			
Cash	\$102,134	\$60,916	\$163,050
Net position:			
Held in Trust for Student Activities	\$102,134	\$60,916	\$163,050
Total Net Position	\$102,134	\$60,916	\$163,050
CHANGES IN FIDUCIARY NET POSITION			
ADDITIONS:			
Revenue from Student Activities		\$96,590	\$96,590
Contributions to Scholarships	\$26,345		26,345
Investment Earnings	32		32
Total Additions	26,377	96,590	122,967
DEDUCTIONS:			
Expenses of Student Activities		103,054	103,054
Scholarships	27,488		27,488
Total Deductions	27,488	103,054	130,542
CHANGES IN NET POSITION HELD IN TRUST	(1,111)	(6,464)	(7,575)
NET POSITION, BEGINNING OF THE YEAR	103,245	67,380	170,625
NET POSITION, END OF THE YEAR	\$102,134	\$60,916	\$163,050

See Notes to Financial Statements

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The School provides education from kindergarten through the twelfth grade in Drummond, Montana. All operations of the School are controlled by a Board of Trustees, elected in school-wide elections, and responsible for all of the School's activities. The financial statements include all of the School's operations controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and fiscal or financial dependency on other governments), the School is considered to be an independent reporting entity and has no component units.

Under State law, the Schools consists of two legally separate districts - high school and elementary. The high school district includes all of the area covered by the elementary district plus the Hall elementary district. The elementary district provides education from kindergarten through the eighth grade and the high school provides education from grades nine through twelve and adult education classes.

Although the school districts are accounted for separately because of differences in funding and legal requirements, they are combined for financial reporting purposes because both districts are controlled by a central Board of Trustees and managed by a central administration. The elementary and high school general funds have been combined and reported as the general fund in the accompanying financial statements.

B. Basis of Presentation and Basis of Accounting

Government-wide Statements - The statement of net position and the statement of activities show information about the overall financial position and activities of the school districts with the exception of the student activity and scholarship funds which are reported as private-purpose trust funds in the fund financial statements section. The statement of net position reflects wording and categories as required by Government Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the School are generally financed through property taxes, state equalization funding, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function. The School does not charge indirect expenses to programs or functions. Program revenues include fees for services (primarily school lunch and tuition charges) and grants and contributions that are restricted to a particular program.

Notes to Financial Statements - Drummond Public Schools 2014 (continued)

Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues. Generally, the School applies restricted resources to expenses incurred before using unrestricted resources when both types are available.

Fund Financial Statements - These statements provide information about the School's funds, including a separate statement for the School's fiduciary funds (student activity and scholarship) The emphasis of fund financial statements is on major funds. The general fund is displayed in a separate column. All of the remaining funds are aggregated and reported in a single column as other government funds.

Government funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other government revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue. Most current property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred property tax revenues are recorded as deferred inflows of resources for these receivables.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. General capital asset acquisitions are reported as expenditures in government funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of the School's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the School applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Major funds - Generally accepted accounting principles require that the general fund be reported as a major fund and that all other government funds whose assets and deferred outflow of resources, liabilities and deferred inflows of resources, revenues, or expenditures exceed 10% or more of the total for all government funds also be reported as major funds. Only the general fund met this requirement in 2014.

General fund - This is the School's primary operating fund and it accounts for all financial resources of the School except those required to be accounted for in other funds.

Fiduciary Funds - The School has a private purpose trust fund, and a student activity fund which accounts for the extracurricular activities of its students. The college scholarship fund, a private purpose trust, accumulates and awards college scholarships to departing seniors. The funds are reported using the economic resources measurement focus and accrual basis of accounting.

- C. Cash and Investments - State law permits investment of school funds in insured savings or time deposits, bank repurchase agreements, direct obligations of the U. S. Government, and the State's unified investment program. Except for the student activity fund all cash and investments are held by the County Treasurer. Investments are stated at estimated fair value which approximates cost.

Notes to Financial Statements - Drummond Public Schools 2014 (continued)

- D. Inventories - Inventories are considered to be immaterial and are not recorded.
- E. Property Taxes - Property taxes receivable at June 30 consist primarily of delinquent property taxes from the current and prior year levies. Property taxes receivable are offset by deferred tax revenue in the fund financial statements. The School does not record an allowance for uncollectible regular property taxes because they are considered to be immaterial; however, see Note 3 for protested property taxes.

