

**GRASS RANGE SCHOOL DISTRICT NO. 27**

**FERGUS COUNTY  
GRASS RANGE, MONTANA**

**FINANCIAL AND COMPLIANCE REPORT**

**Fiscal year Ended June 30, 2014**

**Strom & Associates, P. C.**

**PO BOX 1980  
Billings, Montana 59103**

Grass Range School District No. 27  
Fergus County  
Grass Range, Montana 59032

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Grass Range School District No. 27  
Fergus County  
Grass Range, Montana 59032

ORGANIZATION

BOARD OF TRUSTEES

|                 |            |
|-----------------|------------|
| Margie Matovich | Chair      |
| Glen Finkbeiner | Vice Chair |
| Allyn Eickhoff  | Trustee    |
| Wendy Delaney   | Trustee    |
| Christopher Cox | Trustee    |

OFFICIALS

|                 |                       |
|-----------------|-----------------------|
| Darrell Sanborn | Superintendent        |
| Jamie Goss      | District Clerk        |
| Rhonda Long     | County Superintendent |
| Tom Miesner     | County Attorney       |

**Grass Range Public School District No. 27**  
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)  
*July 01, 2013 - June 30, 2014*

**Introduction**

This section of the Grass Range School Districts Financial Statements presents the management's discussion and analysis of both districts financial performance during the fiscal year (FY) ending June 30, 2014. This narrative overview and analysis of the financial activities of the Grass Range Districts includes a comparison of prior year financial statements as per compliance with Governmental Accounting Standards Board Statement #34. Readers of the management's discussion and analysis are encouraged to consider the information presented in this section as well as other areas of the financial statements.

**Financial Highlights**

- ✦ The Grass Range School Districts assets exceeded the districts liabilities at the close of the FY 2014 by \$1,171,769. The net position of the districts in FY 2014 increased by 3.33%.
- ✦ The overall revenues from all sources for the Grass Range School Districts for FY 2014 were \$1,371,432 which represented a .35% increase from the previous year.
- ✦ State sources of revenue increased 2.63% or \$16,185 in FY 2014 and remained the largest source of revenue for the districts.
- ✦ Property taxes collected at the local level decreased by 8.64% or \$34,879 in FY 2014 and remained the second largest source of revenue for the districts.
- ✦ Revenue from operating grants and contributions was down 11.5% or \$22,468 for FY 2014.
- ✦ The districts capital assets have no debt outstanding.
- ✦ Approximately 46% of the total Grass Range School Districts revenue was collected from state aid in FY 2014 compared to 44.9% in FY 2013. Property taxes provided 28.6% of the districts revenue in FY 2013 and 26.8% of the districts revenue in FY 2014.
- ✦ The Grass Range School Districts expenses for FY 2014 were \$1,335,365 which represents a 3.16% increase from FY 2013.
- ✦ The Grass Range School Districts revenues exceeded expenses for FY 2014 by \$36,067.
- ✦ Expenses for instruction increased 27% in FY 2014 and account for 51.4% of the districts expenses (largest expense). Operation and maintenance expenses decreased 15.3% in FY 2014 and account for 13.3% of the district expenses (second largest expense).
- ✦ The districts had total governmental fund balances of \$785,660 at the end of FY 2014 which was an 8.1% increase from FY 2013.
- ✦ The overall financial position of the Grass Range School Districts is very strong with a continued improvement in FY 2014.

## ***Overview of the Grass Range School Districts Financial Statements***

The management's discussion and analysis report is intended to serve as an introduction to the basic financial statements of the Grass Range K-12 Schools. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. It also, contains other supplementary information in addition to the basic financial statements.

### **Government-wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the Grass Range School Districts finances in a manner similar to a private-sector business. This broad overview will be accomplished using a *statement of net position* and a *statement of activities*. Each statement will distinguish between governmental and business type activities and between the total governmental and business type activities of the school districts.

The *statement of net position* presents information on all of the assets and liabilities of the Grass Range School Districts, with the difference between the two reported as *net position*. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the Grass Range School Districts is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Grass Range School Districts principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Most services normally associated with school government fall into the governmental activity category including instruction, support services, general, school and business administrative services, operation and maintenance, student transportation, community services, and other expenditures. The Grass Range Districts do not operate any business-type activities.

### **Fund-based Financial Statements**

Fund-based financial statements, consisting of a series of statements, provide information about government's major and non-major governmental funds. These governmental fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The governmental fund statements consist of the balance sheet and statement of revenues, expenditures, and change in fund balance.

A *fund* is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The Grass Range Districts, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Grass Range Districts can be divided into three categories: governmental, proprietary, and fiduciary funds.

## **Governmental funds**

*Governmental funds* are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term *inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the near-term financing decisions of the Board of Trustees of the Grass Range Schools. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Grass Range Elementary and High School Districts are recognized by state law as separate entities, but for the purposes of this discussion are combined. Major governmental funds are reported separately and all other funds are combined for this report. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Elementary and High School Bus Depreciation Funds, and the Elementary Transportation Fund because they were the major funds for FY 2014. The other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The Grass Range Districts adopts an annual appropriated budget for its general funds, select special revenue, debt service, and building reserve funds as required by state law. A budgetary comparison is provided for all budgeted funds later in this report.

## **Proprietary funds**

Proprietary funds statements offer short-term and long-term financial information about the activities the Districts may operate similar to business. Enterprise funds account for activities for which a fee is charged to external users and internal service funds account for activities that provide goods or services to other funds. The Grass Range Districts does not operate any proprietary funds.

## **Fiduciary funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds may include pension and employee benefit trust funds where resources are held in trust for employee benefit plans. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the programs of the Grass Range School Districts. Student activity accounts and scholarship trusts are the most common fiduciary funds in school districts. The Grass Range School Districts have fiduciary funds in their Student Activity Account Fund and Private Purpose Trust Fund.

## *Notes to the Financial Statements*

The notes to the financial statements provide additional information that can be very helpful to a full understanding of the data provided in the government-wide and fund financial statements and can be found later in this report.

### **Other information**

In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* concerning the official student enrollment and federal grant audit reports.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the financial position of the government. In the case of the Grass Range School Districts, assets exceeded liabilities by \$1,117,768 at the close of FY 2014. Net position for the districts at the end of FY 2014 showed a 3.33% increase from the close of FY 2013. Current and other assets increased by 7.9% while capital assets decreased by 8.35% in FY 2014. District liabilities increased by 7.77% mostly due to an increase in current liabilities. The total net position of the districts increased 3.33% during FY 2014 after an asset increase of 3.5% and a liability increase of 7.77%. The chart on the following page presents information on the districts net position for FY 2013 and FY 2014. The right hand column shows the percentage change in each category.

### **Overall Financial Position of the Districts in FY 2014**

The overall financial position of the Grass Range School Districts at the end of FY 2014 was very strong and continued to show improvement. The total net position of the districts increased 3.33% during FY 2014 after an asset increase of 3.53% and a liability increase of 7.77%. The increase in assets was the result of an increase in current assets of 7.9% or \$65,362. Capital assets decreased \$25,440 after depreciation was subtracted. The major funds of the of the districts showed the following changes in FY 2014: the General Fund balance increased \$24,342, the Elementary Transportation Fund decreased \$3,344, and the High School and Elementary Bus Depreciation Funds increased \$26,322. The overall fund balances in the districts increased \$58,838 during FY 2014 which was an 8.1% increase. Long term district liabilities remained nearly the same in both FY 2013 and FY 2014. Current liabilities increased by \$3,553 in FY 2014. The districts did have a decrease of \$25,440 in capital assets mostly due to depreciation. The district did have some minor construction in progress (\$6,232) during FY 2014 and added a small amount of equipment and machinery (\$16,000). Overall the net position of the districts improved in FY 2014, adding to an already strong financial position.

## Net Position of the Grass Range School Districts

|  | Governmental Activities |             |            |          |
|--|-------------------------|-------------|------------|----------|
|  | FY 2013                 | FY 2014     | Change     | % Change |
| Current and Other Assets                         | \$826,549               | \$891,911   | \$65,362   | 7.91%    |
| Capital Assets                                   | \$304,761               | \$279,321   | (\$25,440) | -8.35%   |
| Total Assets                                     | \$1,131,310             | \$1,171,232 | \$39,922   | 3.53%    |
| <b>Liabilities</b>                               |                         |             |            |          |
| Current Liabilities                              | \$2,250                 | \$5,803     | \$3,553    | 157.91%  |
| Long-term Liabilities Outstanding                | \$47,358                | \$47,660    | \$302      | 0.64%    |
| Total Liabilities                                | \$49,608                | \$53,463    | \$3,855    | 7.77%    |
| <b>Net Position</b>                              |                         |             |            |          |
| Investment in Capital Assets Net of Related Debt | \$304,761               | \$279,321   | (\$25,440) | -8.35%   |
| Restricted                                       | \$648,113               | \$680,090   | \$31,977   | 4.93%    |
| Unrestricted                                     | \$128,828               | \$158,357   | \$29,529   | 22.92%   |
| Total net position                               | \$1,081,702             | \$1,117,768 | \$36,066   | 3.33%    |

A large portion of the net position of the Grass Range Districts at the close of FY 2014 (25% - was 28.1% in FY 2013) reflects the investment by the school districts in capital assets such as land, buildings, machinery, and equipment. The capital assets of the Grass Range Districts have no related debt. The Grass Range School Districts uses these capital assets to provide educational and related services to students; and as a result, these assets are not available for future spending.