Property taxes are levied in August of each fiscal year, based on assessments as of the prior January 1. Real property taxes are usually billed in October and are payable 50% on November 30 and 50% on May 31. Property taxes are maintained and collected by the County Treasurer.

- F. Capital Assets - Capital assets are carried at actual or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to fixed assets. Repair and maintenance costs are not capitalized. Construction work in progress is not depreciated until placed in service. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Land improvements	15 - 50 years
Buildings and improvements	10 - 100 years
Equipment	5 - 15 years

- G. Compensated Absences - Non-teaching employees earn vacation ranging from 15 to 24 days per year depending on the individual's years of service. Vacation may be accumulated to a total not to exceed two times the maximum number of days earned annually.

Sick leave is earned at a rate of twelve days per year for all School employees. Part-time employees are entitled to prorated benefits. Teaching staff are allowed to carry over a maximum of 48 sick days and are compensated at the rate of \$40 a day for sick days in excess of 48 days. Upon retirement or termination, non-teaching employees are paid for 100 percent of unused vacation leave and 25 percent of unused sick leave. Upon termination, all payments are made at the employee's current salary rate.

- H. Early retirement incentives - Consist of payments for retiree's health insurance costs for a specific period of time.
- I. Comparative Totals - The government-wide financial statements include prior-year comparative totals and are not at the level of detail required for a presentation in conformity with U.S. generally accepted accounting principals. Accordingly, these totals should be read in conjunction with the government-wide financial statements for the year ended June 30, 2013, from which they have been derived. Certain amounts have been reclassified to conform to the 2014 presentation.

2. CASH AND INVESTMENTS

All of the School's cash, except for the student activity fund, is deposited with the Granite County Treasurer. The School participates in the Granite County Treasurer's investment program.

Notes to Financial Statements - Drummond Public Schools 2014 (continued)

Funds deposited with the County Treasurer are invested in accordance with State law. Funds are withdrawn from the investment program as needed to pay warrants. Earnings are allocated to the School based on month-end cash balances and are distributed monthly.

It is not practical to determine the investment risk, collateral, or insurance coverage for the School's share of these investments. Information about the investment program is included in the County's annual financial statements. The student activity trust funds are deposited in an FDIC insured, interest bearing, checking account.

3. PROTESTED PROPERTY TAXES RECEIVABLE

Certain public utility taxpayers have protested the assessed valuations of their property and paid a portion of their property taxes under protest. Public utility property is centrally assessed by the Montana Department of Revenue and the protest is handled on a state-wide basis. The School has not provided an allowance for possible uncollectible amounts.

4. DUE FROM OTHER GOVERNMENTS

Due from other governments consists of \$22,004 for education support due from the State of Montana's Office of Public Instruction and \$3,107 due from another school district.

5. CAPITAL ASSETS - Capital asset activity during 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions	Adjust- ments	Balance June 30, 2014
Cost of Assets:					
Land	\$88,985				\$88,985
Land Improvements	179,115	\$51,522	(\$1,314)	\$43,483	272,806
Buildings	3,661,683	27,791	(2,983)	48,071	3,734,562
Equipment	81,412	57,238	(30,799)		107,851
Construction-in-Progress	91,554			(91,554)	
Total	4,102,749	136,551	(35,096)		4,204,204
Accumulated Depreciation:					
Land Improvements	(59,275)	(8,940)	1,314		(66,901)
Buildings	(1,160,315)	(74,678)	2,983		(1,232,010)
Equipment	(77,426)	(12,251)	30,799		(58,878)
Total	(1,297,016)	(95,869)	35,096		(1,357,789)
Net Capital Assets	\$2,805,733	\$40,682	\$0	\$0	\$2,846,415

Depreciation expense, primarily on general use, multi-purpose buildings is not allocated to various school functions.

Notes to Financial Statements - Drummond Public Schools 2014 (continued)

6. LONG-TERM DEBT - Changes in general long-term debt during 2014 are as follows:

	Balance June 30, 2013	Payments	Other Changes	Balance June 30, 2014	Due Within One Year
General Obligation Bonds:					
2011 Issue	\$985,000	(\$110,000)		\$875,000	\$110,000
Compensated Absences	14,177		\$6,432	20,609	15,663
Early Retirement Incentive ...	21,212	(9,643)	2,913	14,482	12,030
Estimated Retiree Health Care Costs	26,064		4,192	30,256	
Total	\$1,046,453	(\$119,643)	\$13,537	\$940,347	\$137,693

The 2011 general obligation bonds bear interest rates ranging from 1.6% to 3.4%. Over the life of the bonds the average interest rate is 3%. Interest is to be paid semi-annually beginning January 2012 and the annual bond payments run from July 2012 through July 2021. Bonds maturing on or after July 1, 2017 are subject to early redemption on January 1, 2017 or thereafter at a price equal to the unpaid principal plus accrued interest.