Another portion of the net position of the Grass Range School Districts (14.1% in FY 2014 - was 11.9% in FY 2013) represents *unrestricted assets* which may be used to meet the ongoing obligations of the school districts to citizens and creditors. The unrestricted funds increased by 22.9% from FY 2013 to FY 2014. The remaining portion of the Districts net position represents *restricted assets* which can only be used for a specific purpose. The Districts restricted assets increased by \$31,977 from FY 2013 to FY 2014. The Grass Range School Districts were able to report a positive balance of assets for both the government as a whole, as well as for governmental activities. The Grass Range School Districts net position increased by \$36,066 or 3.33% during FY 2014. This increase in net position positively impacts the already strong financial position of the districts.

### ***Governmental activities***

Net position derived from governmental activities for the Grass Range School Districts increased by 3.33% or \$36,066 during FY 2014.

## Districts Wide - Statement of Activities

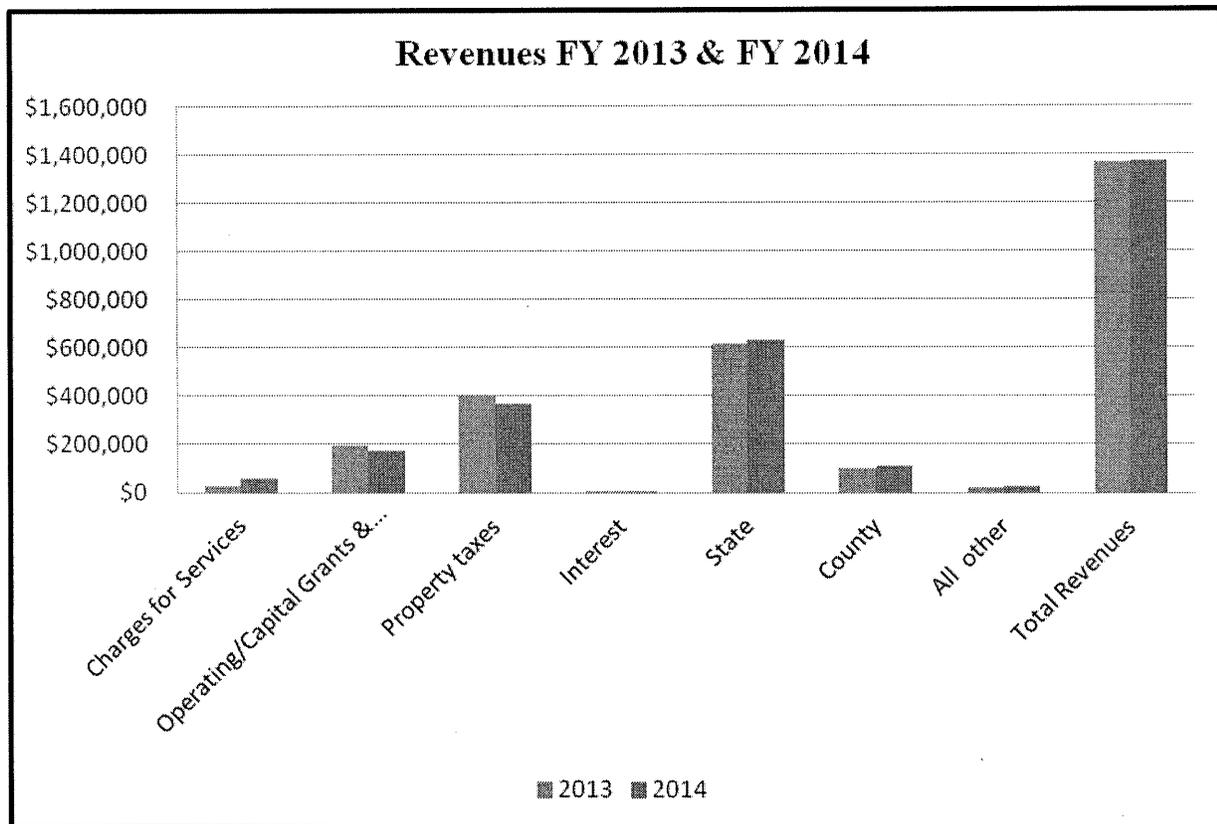
|                                     | Governmental Activities |             |            |          |
|-------------------------------------|-------------------------|-------------|------------|----------|
|                                     | FY 2013                 | FY 2014     | Change     | % Change |
| Program revenues:                   |                         |             |            |          |
| Charges for Services                | \$25,121                | \$56,361    | \$31,240   | 124.36%  |
| Operating Grants & Contributions    | \$195,550               | \$173,082   | (\$22,468) | -11.49%  |
| General revenues                    |                         |             |            |          |
| Property taxes                      | \$403,762               | \$368,883   | (\$34,879) | -8.64%   |
| Interest                            | \$4,172                 | \$4,427     | \$255      | 6.11%    |
| State                               | \$614,551               | \$630,736   | \$16,185   | 2.63%    |
| County                              | \$102,072               | \$112,809   | \$10,737   | 10.52%   |
| All other                           | \$21,406                | \$25,134    | \$3,728    | 17.42%   |
| Total Revenues                      | \$1,366,634             | \$1,371,432 | \$4,798    | 0.35%    |
| Expenses:                           |                         |             |            |          |
| Instruction                         | \$540,711               | \$686,740   | \$146,029  | 27.01%   |
| Administration                      | \$192,511               | \$162,757   | (\$29,754) | -15.46%  |
| Operation and Maintenance           | \$211,093               | \$178,746   | (\$32,347) | -15.32%  |
| Student Transportation              | \$160,946               | \$145,364   | (\$15,582) | -9.68%   |
| Food Services                       | \$84,275                | \$70,923    | (\$13,352) | -15.84%  |
| Extracurricular                     | \$34,005                | \$32,951    | (\$1,054)  | -3.10%   |
| Support Services                    | \$358                   | \$26,853    | \$26,495   | 7400.84% |
| Other Current Charges               | \$29,262                | \$4,847     | (\$24,415) | -83.44%  |
| Educational Media                   | \$29,842                | \$24,625    | (\$5,217)  | -17.48%  |
| OPEB                                | \$5,097                 | \$0         | (\$5,097)  | -100.00% |
| Depreciation-Unallocated            | \$6,420                 | \$1,560     | (\$4,860)  | -75.70%  |
| Total expenses                      | \$1,294,520             | \$1,335,365 | \$40,845   | 3.16%    |
| Increase (Decrease) in net position | \$72,115                | \$36,067    | (\$36,048) | -49.99%  |
| Beginning Net Position              | \$1,009,586             | \$1,081,702 | \$72,116   | 7.14%    |
| Ending Net Position                 | \$1,081,702             | \$1,117,769 | \$36,067   | 3.33%    |

Changes in districts wide governmental activities from FY 2013 to FY 2014 include:

- ✦ Total Revenues for the districts were up .35% or \$4,798.
- ✦ Total expenses for the districts were up 3.16% or \$40,845.
- ✦ Revenue from property taxes decreased by 8.6% or \$34,879.
- ✦ State revenue was up 2.63% or \$16,185 and county revenue was up 10.5% or \$10,737.
- ✦ Revenue from charges for services was up 124% or \$31,240 in FY 2014.
- ✦ Interest earnings increased by 6.1% or \$255.

- ✦ The districts instruction expenses were up 27% or \$146,029.
- ✦ Administration and business expenses were down 15.46% or \$29,754.
- ✦ Student Transportation expenses decreased by 9.68% or \$15,582.
- ✦ Operation and maintenance costs were down \$32,347 or 15.3%.
- ✦ Food services expenditures were down \$13,352 or 15.8%.
- ✦ Revenue from operating/capital grants and contributions were down 11.5% or \$22,468.
- ✦ Support service expenses were up \$26,495.
- ✦ Educational media expenses were down \$5,217 or 17.5%.
- ✦ Extracurricular expenses were down 3.1% or \$1,054.
- ✦ The district showed a positive balance of \$36,067 when expenses were subtracted from revenues.
- ✦ Net position for the districts increased 3.33% in FY 2014 and was \$1,117,769.