Debt service requirements to maturity for the bonds are as follows:

Year Ended June 30,	Series 2011		
	Principal	Interest	Total
2015	\$115,000	\$27,350	\$142,350
2016	115,000	23,900	138,900
2017	115,000	20,450	135,450
2018	125,000	17,000	142,000
2019	130,000	13,250	143,250
2020	135,000	9,350	144,350
2021	140,000	4,760	144,760
Totals	\$875,000	\$116,060	\$991,060

Compensated absence payments can be made by the compensated absences fund or by the affected fund, usually the general fund. Vacation pay is classified as compensated absences due within one year, accrued sick leave is classified as non-current.

7. ESTIMATED RETIREE HEALTH CARE COSTS

Plan Description. The School's health plan is provided by Pacific Source Insurance Company. State law requires the plan to provide healthcare insurance for eligible retirees and their spouses until medicare eligibility. Retirees are allowed to participate at a rate that does not cover all of the related costs. This results in the reporting of an "implicit rate subsidy" in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the School.

Notes to Financial Statements - Drummond Public Schools 2014 (continued)

Funding Policy. The School pays for all of its retiree health care costs on a pay-as-you-go basis. The Board of Trustees has authority to establish and amend benefit provisions. The School is not required to issue a separate financial report for the plan. As of July 1, 2012 when the actuarial valuation was done, there were 3 retirees enrolled in the plan. Blended premium rates are \$448 for single and \$896 for employee plus spouse. The implicit rate subsidy is valued only to medicare eligibility.

Annual OPEB Cost and Net OPEB Obligation. The School's annual other post-employment benefit (OPEB) cost is calculated based on the projected unit credit cost method as of July 1, 2012. The next valuation is required to be done for fiscal year 2016.

The following table shows the components of the School's annual OPEB cost for the year:

Net OPEB Obligation at June 30, 2011		\$15,306
Annual Required Contribution, Fiscal Year 2012	\$7,653	7,653
Net OPEB Obligation at June 30, 2012		<u>22,959</u>
Annual Required Contribution, Fiscal Year 2013	15,909	
Interest and Valuation Adjustment	(388)	
Employer's Contributions	(12,416)	3,105
Net OPEB Obligation at June 30, 2013		<u>26,064</u>
Annual Required Contribution, Fiscal Year 2014	15,909	
Interest and Valuation Adjustment	(460)	
Employer's Contributions	(\$11,257)	4,192
Net OPEB Obligation at June 30, 2014		<u><u>\$30,256</u></u>

The School's annual OPEB cost and the net OPEB obligation for fiscal year 2014 and the two preceding fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$7,653	\$22,959
6/30/2013	\$15,521	\$26,064
6/30/2014	\$15,449	\$30,256

Funding Status and Funding Progress. As of June 30, 2012 when the actuarial valuation was done, the actuarial liability for benefits was \$128,316, all of which was unfunded. The covered payroll was \$976,398 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 13.1%. A schedule of funding progress is not presented because there are no assets set aside to fund these benefits and the funded ratio of actuarial value of assets to unfunded actuarial accrued liability is 0%.

Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future.

Notes to Financial Statements - Drummond Public Schools 2014 (continued)

Methods and Assumptions. Projections of benefits for the plan are based on types of benefits provided under the current plan. Calculations reflect a long-term perspective and the methods and assumptions used include techniques that are designed to reduce short-term volatility in the valuation of the accrued liability.

Assumptions and data used for the valuation were as follows:

- The unfunded liability was amortized over a 30-year period using a level dollar amount on a closed basis, a discount rate of 4.25%, and an inflation rate of 2.5%.
- Mortality based on currently published mortality tables.
- Health care cost trend rates of 8.0% for 2012 grading to 5.0% over 6 years.

8. INTERFUND TRANSACTIONS

The Schools transfers funds between the general funds and the compensated absences funds as permitted by State law. In fiscal year 2014 \$1,929 was transferred from the general funds to the compensated absences fund to increase the elementary and high school compensated absence liability fund balances, which were equal to or less than the thirty percent allowed by regulations.