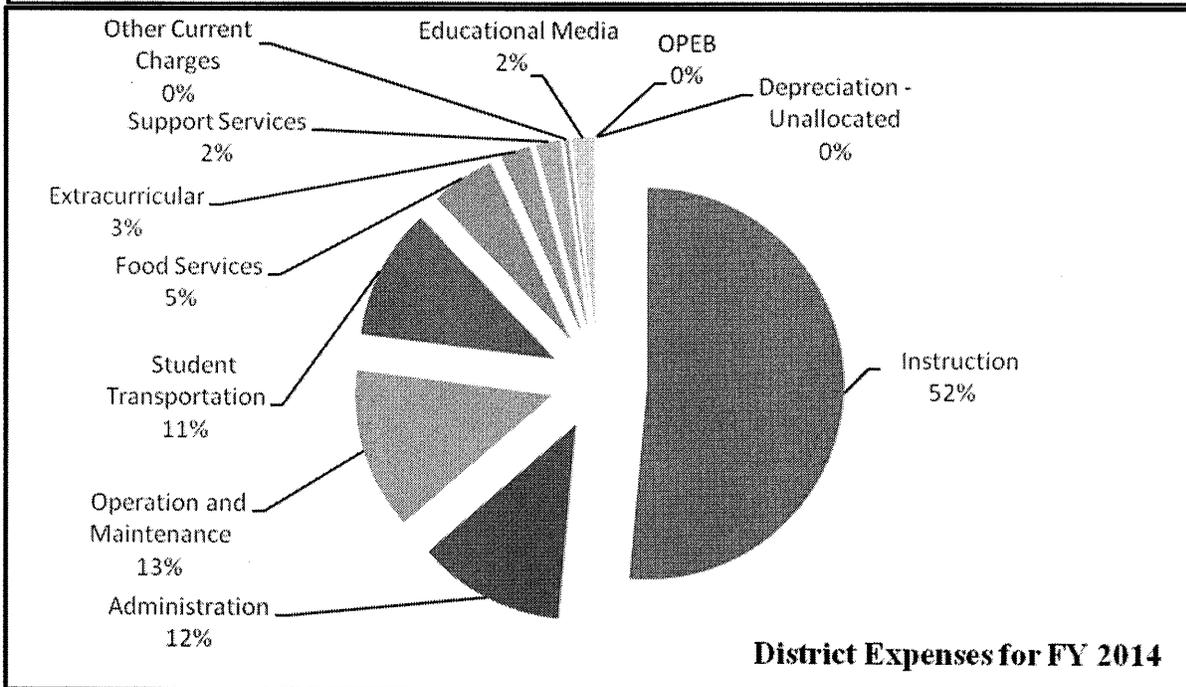
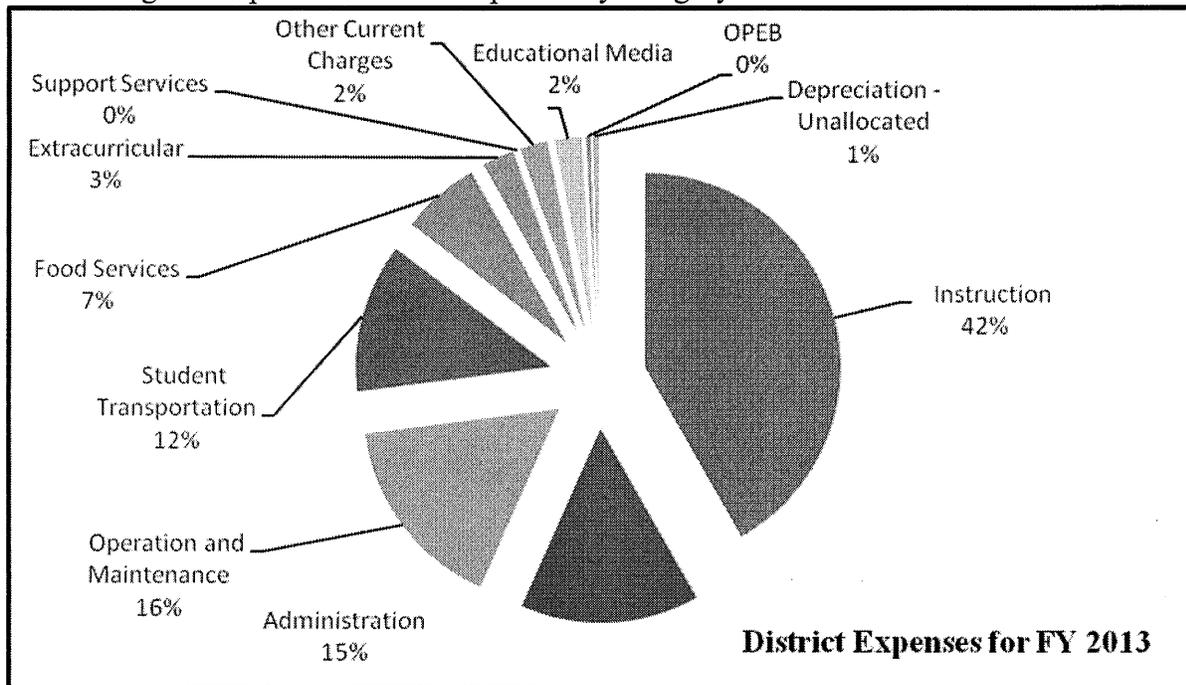
### Revenue by Source – Governmental Activities



The bar graph presented above shows that state sources of revenue were the largest source for the Grass Range districts in FY 2014 followed by revenue from property taxes and operating/capital grants & contributions. The major changes from FY 2013 to FY 2014 were increases in state revenue, county revenue, and charges for services revenue along with decreases in property tax revenue and operating grants and contributions. Total revenue increased in FY 2014 for the districts. Generally, since state law requires levied fund budgets to be “balanced,” the changes in expenditures matched the changes in the revenues of these funds.

## Districts Expenses

The following charts present districts expenses by category for FY 2013 and FY 2014.



The pie graphs (shown above) for district expenses show the allocation of resources for specific purposes in the Grass Range Schools during FY 2013 and FY 2014. The graphs illustrates the major expenditure areas, with instruction costs accounting for 42% & 52% of the districts expenses, operation & maintenance accounting for 16% and 13%, administration was 15% and 12%, student transportation 12% and 11%, and food services 7% and 5% of the districts expenses. The major changes for FY 2014 were instruction increasing 10%, transportation decreasing

1%, administration creasing 3%, operation and maintenance decreasing 3%, and food service decreasing 2%.

## **Financial Analysis of the Government's Funds**

Fund accounting is mandated by Montana State law and is used by the Grass Range School Districts to ensure and demonstrate compliance with finance-related legal requirements.

### ***Governmental funds***

The focus of the *governmental funds* of the Grass Range School Districts is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the financial requirements of the school districts. In particular, *unassigned fund balance* may serve as a useful measure of the net resources available for spending at the end of the year.

At the end of FY 2013, the governmental funds of the school districts reported a combined ending fund balance of \$726,822 and at the end of FY 2014 the fund balance was \$785,660 which represents an 8.1% increase. Approximately 12.4% (10.8% in FY 2013) of this total amount constitutes *unassigned fund balance*, which is available for spending at the discretion of the Board of Trustees.

The general fund is the main operating fund of the Grass Range School Districts. At the end of FY 2013, the General Fund had a balance of \$146,796 and at the close of FY 2014 the balance was \$171,139 which was a 16.6% increase. The General Fund unassigned balance was \$97,405 for FY 2014. The total fund balances in the districts increased \$58,838 from the end of fiscal year 2013 to the end of the fiscal year 2014 which was a 8.1% increase.

### **Governmental Fund Financial Statements**

Fund-based financial statements, consisting of a series of statements, provide information about the government's major and non-major funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The governmental funds balance sheet for FY 2014 is comprised of major funds and all other funds. The General Fund, Elementary Transportation Fund, and Elementary and High School Bus Depreciation Funds were the major funds in FY 2014. The Other Funds category includes the remainder of the governmental districts funds. The governmental balance sheet for FY 2014 demonstrates that the Grass Range School Districts are in excellent financial condition. The districts have considerable amounts of cash and investments in the general fund and the other major funds which make up 58.3% (68.1% in FY 2013) of the total fund balances in FY 2014. The districts have a minimal amount of liability attached to these same funds. The Grass Range Districts fund balances would seem to be strong enough to resolve any reasonable financial situation that might occur.

**Statement of Revenues, Expenditures, and Changes in Fund Balances**

The statement of revenues, expenditures, and changes in fund balances presents revenue and expenditures in each of the major fund categories. The major fund categories in FY 2014 were the General Fund, Elementary Transportation Fund, and Elementary and High School Bus Depreciation Funds. The other funds category includes all the remaining governmental funds that the districts are utilizing. State Aid is the major revenue source for both districts general fund category at 69.1% (68.9% in FY 2013) followed by the property tax revenue at 29% (30.8% in FY 2013) in FY 2014. The major expenditure in the general fund is instruction. Instruction expenditures make up 55.5% (48.5% in FY 2013) of the general fund total cost for FY 2014. Operation and maintenance followed by administrative services rank 2 & 3 for general fund expenditures in FY 2014. The total fund balances increased 8.1% from FY 2013 to FY 2014.

**General Fund Budgetary Highlights**

The general fund budgetary highlights for the districts in FY 2014 included less revenue and lower expenditures than was expected in the original budget for the general fund. The districts received \$7,265 less in total revenue in the general fund than was expected in the original budget. Nearly all of the difference was in the district levies which were \$7,193 less than expected. Actual expenditures were \$7,322 less than were expected in the original budget, which was only a difference of 1.7%. The difference in actual revenue and expenditures in the general fund was a positive \$56.

**Capital Asset and Debt Administration**

**Capital assets**

The investment by the Grass Range School Districts in capital assets for governmental activities as of June 30, 2014, was \$279,321 after depreciation was subtracted. This investment in capital assets included land, building improvements, buildings, furniture, and equipment. The value of the capital assets for the Grass Range Districts showed an 8.35% decrease for FY 2014 when compared to FY 2013 which was mostly due to depreciation. The district did have some minor construction in progress and added \$16,000 of machinery and equipment. The table below shows the value and details of the districts capital assets from the end of FY 2013 through FY 2014.

**Capital Assets of the Grass Range School Districts**

| Capital Assets                     | Governmental Activities  |            |                          |          |
|------------------------------------|--------------------------|------------|--------------------------|----------|
|                                    | Balance<br>June 30, 2013 | Additions  | Balance<br>June 30, 2014 | % Change |
| Land                               | \$14,710                 |            | \$14,710                 | 0%       |
| Construction in Progress           | \$0                      | \$6,232    | \$6,232                  | 100%     |
| Building, Machinery & Equipment    | \$1,202,281              | \$16,000   | \$1,218,281              | 1.33%    |
| Totals at Historical Cost          | \$1,216,991              | \$22,232   | \$1,239,223              | 1.83%    |
| Less Accumulated Depreciation      |                          |            |                          |          |
| Total Accumulated Depreciation     | (\$912,230)              | (\$47,672) | (\$959,902)              | 5.23%    |
| Capital Assets net of Depreciation | \$304,761                | (\$25,440) | \$279,321                | -8.35%   |

## **Long-term debt**

At the end of FY 2014, the Grass Range School Districts had no bonded debt outstanding. The districts did have long-term liabilities of \$29,982 for compensated absences of employees and Other Post-Employment Benefits of \$23,481.

## **Economic Factors and Fiscal Year Budgets for 2013 & 2014**

- ✦ The population of Fergus County decreased by 1.2% or about 144 residents from 2010 to 2014. This compares to the Montana average of a 3.5% increase.
- ✦ Residents of Fergus County under the age of 18 made up 20.2% of the population in 2010 and 20% in 2013 compared to Montana's 22.6% in 2010 and 22.1% in 2013.
- ✦ Student enrollment numbers are converted to "Average Number (of students) Belonging" and are used to fund the Districts. Enrollment numbers decreased by 5 students for the Grass Range Districts from 2013-14 to 2014-15. The decrease was 3 students in grades K-6 and 2 in the grades 9-12. The enrollment decrease was 7.8% from 2013-14 to 2014-15.
- ✦ The unemployment rate for Fergus County was 3.8% in June 2014. This compares to the Montana rate of 4.7%.
- ✦ The poverty rate for Fergus County was 13.8% for 2009-2013, when Montana was at 15.2%.
- ✦ The median household income for 2009-2013 in Fergus County was \$38,344 while Montana was \$46,230.
- ✦ State funding for most Montana schools increased for FY 2013 & FY 2014.

All of these and other factors were considered in preparing the FY 2013 & FY 2014 budgets for the Grass Range School Districts.

## **Requests for Information**

The information and data included in this management's discussion and analysis report is designed to provide a general overview of the finances of Grass Range School Districts for all those with an interest in the government's finances. Questions concerning any of the information contained in this report should be addressed to the Grass Range administration and business office located in Grass Range, Montana.

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Grass Range School District No. 27  
Fergus County  
Grass Range, Montana 59032

**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 Grass Range School District No. 27 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School 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 Grass Range School District No. 27 as of 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.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 13) and the schedule of funding for other post-employment benefits other than pensions (pages 33) and budgetary comparison information (pages 34 - 39) 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 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 inquires 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 Grass Range School District No. 27's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 40) and schedule of reported enrollment (page 41) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of revenues, expenses and balances student activity funds and schedule of reported enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of revenues, expenses and balances student activity funds and schedule of reported enrollment are fairly stated, in all material respects, in relation to the basic 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 April 22, 2015 on our consideration of Grass Range School District No. 27 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 Grass Range School District No. 27 internal control over financial reporting and compliance.

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
April 22, 2015

STATEMENT OF NET POSITION  
 June 30, 2014

|                                       | <u>Governmental<br/>Activities</u> |
|---------------------------------------|------------------------------------|
| <b>ASSETS:</b>                        |                                    |
| Current Assets:                       |                                    |
| Cash and Cash Equivalents             | \$ 774,160                         |
| Taxes Receivable                      | 106,250                            |
| Due From Other Governments            | <u>11,500</u>                      |
| Total Current Assets                  | <u>891,910</u>                     |
|                                       |                                    |
| Capital Assets:                       |                                    |
| Land                                  | 14,710                             |
| Construction in Progress              | 6,232                              |
| Net Depreciable Assets                | <u>258,379</u>                     |
| Total Noncurrent Assets               | <u>279,321</u>                     |
|                                       |                                    |
| Total Assets                          | <u>\$ 1,171,231</u>                |
| <b>LIABILITIES:</b>                   |                                    |
| Current Liabilities                   |                                    |
| Current Portions Compensated Absences | \$ 5,803                           |
| Total Current Liabilities             | <u>5,803</u>                       |
|                                       |                                    |
| Noncurrent Liabilities:               |                                    |
| Long-Term Obligations                 | 23,481                             |
| Compensated Absences                  | <u>24,179</u>                      |
| Total Noncurrent Liabilities          | <u>47,660</u>                      |
| Total Liabilities                     | <u>53,463</u>                      |
|                                       |                                    |
| <b>NET POSITION:</b>                  |                                    |
| Net investment in capital assets      | 279,321                            |
| Restricted                            | 680,090                            |
| Unrestricted (Deficit)                | <u>158,357</u>                     |
| Total Net Position                    | <u>1,117,768</u>                   |
| Total Liabilities and Net Position    | <u>\$ 1,171,231</u>                |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2014

|                                    | Program Revenues |                        |  | Net (Expenses) Revenues and<br>Changes in Net Position |
|------------------------------------|------------------|------------------------|--|--|
|                                    |                  |                        |  | Primary Government                                     |
|                                    | Expenses         | Charge for<br>Services | Operating<br>Grants and<br>Contributions | Governmental<br>Activities                             |
| <b>GOVERNMENT OPERATIONS</b>       |                  |                        |  |  |
| Instructional Services             | \$ 686,739       | \$ 1,160               | \$ 115,619                               | \$ (569,960)   |
| Support Services                   | 26,854           | -                      | 75                                       | (26,779)   |
| Educational Media Services         | 24,626           | -                      | 161                                      | (24,465)   |
| General Administrative Services    | 162,756          | -                      | 500                                      | (162,256)  |
| Operation & Maintenance Services   | 178,747          | 10,564                 | 6,232                                    | (161,951)  |
| Transportation Services            | 145,364          | 33,586                 | 31,924                                   | (79,854)   |
| School Food Services               | 70,923           | 11,051                 | 18,571                                   | (41,301)   |
| Extracurricular                    | 32,951           | -                      | -  | (32,951)   |
| Other Current Charges              | 4,847            | -                      | -  | (4,847)  |
| Unallocated Depreciation Expense * | 1,560            | -                      | -  | (1,560)  |
| Total Governmental Activities      | <u>1,335,367</u> | <u>56,361</u>          | <u>173,082</u>                           | <u>(1,105,924)</u>                                     |
| <b>GENERAL REVENUES</b>            |                  |                        |  |  |
| District Levies                    |                  |                        |  | 368,884  |
| State Equalization                 |                  |                        |  | 374,572  |
| Other State Revenues               |                  |                        |  | 256,165  |
| County                             |                  |                        |  | 112,809  |
| Interest                           |                  |                        |  | 4,425  |
| Other                              |                  |                        |  | <u>25,134</u>  |
| Total General Revenues             |                  |                        |  | <u>1,141,989</u>                                       |
| Change in Net Position             |                  |                        |  | 36,065   |
| Net Position                       |                  |                        |  |  |
| Beginning of the Year              |                  |                        |  | <u>1,081,703</u>                                       |
| End of the Year                    |                  |                        |  | <u>\$ 1,117,768</u>                                    |

\* Excludes depreciation included in direct expenses of the various functions

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 June 30, 2014

|   | MAJOR             |                           |                                |                             |                                | Total<br>Governmental<br>Funds |
|---|-------------------|---------------------------|--------------------------------|-----------------------------|--------------------------------|--------------------------------|
|   | General           | Transportation<br>(Elem.) | Bus<br>Depreciation<br>(Elem.) | Bus<br>Depreciation<br>(HS) | Other<br>Governmental<br>Funds |                                |
| <b>ASSETS:</b>  |                   |                           |                                |                             |                                |                                |
| <b>Current Assets:</b>  |                   |                           |                                |                             |                                |                                |
| Cash and Cash Equivalents   | \$ 171,139        | \$ 27,612                 | \$ 122,818                     | \$ 136,732                  | \$ 315,859                     | \$ 774,160                     |
| Taxes Receivable  | 76,825            | 10,666                    | 5,163                          | 4,078                       | 9,518                          | 106,250                        |
| Due From Other Governments  | -                 | -                         | -                              | -                           | 11,500                         | 11,500                         |
| <b>Total Assets</b>   | <b>\$ 247,964</b> | <b>\$ 38,278</b>          | <b>\$ 127,981</b>              | <b>\$ 140,810</b>           | <b>\$ 336,877</b>              | <b>\$ 891,910</b>              |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                   |                           |                                |                             |                                |                                |
| Unavailable Property Taxes Receivable   | 76,825            | 10,666                    | 5,163                          | 4,078                       | 9,518                          | 106,250                        |
| <b>Total Deferred Inflows of resources</b>                                    | <b>76,825</b>     | <b>10,666</b>             | <b>5,163</b>                   | <b>4,078</b>                | <b>9,518</b>                   | <b>106,250</b>                 |
| <b>FUND BALANCE:</b>  |                   |                           |                                |                             |                                |                                |
| <b>Fund Balances:</b>   |                   |                           |                                |                             |                                |                                |
| Restricted  | -                 | 27,612                    | 122,818                        | 136,732                     | 327,359                        | 614,521                        |
| Assigned  | 73,734            | -                         | -                              | -                           | -                              | 73,734                         |
| Unassigned:   | 97,405            | -                         | -                              | -                           | -                              | 97,405                         |
| <b>Total Fund Balance</b>   | <b>171,139</b>    | <b>27,612</b>             | <b>122,818</b>                 | <b>136,732</b>              | <b>327,359</b>                 | <b>785,660</b>                 |
| <b>Total Liabilities, Deferred Inflows of Resources, and<br/>Fund Balance</b> | <b>\$ 247,964</b> | <b>\$ 38,278</b>          | <b>\$ 127,981</b>              | <b>\$ 140,810</b>           | <b>\$ 336,877</b>              | <b>\$ 891,910</b>              |