9. GOVERNMENT-WIDE RESTRICTED NET POSITION

State law authorizes certain funds and establishes the criteria for property tax levies for specific purposes. The School classifies the net position of these funds in the government-wide statements as restricted net position.

At June 30, 2014 the balances are as follows:

	ELEMENTARY	HIGH SCHOOL	TOTAL
Retirement	\$35,153	\$20,854	\$56,007
Transportation	18,989	20,433	39,422
Elementary School Food	(130)		(130)
Miscellaneous Programs	7,573	61,959	69,532
Adult Education		2,860	2,860
Technology	11,557	10,966	22,523
Compensated Absences	2,891	3,291	6,182
Debt Service	16,960	39,353	56,313
Total	<u>\$92,993</u>	<u>\$159,716</u>	<u>\$252,709</u>

10. GOVERNMENT FUND BALANCE REPORTING

Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* requires classifying fund balances into specifically defined classifications. Committed and assigned funds must be so designated by the School Board.

Notes to Financial Statements - Drummond Public Schools 2014 (continued)

There were no committed or non-spendable funds at June 30, 2014.

Restricted fund balances include deferred property taxes and consist of the following:

Instruction - Other	\$69,532
Retirement	56,007
Debt Service	37,624
Transportation	28,977
Technology	22,523
Compensated Absences	6,182
Adult Education	2,859
School Food	(130)
Total Restricted Fund Balance	<u>\$223,574</u>

Assigned fund balances consist of the following:

Assigned for Encumbrances:

General Funds	\$12,692
Assigned for Capital Projects - Non-Major Funds	112,268
Assigned for Drivers Education - Non-Major Funds	3,592
Total Assigned Fund Balances	<u>\$128,552</u>

Unassigned fund balances consist of the following:

General Funds	<u>\$340,533</u>
---------------------	------------------

Total fund balance as shown on the Balance Sheet - Government Funds .. \$692,659

Restricted fund balances are reported in the aggregate on the face of the balance sheet. Of the total, the amount that is restricted due to external requirements is \$45,375. The remainder of \$178,199 is restricted by state law.

The School spends restricted amounts first. When an expenditure is incurred for purposes for which committed, assigned or unassigned amounts are available, the School spends first committed, then assigned, and lastly unassigned funds.

11. RETIREMENT PLANS

The School participates in two statewide, mandatory, cost-sharing, multiple employer, defined benefit retirement plans which cover all employees (except certain substitute teachers and part-time, non-teaching employees). The Montana Teachers' Retirement System (MTRS) covers teaching employees, including principals and superintendents. The Montana Public Employees' Retirement System (MPERS) covers other non-teaching employees.

The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Notes to Financial Statements - Drummond Public Schools 2014 (continued)

Contribution rates for both plans are required and determined by State law.

Contribution rates for both plans are required and determined by State law. The contribution rates for MPERS were increased in 2014 by 1% for employers from 6.8% to 7.8% and for employees hired before July 1, 2011 from 6.9% to 7.9%. There were no changes in the contribution rates for the State and employees hired after July 1, 2011.

The contribution rates for MTRS were increased in 2014 by 1% for employers from 7.47% to 8.47% and for employees from 7.15% to 8.15%. There were no changes in the State contribution rate.

The contribution rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	State	Total
MTRS	8.47%	8.15%	2.49%	19.11%
MPERS (members hired before 7/1/2011) ..	7.80%	7.90%	0.37%	16.07%
MPERS (members hired after 7/1/2011)	7.80%	7.90%	0.37%	16.07%

The amounts contributed to MTRS and MPERS during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year.

The amounts contributed by both the School and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	2012	2013	2014
MTRS	\$136,745	\$145,094	\$197,543
MPERS	22,729	22,749	25,663
Total	<u>\$159,474</u>	<u>\$167,843</u>	<u>\$223,206</u>

Contributions in 2014 for MTRS includes a one time payment of \$35,815 made in September 2013. Montana House Bill 377 approved in the 2013 Legislative session contained a provision requiring school districts to remit excess reserves in the retirement funds to MTRS.

The State's contributions to the plans in 2014 were approximately \$20,419 for MTRS and \$594 for MPERS. These amounts have been included in revenue and expenditures in the other government funds column and are shown as on-behalf-of payments on the statement of revenues, expenditures, and changes in fund balances - government funds on page 16.