RECONCILIATION TO THE STATEMENT OF NET POSITION

|  |                     |
|--|---------------------|
| Total fund balance reported above              | \$ 785,660          |
| Governmental Capital Assets                    | 279,321             |
| Long-term Liabilities                          |                     |
| Long-Term Obligations                          | (23,481)            |
| Compensated Absences                           | (29,982)            |
| Unavailable Property Taxes Receivable          | 106,250             |
| <b>Net Position of Governmental Activities</b> | <b>\$ 1,117,768</b> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2014

|                                     | MAJOR             |                           |                                |                             |                                |                                |
|-------------------------------------|-------------------|---------------------------|--------------------------------|-----------------------------|--------------------------------|--------------------------------|
|                                     | General           | Transportation<br>(Elem.) | Bus<br>Depreciation<br>(Elem.) | Bus<br>Depreciation<br>(HS) | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
| <b>REVENUES:</b>                    |                   |                           |                                |                             |                                |                                |
| District Levies                     | \$ 268,271        | \$ 32,754                 | \$ 17,397                      | \$ 7,520                    | \$ 35,719                      | \$ 361,661                     |
| Interest                            | 1,844             | 196                       | 650                            | 755                         | 980                            | 4,425                          |
| Charges for Services                | -                 | -                         | -                              | -                           | 22,775                         | 22,775                         |
| Other                               | 16,000            | -                         | -                              | -                           | 9,134                          | 25,134                         |
| County                              | -                 | 15,962                    | -                              | -                           | 129,602                        | 145,564                        |
| State                               | 640,277           | 17,123                    | -                              | -                           | 45,958                         | 703,358                        |
| Federal                             | -                 | -                         | -                              | -                           | 101,291                        | 101,291                        |
| <b>Total Revenues</b>               | <b>926,392</b>    | <b>66,035</b>             | <b>18,047</b>                  | <b>8,275</b>                | <b>345,459</b>                 | <b>1,364,208</b>               |
| <b>EXPENDITURES:</b>                |                   |                           |                                |                             |                                |                                |
| <b>Current</b>                      |                   |                           |                                |                             |                                |                                |
| Instructional Services              | 511,290           | -                         | -                              | -                           | 170,404                        | 681,694                        |
| Support Services                    | 23,755            | -                         | -                              | -                           | 3,099                          | 26,854                         |
| Educational Media Services          | 21,467            | -                         | -                              | -                           | 2,558                          | 24,025                         |
| General Administrative Services     | 118,467           | 16,161                    | -                              | -                           | 30,353                         | 164,981                        |
| Operation & Maintenance Services    | 157,976           | -                         | -                              | -                           | 12,821                         | 170,797                        |
| Transportation Services             | -                 | 53,217                    | -                              | -                           | 57,761                         | 110,978                        |
| School Food Services                | 41,577            | -                         | -                              | -                           | 29,209                         | 70,786                         |
| Extracurricular                     | 29,372            | -                         | -                              | -                           | 2,779                          | 32,151                         |
| Other Current Charges               | 873               | -                         | -                              | -                           | -                              | 873                            |
| Capital Outlay                      | 16,000            | -                         | -                              | -                           | 6,232                          | 22,232                         |
| <b>Total Expenditures</b>           | <b>920,777</b>    | <b>69,378</b>             | <b>-</b>                       | <b>-</b>                    | <b>315,216</b>                 | <b>1,305,371</b>               |
| <b>NET CHANGES IN FUND BALANCES</b> | <b>5,615</b>      | <b>(3,343)</b>            | <b>18,047</b>                  | <b>8,275</b>                | <b>30,243</b>                  | <b>58,837</b>                  |
| <b>FUND BALANCE:</b>                |                   |                           |                                |                             |                                |                                |
| Beginning of the Year               | 146,797           | 30,955                    | 104,771                        | 128,457                     | 315,843                        | 726,823                        |
| Prior Period Adjustments            | 18,727            | \$ -                      | \$ -                           | \$ -                        | (18,727)                       | -                              |
| <b>End of the Year</b>              | <b>\$ 171,139</b> | <b>\$ 27,612</b>          | <b>\$ 122,818</b>              | <b>\$ 136,732</b>           | <b>\$ 327,359</b>              | <b>\$ 785,660</b>              |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

Grass Range School District No. 27  
Fergus County  
Grass Range, Montana 59032

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

|   |            |               |               |
|---|------------|---------------|---------------|
| Net Changes in Fund Balance   |            | \$            | 58,837        |
| Revenues on the Statement of Activity not included in governmental funds statement:                 |            |               |               |
| Increase (decrease) in taxes receivable   |            |               | 7,223         |
| Expenses on the Statement of Activity not included in the governmental funds statement:             |            |               |               |
| Depreciation Expense  | (47,672)   |               |               |
| (Increase) decrease in Other Post Employment Benefits   | (5,097)    |               |               |
| (Increase) decrease in compensated absence liability  | <u>542</u> | (52,227)      |               |
| Expenditures reported in the governmental funds statement not included in the Statement of Activity |            |               |               |
| Capital outlays   |            | <u>22,232</u> |               |
| Change in net position reported on the Statement of Activity  |            | \$            | <u>36,065</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 June 30, 2014

|                                   | Private Purpose  |               |
|-----------------------------------|------------------|---------------|
|                                   | Trust Funds      | Agency Funds  |
| <b>ASSETS:</b>                    |                  |               |
| Current Assets:                   |                  |               |
| Cash and Cash Equivalents         | \$ 24,099        | \$ 45,456     |
| Total Assets                      | <u>24,099</u>    | <u>45,456</u> |
| <b>LIABILITIES:</b>               |                  |               |
| Current Liabilities               |                  |               |
| Warrants Payable                  | -                | 45,456        |
| Total Liabilities                 | <u>-</u>         | <u>45,456</u> |
| <b>NET POSITION:</b>              |                  |               |
| Restricted for Student Activities | <u>24,099</u>    |               |
| Total Net Position                | <u>\$ 24,099</u> |               |

STATEMENT OF CHANGES IN FIDUCIARY NET  
 FIDUCIARY FUNDS  
 For the Year Ended June 30, 2014

|                                  | Private Purpose  |
|----------------------------------|------------------|
|                                  | Trust Funds      |
| <b>ADDITIONS:</b>                |                  |
| Revenues from Student Activities | \$ 60,648        |
| Total Additions                  | <u>60,648</u>    |
| <b>DEDUCTIONS:</b>               |                  |
| Expenses of Student Activities   | 58,950           |
| Total Deductions                 | <u>58,950</u>    |
| CHANGE IN NET POSITION           | 1,698            |
| <b>NET POSITION:</b>             |                  |
| Beginning of the Year            | <u>22,401</u>    |
| End of the Year                  | <u>\$ 24,099</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS  
Fiscal Year-Ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Grass Range School District No. 27 (School District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the School District adopted the following:

- GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The amendment revised existing guidance for financial report of pension systems for state and local government. The statement is applicable for fiscal year 2014. This statement affects the applicable retirement plan administration at the State level and did not have any effect on the School District.
- GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The School District has not extend any financial guarantees to other parties. This statement has no effect on the financial statements.

The following are a listing of GASB statements which have been issued and the School District assessment of effects to the financial statements.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement revises and establishes new financial reporting requirement that provide employees with pension benefits. The statement is effective for fiscal year 2015. This statement will require the School District to expand its pension foot note disclosures. The School District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.
- GASB Statement No. 69 – Government Combinations and Disposals of Government Operations. The statement is applicable for fiscal year 2015. The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The School District is not merging with another School District or ceasing to exist. This statement has no effect on the financial statements.
- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. This statement amends paragraph 137 of statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The School District plans to implement this in fiscal year 2015 after the State of Montana provides the required information for reporting and disclosure.

The School District consists of two legally separate entities, an elementary district which provides education for kindergarten through eighth grade and a high school district which provides education for ninth through twelfth grade. For financial reporting purposes the two School Districts are combined because they are controlled by the same central board of trustees and managed by the same administration. The board of trustees is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. GAAP requires only one general fund for each reporting entity so the elementary and high school general funds are combined in the accompanying financial statements.

The Grass Range School District No. 27 was incorporated under the laws of the State of Montana and as required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Grass Range School District No. 27 (the primary government) and any component units. The criteria for including organizations as component units within the School District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the School District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the School District. Based on those criteria this School District has no component units.

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. The governmental activities column incorporates data from governmental funds (primary government). Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

The government-wide financial statements report using the economic resource measurement focus and the accrual basis of accounting generally including the elimination of internal activity between or within funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Expenses which are not directly related to a function, indirect expenses, are not charges to a function. Program revenues include:

- Charges for services such as school lunch fees and facility rental fees and
- Operating grants that are restricted to a particular functional program.

Property taxes, investment earnings, state equalization payments, and other revenue sources not properly included with program revenue are reported as general revenues.

1. b. 2 FUND ACCOUNTING

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The student activity fund and endowment fund are displayed as fiduciary funds. Since the resources in the fiduciary funds cannot be used for School District operations, they are not included in the entity-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balance are included on the balance sheet. Operating statement of these funds present net increases and decreases in current assets. Revenues are recorded when they are both measurable and available. Available means collectible within the current period anything collected after June 30 are generally not material. Unavailable income are recorded in governmental funds for delinquent taxes. Expenditures are recorded when the related fund liability is incurred except for compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State of Montana are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Cost reimbursement grant funds are considered to be both measurable and available to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received and the expenditure has not been incurred they are recorded as unearned grant revenues because the revenues are available. All other revenue items are considered to be measurable and available only when cash is received by the government.

Trust and agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

GASB Statement No. 34 requires the general fund be reported as a major fund and that only one general fund be reported so the elementary and high school general funds have been combined as one major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

- Total assets, liabilities, revenues, or expenditures of that individual governmental fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental funds)

In addition to funds that meet the major fund criteria, any other governmental fund that government officials believe is particularly important to financial statement users may be reported as a major fund.

The School District reports the following major governmental funds:

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

- General Fund – The General Fund is the general operating fund of the School District and accounts for all revenues and expenditures of the School District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. In the governmental fund financial statements the general fund also includes the activities of the flexibility fund since the restrictions on those funds are similar to the general fund.
- Elementary Transportation Fund – This fund is used to account for financing the maintenance and operation of School 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. County wide levies to this fund are to be based upon projected transportation costs for the fiscal year.
- Elementary and High School Bus Depreciation Funds – Those funds are used to account for financing the replacement of yellow school buses and two-way radio equipment owned by a school. Deposits made to the funds are limited by depreciation percentages of current buses and two-way radio equipment owned by the School District.

1. b. 3 OTHER FUND TYPES

Private-Purpose Trust Funds – Accounts for the receipt and disbursement of monies from student activity organizations, as well as any donated scholarship funds. These organizations exist with the explicit approval of and are subject to revocation by the School District's Board of Trustees. This accounting reflects the School District's trust relationship with the student activity organizations and any scholarship commitments.

Agency Funds – Account for assets that the School District holds on behalf of others as their agent in the payroll and claims clearing funds and employee payroll tax withholdings. Cash is held for warrants which were written but have not been paid by the County Treasurer. A warrant is an order by which the drawer (the person with authority to make the order) commands the School District trustee to pay a particular sum of money to a payee (person or entity) from funds in the School District treasury which are or may become available.

1. c. ASSETS, LIABILITIES AND NET POSITION (FUND BALANCE)

1. c. 1 CASH AND INVESTMENTS

Cash includes amounts in demand deposits, as well as short-term investments as authorized by State statutes. Montana Code Annotated (MCA) allows Montana local governments to invest public money not necessary for immediate use in United States government treasury bills, notes, bonds; certain United States treasury obligations; United States government security money market fund if investments consist of those listed above; time or savings deposits with a bank, savings and loan association, or credit union which is FDIC, FSLIC, or NCUA insured and are located in the state; or in repurchase agreements as authorized by MCA, or Montana Board of Investments Short Term Investment Pool (STIP). Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. Investments are recorded at fair market value.

Information regarding the collateral and security for cash is not available to the School District. However, State statute requires that United State government securities or agencies be held as collateral to secure deposits of public funds in excess of Federal Deposit Insurance Corporation (FDIC) insurance. The external investment pool is audited as part of Fergus County's financial statements. This investment pool is not registered with or monitored by the Securities and Exchange Commission (SEC).

1. c. 2 TAXES

Property tax levies are set connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the School District. Taxable values are established by the Montana Department of Revenue based on market values. A revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by State statute as a fixed percentage of market value.

Property taxes are collected by the County Treasurer who credits to the School District funds their respective share of the collections. The tax levies are collectible in two installments, which become delinquent after November 30 and May 31. Property taxes are liens upon the property being taxed. After a period of three years, the County may begin foreclosure proceedings and sell the property at auction. The School District receives its share of the sale proceeds of any such auction.

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% per month plus a penalty of 2%. After a period of three years, the County may begin foreclosure proceedings and sell real property auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

1. c. 3 INVENTORIES

Materials, supplies and food inventory at year end was not material. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

1. c. 4 CAPITAL ASSETS

The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historical cost was established at the initial booking of the capital assets by determining actual costs or estimating using standard costing procedures. The School District considers capital assets to be items in excess of \$5,000 with a useful life in excess of one year. The costs of normal maintenance and repair are not capitalized. Land and construction in progress are not depreciated. Depreciation on the other capital assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

| <u>Capital Asset Classes</u>      | <u>Lives</u>  |
|-----------------------------------|---------------|
| Buildings                         | 20 – 50 years |
| Improvements other than buildings | 20 years      |
| Machinery and Equipment           | 5 – 8 years   |
| Infrastructure                    |               |

1.c. 5 DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable from two sources: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

1.c. 6 VACATION AND SICK LEAVE

Classified School District employees accumulate vacation and sick leave for later use or for payment upon termination, death, or retirement. Classified School District employees earn vacation leave at the rate of 15 days per year during the first 10 years of employment, and at increasing rates thereafter to a maximum of 24 days per year after 20 years of employment. There is no requirement that vacation leave be taken, but the maximum permissible accumulation is the amount earned in the most recent two-year period. At termination, employees are paid for any accumulated vacation leave at the current rate of pay. Classified School District employees earn sick leave at the rate of one day per month. There is no limit on the accumulation of unused sick leave. However, upon termination, only 25% of accumulated sick leave is paid at the current rate of pay.

Certified School District employees shall accrue 8 days of sick leave each year. Unused sick leave will be accruable to a maximum of 30 days. Up to 5 days personal leave with pay shall be granted each year. A maximum accumulation of 10 days of personal leave is allowed. Upon termination, all payments are made at \$35 per day.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$5,803 and it is generally paid out of the general fund.

1.c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

- Restricted – Includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Assigned – the executing a purchase order for a specific purpose such as an encumbrance.
- Unassigned – Amounts that are available for any purpose; these amounts are reported only in the general fund.

As of June 30, 2014, fund balance components other than unassigned fund balance consist of the following:

| <u>Purpose</u>                   | <u>Restricted</u> | <u>Assigned</u>  |
|----------------------------------|-------------------|------------------|
| Instructional - Regular          | \$ 6,591          | \$ 73,734        |
| Operations and Maintenance       | 20,000            | 0                |
| Student Transportation           | 190,555           | 0                |
| School Food                      | 8,146             | 0                |
| Third Party Grantor Restrictions | 120,250           | 0                |
| Employer Retirement Benefits     | 55,414            | 0                |
| Future Technology                | 20,828            | 0                |
| Future Capital Costs             | 192,737           | 0                |
| Total                            | <u>\$ 614,521</u> | <u>\$ 73,734</u> |

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When an expenditure is incurred and assigned or unassigned fund balances are available, the School District considers amounts to have been spent first out of assigned and then unassigned funds as needed, unless the board of trustees has provided otherwise.

- 1. d. OTHER
- 1. d. 1 USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.d. 2 COUNTY PROVIDED SERVICES

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2014, the summary of cash, cash equivalents for governmental and fiduciary funds is as follows:

| <u>Account Type</u>       | <u>Governmental</u> | <u>Fiduciary</u> | <u>Total</u> |
|---------------------------|---------------------|------------------|--------------|
|                           | <u>Activities</u>   | <u>Funds</u>     |              |
| Cash and Cash Equivalents | \$ 774,160          | \$ 69,555        | \$ 843,715   |

The carrying amount of cash on hand, deposits and investments at June 30, 2014, is as follows:

|                        | <u>Amount</u>     |
|------------------------|-------------------|
| Demand Accounts        | \$ 24,099         |
| County Investment Pool | 819,616           |
| Total                  | <u>\$ 843,715</u> |

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Cash resources of the School District are held and managed by the Fergus County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within Fergus County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of certificates of deposit, U.S. government securities, repurchase agreement, and STIP and are carried at fair value. The School District's exposure to credit risk is not available to the School District. Risk in the event of loss is unclear in state law, but appears to be the liability of the Fergus County government. Because of the custodial involvement of the Fergus County government, and the commingling of cash in County deposits in the name of the Fergus County Treasurer, full risk classifications according to GASB 40 are available in the Fergus County's annual report. There is no known maturity and credit rating of the Fergus County Investment Pool.

The cash of the extracurricular funds is held separately by the School District, not at Fergus County. As of June 30, 2014, the deposits in the extracurricular fund were covered by FDIC insurance.

Custodial credit risk-deposits: The cash of the extracurricular funds is held separately by the School District, not at Fergus County and the deposits may be subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2014, the deposits in the extracurricular fund were covered by FDIC insurance.