Both plans issue a publicly available financial reports that includes financial statements and required supplementary information for the plans. Those reports may be obtained from the following:

Montana Teachers Retirement System
P.O. Box 200139
1500 East Sixth Avenue
Helena, Montana 59620-0139
Telephone (406) 444-3134

Montana Public Employees Retirement System
P.O. Box 200131
100 North Park Avenue, Suite 200
Helena, Montana 59620-0131
Telephone (406) 444-3154

12. RISK MANAGEMENT

The School faces a number of risks including (1) loss or damage to property, (2) general liability, (3) workers compensation and (4) employee medical insurance. Commercial insurance policies are purchased for loss or damage to property, general liability, and health insurance. There were no significant changes in how the School covered its risks in 2014.

The School participates in a statewide public risk pool, the Montana Schools Group Workers Compensation Risk Retention Program (WCRRP) for workers compensation coverage. All school district participants in this pool are jointly and severally liable for the liabilities of this public risk pool.

This pool issues audited financial statements. Information about the amount of claims liabilities, changes in claims liabilities, amount of claims paid, operating results, and other information is available at 1 South Montana Avenue, Helena, Montana 59601.

13. SUBSEQUENT EVENT

In December 2014 the School received \$145,000 from a lawsuit settlement in connection with the construction of the new gym.

**DRUMMOND PUBLIC SCHOOLS
DISTRICT NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2014

General Funds						
	---- Elementary ----		--- High School ---		Total Actual	Total Variance from Budgets
	Original and Final Budget	Actual	Original and Final Budget	Actual		
REVENUES						
Property Taxes	\$280,104	\$275,866	\$210,785	\$210,381	\$486,247	(\$4,642)
Intergovernmental:						
State Equalization	422,822	422,822	503,488	503,488	926,310	
State Other	99,373	99,373	70,897	70,896	170,269	(1)
Tuition						
Investment Earnings	155	254	178	241	495	162
Other	420	1,816	18,460	21,980	23,796	4,916
Total Revenues	802,874	800,131	803,808	806,986	1,607,117	435
EXPENDITURES						
Instruction:						
Regular Programs		389,869		294,800	684,669	
Other Programs		90,046		81,798	171,844	
Support Services:						
Regular Programs		14,025		7,072	21,097	
Other Programs		10,549		8,333	18,882	
General Administration		25,829		73,671	99,500	
School Administration		81,832		25,224	107,056	
Financial Administration		24,175		24,113	48,288	
Operation and Maintenance		101,640		124,190	225,830	
School Food		13,507		13,508	27,015	
Extracurricular		17,076		104,171	121,247	
Capital Outlay		27,979		45,838	73,817	
Transfers		840		1,089	1,929	
Total Expenditures and Transfers	802,874	797,367	803,808	803,807	1,601,174	5,508
Excess (Deficiency) of Revenues Over Expenditures, Encumbrances and Transfers	\$0	2,764	\$0	3,179	5,943	\$5,943
Change in Encumbrances		(6,605)		(48,224)	(54,829)	
Excess (Deficiency) of Revenues Over Expenditures		(\$3,841)		(\$45,045)	(\$48,886)	

See Notes to Budget and Actual Schedule.

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

NOTES TO THE BUDGET AND ACTUAL SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2014

State law requires the School to prepare budgets for certain funds - generally funds supported by property tax revenues. Budgets are prepared on the modified accrual basis. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. Neither the High School nor Elementary general fund budgets were amended in 2014.

General fund budgets are based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board approves the original budget on or before the 15th of August.

State law permits the inclusion of obligations (encumbrances) for construction-in-progress and the purchase of personal property as expenditures for budget purposes. General fund encumbrances at June 30, 2014 were \$12,692 and at June 30, 2013 they were \$67,521.

State law requires only that a budgeted fund's total expenditures not exceed total budgeted expenditures.

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

SCHEDULE OF SCHOOL DISTRICT ENROLLMENT

FOR THE YEAR ENDED JUNE 30, 2014

	FALL ENROLLMENT OCTOBER 2013			WINTER ENROLLMENT DECEMBER 2013			SPRING ENROLLMENT FEBRUARY 2014		
	School Records	Enroll- ment Report	Variance	School Records	Enroll- ment Report	Variance	School Records	Enroll- ment Report	Variance
Elementary School									
Kindergarten	8	8	0	8	8	0	9	9	0
Grades 1 - 6	62	62	0	61	61	0	64	64	0
Total Elementary	70	70	0	69	69	0	73	73	0
Middle School									
Grades 7 & 8	27	27	0	27	27	0	29	29	0
High School									
Grades 9 - 12	70	70	0	70	70	0	72	72	0
Combined Total	167	167	0	166	166	0	174	174	0
Part Time Enrollment									
9-12 Grades (enrolled 180 - 359 hrs per year)			0	1	1	0	1	1	0

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

**EXTRACURRICULAR FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE BY STUDENT ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2014**

Activity No.	Student Activity	Balance June 30, 2013	Revenues	Expenditures	Transfers	Balance June 30, 2014
101	Athletics	\$16,831	\$22,716	(\$30,827)	(\$27)	\$8,693
102	Softball	357	8			365
103	Coats and Gloves		1,000	(552)		448
104	Volleyball Fundraisers	1,578	5,773	(6,230)		1,121
105	Wrestling	234	500			734
201	Class of 2013	1,026		(42)		984
202	Class of 2012	297			(297)	
203	Class of 2017 - Freshman			(80)	462	382
204	Junior High	2,955	2,917	(2,652)	(500)	2,720
205	Class of 2015 - Juniors	4,270	2,818	(4,099)	589	3,578
206	Class of 2014 - Seniors	6,387	589	(5,590)	(143)	1,243
209	Class of 2009	190				190
210	Class of 2016 - Sophomores	664	9,338	(3,621)	(1,751)	4,630
301	Student Council	1,227	1,087	(293)		2,021
302	Pep Club	47	1	(6)	(25)	17
303	FCCLA	291	133	(424)	939	939
304	Drama Club	216				216
305	Home Ec - Sewing Kits	1	772	(271)	(2)	500
401	Annual	9,704	4,453	(4,797)		9,360
402	Music	2,916	906	(728)		3,094
404	Greenhouse	445				445
405	School Fines/Fees	327				327
501	Revolving	183	6,000	(5,062)	(803)	318
502	Shop	1,146	226	(954)		418
Sub-total		\$51,292	\$59,237	(\$66,228)	(\$1,558)	\$42,743

(continued)

**DRUMMOND PUBLIC SCHOOLS
DISTRICTS NO. 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

EXTRACURRICULAR FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE BY STUDENT ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2014**

Activity No.	Student Activity	Balance June 30, 2013	Revenues	Expenditures	Transfers	Balance June 30, 2014
(continued)						
	Sub-total (from previous page)	\$51,292	\$59,237	(\$66,228)	(\$1,558)	\$42,743
503	Special Olympics	499				499
504	FFA	653	4,207	(3,636)	18	1,242
505	Close-Up	310	28,629	(28,394)	1,357	1,902
507	Children's Theater	1,331	781	(600)		1,512
508	Football Fund Raising	1,463	1,253	(1,136)		1,580
509	Sunshine Fund	295	310	(133)		472
510	Library Copy Money	663	314	(370)		607
511	Playground Equipment	1,236				1,236
512	Junior High volleyball	190	335	(81)		444
513	Library Copy Machine	355	65			420
514	Library Fines & Fees	1,292	580	(70)		1,802
515	Dollars for Scholars	1,202	690	(1,900)	300	292
516	Indian Ed Supplies	200				200
517	3rd & 4th Grades	213	182	(172)		223
518	Science	38				38
601	Petty Cash	100				100
602	Interest	6,048	8	(334)	(117)	5,605
	Total	<u>\$67,380</u>	<u>\$96,591</u>	<u>(\$103,054)</u>	<u>\$0</u>	<u>\$60,917</u>

**DRUMMOND PUBLIC SCHOOLS
DISTRICT NUMBERS 11 & 2, GRANITE COUNTY
DRUMMOND, MONTANA**

SUPPLEMENTAL INFORMATION

JUNE 30, 2014

STUDENT ENROLLMENT

The fall enrollment of students attending Drummond Public Schools is as follows:

School	Year Ended June 30,					
	2009	2010	2011	2012	2013	2014
District 2 (High School):						
Grades 9-12	90	87	79	70	64	70
District 11:						
Grades 7-8 (Junior High)	26	31	30	26	26	27
Kindergarten - Grade 6	94	85	66	76	71	70
Total	210	203	175	172	161	167