NOTE 3. TAXES RECEIVABLE

The School District is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$1,661,690 for the Elementary School District and \$1,772,928 for the High School District. The tax rates assessed for the year ended June 30, 2014 to finance School District operations and applicable taxes receivable for the elementary and high schools follows:

| <u>Elementary Fund</u>  | <u>Mill Levies</u> | <u>Taxes<br/>Receivable</u> |
|-------------------------|--------------------|-----------------------------|
| General*                | 88.26              | \$ 40,681                   |
| Transportation*         | 20.26              | 10,666                      |
| Bus Depreciation*       | 11.35              | 5,163                       |
| <u>High School Fund</u> |                    |                             |
| General*                | 76.14              | 36,144                      |
| Transportation          | 21.32              | 9,518                       |
| Bus Depreciation*       | 4.26               | 4,078                       |
| Total                   | <u>221.59</u>      | <u>\$ 106,250</u>           |

\* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

| <u>Elementary Fund</u>  | <u>Amount</u>    | <u>Due From</u> | <u>Reason</u>                  |
|-------------------------|------------------|-----------------|--------------------------------|
| Miscellaneous           | \$ 6,232         | State of MT     | Quality schools facility grant |
| <u>High School Fund</u> |                  |                 |                                |
| Miscellaneous           | 3,444            | State of MT     | Significant needs students     |
| Miscellaneous           | 1,143            | State of MT     | REAP                           |
| Traffic Education       | 681              | State of MT     | Per pupil reimbursement        |
| Total                   | <u>\$ 11,500</u> |                 |                                |

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

5. a. At June 30, 2014, the schedule of changes in general capital assets follows:

| <u>Governmental Activities:</u> | <u>Balance<br/>July 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance<br/>June 30, 2014</u> |
|---------------------------------|---------------------------------|------------------|------------------|----------------------------------|
| <u>Non-depreciable:</u>         |                                 |                  |                  |                                  |
| Land                            | \$ 14,710                       | \$ 0             | \$ 0             | \$ 14,710                        |
| Construction In Progress        | 0                               | 6,232            | 0                | 6,232                            |
| Total Non-depreciable           | <u>\$ 14,710</u>                | <u>\$ 6,232</u>  | <u>\$ 0</u>      | <u>\$ 20,942</u>                 |

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

| <u>Governmental Activities:</u>   | <u>Balance</u>      |                    |                   | <u>Balance</u>       |
|-----------------------------------|---------------------|--------------------|-------------------|----------------------|
|                                   | <u>July 1, 2013</u> | <u>Additions</u>   | <u>Deletions</u>  | <u>June 30, 2014</u> |
| <u>Depreciable:</u>               |                     |                    |                   |                      |
| Buildings                         | \$ 769,433          | \$ 16,000          | \$ 0              | \$ 785,433           |
| Improvements other than buildings | 33,670              | 0                  | 0                 | 33,670               |
| Machinery and equipment           | <u>399,178</u>      | <u>0</u>           | <u>9,517</u>      | <u>389,661</u>       |
| Total Depreciable                 | <u>\$ 1,202,281</u> | <u>\$ 16,000</u>   | <u>\$ 9,517</u>   | <u>\$ 1,208,764</u>  |
| <u>Accumulated Depreciation:</u>  |                     |                    |                   |                      |
| Buildings                         | \$ (641,893)        | \$ (7,220)         | \$ 0              | \$ (649,113)         |
| Improvements other than buildings | (14,119)            | (1,684)            | 0                 | (15,803)             |
| Machinery and equipment           | <u>(256,218)</u>    | <u>(38,768)</u>    | <u>(9,517)</u>    | <u>(285,469)</u>     |
| Total Depreciation                | <u>\$ (912,230)</u> | <u>\$ (47,672)</u> | <u>\$ (9,517)</u> | <u>\$ (950,385)</u>  |
| Net Depreciable Assets            | <u>290,051</u>      | <u>(31,672)</u>    | <u>0</u>          | <u>258,379</u>       |
| Net General Capital Assets        | <u>\$ 304,761</u>   | <u>\$ (25,440)</u> | <u>\$ 0</u>       | <u>\$ 279,321</u>    |

5. b. General capital asset depreciation expense was charged to governmental functions as follows:

| <u>Function</u>            | <u>Amount</u>    |
|----------------------------|------------------|
| Operation & Maintenance    | \$ 7,817         |
| School Administration      | 3,974            |
| Transportation             | 33,521           |
| Extracurricular            | 800              |
| Unallocated                | <u>1,560</u>     |
| Total Depreciation Expense | <u>\$ 47,672</u> |

NOTE 6. CHANGES IN LONG-TERM DEBT

6. a. At June 30, 2014, the schedule of changes in general long-term debt follows:

| <u>Governmental Activities</u>                  | <u>Balance</u>      | <u>New Debt</u>  | <u>Principal</u> | <u>Balance</u>       | <u>Due within</u> |
|---|---------------------|------------------|------------------|----------------------|-------------------|
|   | <u>July 1, 2013</u> | <u>and Other</u> | <u>Payments</u>  | <u>June 30, 2014</u> | <u>and Other</u>  |
|   |                     | <u>Additions</u> | <u>and Other</u> |                      | <u>Reductions</u> |
|   |                     |                  |                  |                      | <u>One Year</u>   |
| <u>Other Liabilities:</u>                       |                     |                  |                  |                      |                   |
| Compensated Absences                            | \$ 30,524           | \$ 0             | \$ 542           | \$ 29,982            | \$ 5,803          |
| Other Post-Employment Benefits (OPEB)           | <u>18,384</u>       | <u>5,097</u>     | <u>0</u>         | <u>23,481</u>        | <u>0</u>          |
| Total Other Liabilities                         | <u>\$ 48,908</u>    | <u>\$ 5,097</u>  | <u>\$ 542</u>    | <u>\$ 53,463</u>     | <u>\$ 5,803</u>   |
| Total Governmental Activities - Long-Term Debt: | <u>\$ 48,908</u>    | <u>\$ 5,097</u>  | <u>\$ 542</u>    | <u>\$ 53,463</u>     | <u>\$ 5,803</u>   |

NOTE 7. DEFERRED INFLOWS OF RESOURCES

7. a. PROPERTY TAXES

| <u>Elementary Fund</u>  | <u>Amount</u>     | <u>Reason</u>    |
|-------------------------|-------------------|------------------|
| General*                | \$ 40,681         | Taxes Receivable |
| Transportation*         | 10,666            | Taxes Receivable |
| Bus Depreciation*       | 5,163             | Taxes Receivable |
| <u>High School Fund</u> |                   |                  |
| General*                | 36,144            | Taxes Receivable |
| Transportation          | 9,518             | Taxes Receivable |
| Bus Depreciation*       | <u>4,078</u>      | Taxes Receivable |
| Total                   | <u>\$ 106,250</u> |                  |

\* Denotes Major Funds

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 8. OPERATING LEASES

In August 2013 the School District entered into an operating lease with Gary Brink, Inc. for a maintenance contract on the School Districts dish washer. The lease was started in September and may be cancelled at any time and has monthly payments of \$67. Total lease payments in fiscal year 2014 were \$603. The lease maybe cancelled at any time so there is no future commitment to the School District.

The School District has five operating leases with Lewistown Propane and Fertilizer Co. for propane tanks on various School Districts properties. The lease were started at various times in the past and may be cancelled at any time and have monthly payments of \$495. Total lease payments in fiscal year 2014 were \$5,940. The leases maybe cancelled at any time so there is no future commitment to the School District.

NOTE 9. PRIOR PERIOD ADJUSTMENTS

| <u>Elementary Fund</u>  | <u>Amount</u>    | <u>REASON</u>                              |
|-------------------------|------------------|--|
| General*                | \$ 9,466         | To include the flexibility fund as general |
| <u>High School Fund</u> |                  |  |
| General*                | <u>9,261</u>     | To include the flexibility fund as general |
| Total                   | <u>\$ 18,727</u> |  |

\* Denotes Major Funds

NOTE 10. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The implicit subsidy is \$6,840 per member. The School District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. 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. Projections of benefits for the plan are based on types of benefits provided under the current plan. The valuation assumed that 2% of plan participants would elect to continue coverage after retirement.

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

Funding status and progress as of July 1, 2014 was as follows:

|   |               |
|---|---------------|
| Actuarial Accrued Liability (AAL)                 | \$ 83,760     |
| Actuarial value of plan assets                    | <u>0</u>      |
| Unfunded Actuarial Accrued Liability (UAAL)       | <u>83,760</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0%            |
| Covered payroll (active plan members)             | \$ 648,844    |
| UAAL as a percentage of covered payroll           | 13%           |

Annual OPEB Cost and Net OPEB Obligations - 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (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 the changes in the government's net OPEB obligation for the valuation performed at July 1, 2013.

|   |                  |
|---|------------------|
| Annual Required Contribution (ARC)      | \$ 5,097         |
| Interest on net OPEB obligation         | 0                |
| Adjustment to ARC                       | <u>0</u>         |
| Annual OPEB cost (expense)              | 5,097            |
| Contribution made                       | <u>0</u>         |
| Increase in net OPEB obligation         | 5,097            |
| Net OPEB obligation - beginning of year | <u>18,384</u>    |
| Net OPEB obligation - end of year       | <u>\$ 23,481</u> |

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

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) |            | 63                      |
| Discount rate (average anticipated rate)             |            | 4.0%                    |
| Average Salary Increase                              |            | 3.0%                    |
| Health care cost rate trend                          |            |                         |
| Year   | % Increase |                         |
| 2015 and after                                       | 4.0%       |                         |

NOTE 11. OTHER COMMITMENTS

11. a. 1 ENCUMBRANCES

The School District's encumbrance policy is for fiscal year end encumbrances exceeding \$1,000 to be considered significant encumbrances. All encumbrances are classified as assigned or restricted in the funds noted below:

|                         |                  |
|-------------------------|------------------|
| <u>Elementary Fund</u>  | <u>Amount</u>    |
| General*                | \$ 42,197        |
| <u>High School Fund</u> |                  |
| General*                | 31,537           |
| Total                   | <u>\$ 73,734</u> |

\* Denotes Major Funds

11. a. 2 CONSTRUCTION OR SIMILAR COMMITMENTS

West-End air lock energy efficiency project to be handled by Hanna Construction as the contractor in the amount of \$77,022, pending a signed contract with the Quality Schools Grant Program.