SCHOOL DISTRICT VALUATIONS

	As of January 1,			
	2011	2012	2013	2014
High School District 2:				
Total Assessed Valuation	\$186,904,312	\$160,173,662	\$166,486,638	\$167,970,805
Less Tax Exempt Property (Primarily Forest Service Land) ...	(57,977,775)	(59,299,251)	(60,569,349)	(63,944,477)
Assessed Valuation - Taxable Property	\$128,926,537	\$100,874,411	\$105,917,289	\$104,026,328
Taxable Valuation	\$4,119,325	\$4,396,955	\$4,408,268	\$4,290,116
Taxable Valuation as a Percentage of Assessed Valuation	3.2%	4.4%	4.2%	4.1%
Elementary District 11:				
Total Assessed Valuation	\$153,241,884	\$130,792,216	\$136,026,734	\$138,369,854
Less Tax Exempt Property (Primarily Forest Service Land) ...	(53,976,684)	(55,209,459)	(56,390,852)	(59,531,961)
Assessed Valuation - Taxable Property	\$99,265,200	\$75,582,757	\$79,635,882	\$78,837,893
Taxable Valuation	\$3,230,711	\$3,427,033	\$3,436,813	\$3,374,964
Taxable Valuation as a Percentage of Assessed Valuation	3.3%	4.5%	4.3%	4.3%

SCHOOL DISTRICT TAX LEVIES (in mills)

	2010	2011	2012	2013	2014	2015
High School:						
General	54.31	52.32	51.74	46.76	47.80	47.69
Transportation	8.16	7.81	7.68	8.53	9.25	8.34
Debt Service	15.73	18.29	16.96	16.07	18.76	20.25
Total	78.20	78.42	76.38	71.36	75.81	76.28
Elementary:						
General	88.96	84.41	83.80	78.66	81.51	83.59
Transportation	9.40	9.31	9.93	10.93	11.96	11.25
Debt Service	13.74	16.85	15.22	15.20	16.48	16.61
Total	112.10	110.57	108.95	104.79	109.95	111.45
Total School District Tax Levies	190.30	188.99	185.33	176.15	185.76	187.73

OTHER TAX LEVIES

The following table shows the mill rates per \$1,000 of taxable value of most property located in the Districts for the tax years shown. Also shown below the table are the levy rates for the Hall Elementary District No. 8 (which is located in the High School District) and the Town of Drummond. Property in the Town of Drummond is not levied for the County Road levy.

Taxing Entity	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Montana State University System .	6.00	6.00	6.00	6.00	6.00	6.00
State School Equalization	40.00	40.00	40.00	40.00	40.00	40.00
Granite County	113.87	119.71	123.76	129.54	131.35	134.34
County Roads.	26.70	28.13	29.07	30.53	31.09	31.95
County-wide Schools	92.84	92.96	75.70	89.44	82.55	92.08
Drummond Elementary District.	118.50	112.10	110.57	108.95	104.79	109.95
Drummond High School District ..	81.83	78.20	78.42	76.38	71.36	75.81
Fire District	2.99	15.00	15.00	15.00	15.00	15.00
Nursing Home	55.18	51.66	52.61	58.83	53.93	55.18
Cemetery	5.61	6.20	6.49	6.89	7.05	7.10
Emergency Medical Services	1.64	1.74	1.83	1.94	1.99	2.04
Total	545.16	551.70	539.45	563.50	545.11	569.45
Town of Drummond	136.27	140.26	145.66	151.33	139.00	158.96
Hall Elementary District No. 8	71.10	48.46	51.95	73.79	68.32	77.12

TAX COLLECTIONS

The tables below shows the tax collection history for real property taxes levied by the Elementary and High School Districts for fiscal years ending June 30, 2005 through 2014.

----- High School District -----				----- Elementary District -----			
Year Ended June 30,	Total Tax Levy	Total Tax Collections	Collections as a % of Levy	Year Ended June 30,	Total Tax Levy	Total Tax Collections	Collections as a % of Levy
2014 ...	\$334,302	\$322,295	96.41%	2014 ...	\$371,855	\$359,552	96.69%
2013 ...	\$329,893	\$371,089	112.49%	2013 ...	\$371,607	\$396,657	106.74%
2012 ...	\$314,579	\$307,849	97.86%	2012 ...	\$352,003	\$343,362	97.55%
2011 ...	\$330,134	\$327,192	99.11%	2011 ...	\$365,424	\$367,628	100.60%
2010 ...	\$320,631	\$302,186	94.25%	2010 ...	\$353,227	\$336,424	95.24%
2009 ...	\$339,772	\$385,806	113.55%	2009 ...	\$376,989	\$426,679	113.18%
2008 ...	\$340,451	\$311,258	91.43%	2008 ...	\$346,165	\$323,384	93.42%
2007 ...	\$357,893	\$345,911	96.65%	2007 ...	\$384,218	\$364,972	94.99%
2006 ...	\$348,294	\$298,302	85.65%	2006 ...	\$406,897	\$345,721	84.97%
2005 ...	\$320,492	\$306,703	95.70%	2005 ...	\$391,018	\$371,498	95.01%

MAXIMUM BONDED INDEBTEDNESS

State law permits a maximum bonded indebtedness of 50% of the taxable valuation for each school district. At January 1, 2013, this maximum amounted to \$3,832,540. However, for school districts that qualify for guaranteed tax base aid, the law permits maximum bonded indebtedness equal to 50% of the statewide taxable valuation per student (average number belonging).

Maximum bonded indebtedness under this exception is:

Statewide Taxable Value Per Student	Average Number Belonging June 30, 2013	Percent Allowed	Maximum Bonded Indebtedness	
High School	\$78,680	73	50%	\$2,871,820
Elementary	\$33,140	106	50%	1,756,420
Maximum Bonded Indebtedness Allowed			4,628,240	
Less Bonds Payable			(875,000)	
Maximum Bonded Indebtedness Available			<u>\$3,753,240</u>	

MAJOR TAXPAYERS

The following table lists the taxable valuations and the percentage of total taxable valuation for the top ten major taxpayers within the Districts for June 30, 2014 fiscal year:

Taxpayer	Business	Elementary	%	High School	%
Northwestern Energy	Utility	\$669,669	20%	\$797,980	19%
Montana Rail Link	Railroad	469,568	14%	532,405	12%
Yellowstone Pipe Line	Transport	197,536	6%	197,536	5%
Puget Sound Energy	Utility	153,891	5%	271,291	6%
Portland General Electric	Utility	87,382	3%	154,044	4%
Celco DBA Verizon	Telecommunications	57,544	2%	57,544	1%
Blackfoot Telephone Inc.	Utility	56,786	2%	71,890	2%
Pacificorp	Utility			108,988	3%
Avista Corporation	Telecommunications	53,689	2%	94,647	2%
Stimson Lumber Co.	Forest Products	28,315	1%	28,315	1%
Greytak Real Estate	Real Estate Investment	\$24,119	1%		
Total		<u>\$1,798,499</u>	<u>53%</u>	<u>\$2,314,640</u>	<u>54%</u>
Total Taxable Valuation for Each District		<u>\$3,374,964</u>	<u>100%</u>	<u>\$4,290,116</u>	<u>100%</u>

POPULATION ESTIMATES

The Elementary District and High School District estimate that the 2010 populations of the Districts are 960 and 1,170, respectively. According to the U.S. Bureau of the Census, the County had an estimated population of 2,879 in 2009, an increase of 1.73% over the 2000 Census estimate.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

Board of Trustees
Drummond Public Schools
Districts No. 11 & 2
Granite County
Drummond, Montana

I have audited, in accordance with U.S. generally accepted auditing standards 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 government activities and the general fund of Drummond Public Schools, Districts 11 & 2, Granite County, Drummond, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Drummond Public Schools' basic financial statements, and have issued my report thereon dated August 6, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit of the financial statements, I considered Drummond Public Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Drummond Public Schools' internal control. Accordingly, I do not express an opinion on the effectiveness of Drummond Public Schools' internal control.

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

I consider item **2014-001** described below to be a significant deficiency.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Drummond Public Schools' financial statements are free from material misstatement, I 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

FINDING - SIGNIFICANT DEFICIENCY:

2014-001 Segregation of Accounting Duties

Ideal segregation of accounting duties is not always possible in an organization with a small staff as is the case with Drummond Public Schools.

Accordingly, I recommend the Board continue to monitor the Schools' activities and transactions.

Prior Year Audit Findings

2013-001 - Segregation of Accounting Duties - Inherent weakness - see comment above.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

In accordance with State law (MCA 2-7-515) the Schools' Board of Trustees is required to respond to the Department of Administration and the Office of Public Instruction concerning audit findings within 30 days after receipt of the final audit report.


August 6, 2015