NOTE 12. RISK MANAGEMENT

The School District, is exposed to various types of risk 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. Several methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and contents damage, employee torts, professional liabilities, and employee medical insurance. The School District has joined with other School Districts throughout the state into an interlocal common risk pool to insure workers compensation for all participating School Districts in a self-insurance pool. The Workers Compensation Risk Retention Program is managed by a board of directors elected annually. Members are responsible for fully funding the Workers Compensation Risk Retention Program through the payment of annual premiums assessed. There is no other liability to the School District other than timely payments of premiums. The School District can withdraw from the Workers Compensation Risk Retention Program with 60 days' notice at any time. The School District has no coverage for potential losses from environmental damages.

Levels of insurance have not changed materially from the prior year and settlements have not exceeded insurance coverage limits during the current or each of the two previous years.

NOTE 13. EMPLOYEE RETIREMENT SYSTEM

The School District participates in two state-wide, cost-sharing multiple employer defined benefit retirement plans which cover all School District employees, except certain substitute teachers and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers teaching employees, including administrators and aides. The Public Employee Retirement System (PERS) covers nonteaching employees. The plans are established under State law and are administered by the State of Montana.

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

Teachers Retirement System  
P.O. Box 200139  
1500 Sixth Avenue  
Helena, MT 59620-0139  
Phone: 406-444-3134  
www.trs.doa.state.mt.us

Public Employees Retirement System  
P.O. Box 200131  
1712 Ninth Avenue  
Helena, MT 59620-0131  
Phone: 406-444-3154  
www.state.mt.us/doa/perb/prb.htm

The PERS defined benefit contribution rates for employees was 7.9%. The PERS rate for the State was set at .37%. For the defined contribution plan the rates are the same except only 4.19% of the employer amount is added to the employee account. Employees who elect the defined contribution plan are in control of their investments and the retirement is based upon the cash in their fund. The PERS rate for employers was 7.8%. The TRS rates for employees was 8.15% and the State was set at 2.49%. The TRS rate for employers was 8.47%. The State's contribution to the retirement system qualifies as an on-behalf payment and has not been reported in the School District's financial statements.

Contribution rates for both plans are required and determined by State law. The amounts contributed to the plans during the years ended June 30, 2012, 2013 and 2014 were equal to the required contribution for each year. The amounts contributed by the State, School District and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

|       | <u>2012</u>      | <u>2013</u>       | <u>2014</u>       |
|-------|------------------|-------------------|-------------------|
| TRS   | \$ 73,882        | \$ 104,552        | \$ 91,128         |
| PERS  | <u>17,823</u>    | <u>19,430</u>     | <u>20,701</u>     |
| Total | <u>\$ 91,705</u> | <u>\$ 123,982</u> | <u>\$ 111,829</u> |

NOTE 14. COOPERATIVE

14. a. SPECIAL EDUCATION

The Grass Range School District No. 27 is a member of the Central Montana Learning Resource Center Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of Grass Range School District No. 27, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the School District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Fergus County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member School District's budgeted costs for contracted special education services. All capital assets of the Cooperative are included in the Cooperative's financial statements.

A Joint Board of Directors governs the Cooperative. The Joint Board has the power to set policies, enter into contracts, review the performance of the Cooperative annually, review the financial management of the Cooperative annually, and set and approve the annual fiscal budget of the Cooperative.

NOTE 15. CONTINGENCIES

The government participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

NOTE 16. JOINT VENTURE AGREEMENTS

Joint ventures are legal entities or other organizations that result in a contractual arrangement and that are owned, operated, or governed by two or more participants. Each participant retains both an ongoing financial interest and an ongoing financial responsibility.

Joint ventures are legal entities or other organizations that result in a contractual arrangement and that are owned, operated, or governed by two or more participants. Each participant retains both an ongoing financial interest and an ongoing financial responsibility.

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE FINANCIAL STATEMENTS (continued)  
Fiscal Year-Ended June 30, 2014

16 a. MULTIDISTRICT COOPERATIVE

The School District has entered into an agreement with Lewistown Elementary, Fergus High School, Denton Elementary, Denton High School, Grass Range Elementary, Grans Range High School, Harlowton Elementary School, Harlowton High School, Ayers Elementary, Roy K-12 Schools, Winifred K-12 Schools, Moore Elementary, Moore High School, Deerfield Elementary, Spring Creek Colony Elementary, King Colony Elementary, Hobson k-12 Schools, Judith Gap Elementary, Judith Gap High School, Stanford K-12 Schools and the Central Montana Learning Resource Center Cooperative to provide technology services to each participating School District.

Section 20-3-363, MCA allows for the creation of a multidistrict cooperative between any School District and other public entity under Title 20, Chapter 9 Part 7, MCA. The parties in a multidistrict cooperative may mutually agree to perform any services, activities, and undertakings of the participants and provide for the joint funding and operation and maintenance of all participants in the agreement.

Fergus High School is the designated prime agency and is responsible for the financial administration of the multidistrict cooperative. The activity of the multidistrict cooperative is accounted for in fund 82 of the Fergus High School. During fiscal year ended June 30, 2014 Grass Range School District paid Fergus High School \$7,470 for its share of the annual technical support fee.

NOTE 17. SUBSEQUENT EVENTS

The District expects to finance a West-End Construction Project in the amount of \$65,800 during fiscal year 2015 with a Quality Schools Grant.

GRASS RANGE SCHOOL DISTRICT NO. 27

SCHEDULE OF FUNDING PROGRESS  
 Other Post-Employment Benefits Other Than Pensions (OPEB)  
 Fiscal Year-Ended June 30, 2014

| <u>Actuarial</u><br><u>Valuation</u><br><u>Date</u> | <u>Actuarial</u><br><u>Value of</u><br><u>Assets</u><br><u>(a)</u> | <u>Actuarial</u><br><u>Accrued</u><br><u>Liability (AAL) -</u><br><u>Entry Age</u><br><u>(b)</u> | <u>Unfunded</u><br><u>AAL</u><br><u>(UAAL)</u><br><u>(b-a)</u> | <u>Funded</u><br><u>Ratio</u><br><u>(a / b)</u> | <u>Covered</u><br><u>Payroll</u><br><u>(c)</u> | <u>UAAL as a</u><br><u>Percentage of</u><br><u>Covered</u><br><u>Payroll</u><br><u>[(b-a) / c]</u> |
|---|--|--|--|---|--|--|
| 7/1/2013  | \$ -   | \$ 83,760  | \$ 83,760  | 0%  | \$ 648,844                                     | 13%  |

This schedule is based on the actuarial values as of July 1, 2012. Information for prior years is not available.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2014

|                                     | General (Elem)  |                |                | Transportation (Elem.) |                 |                |
|-------------------------------------|-----------------|----------------|----------------|------------------------|-----------------|----------------|
|                                     | Original Budget | Final Budget   | Actual         | Original Budget        | Final Budget    | Actual         |
| <b>REVENUES:</b>                    |                 |                |                |                        |                 |                |
| District Levies                     | \$ 146,664      | \$ 146,664     | \$ 139,471     | \$ 33,673              | \$ 33,673       | \$ 32,754      |
| Interest                            | 1,089           | 1,089          | 1,017          | -                      | -               | 196            |
| County                              | -               | -              | -              | 25,105                 | 25,105          | 15,962         |
| State                               | 275,251         | 275,251        | 275,251        | 26,267                 | 26,267          | 17,123         |
| <b>Total Revenues</b>               | <b>423,004</b>  | <b>423,004</b> | <b>415,739</b> | <b>85,045</b>          | <b>85,045</b>   | <b>66,035</b>  |
| <b>EXPENDITURES:</b>                |                 |                |                |                        |                 |                |
| <b>Current</b>                      |                 |                |                |                        |                 |                |
| Instructional Services              |                 |                | 215,004        | -                      | -               | -              |
| Support Services                    |                 |                | 11,639         | -                      | -               | -              |
| Educational Media Services          |                 |                | 13,241         | -                      | -               | -              |
| General Administrative Services     |                 |                | 53,238         | 16,161                 | 16,161          | 16,161         |
| Operation & Maintenance Services    |                 |                | 73,714         | -                      | -               | -              |
| Transportation Services             |                 |                | -              | 88,839                 | 88,839          | 53,217         |
| School Food Services                |                 |                | 21,065         | -                      | -               | -              |
| Extracurricular                     |                 |                | 7,910          | -                      | -               | -              |
| Other Current Charges               |                 |                | 873            | -                      | -               | -              |
| Capital Outlay                      |                 |                | 19,000         | -                      | -               | -              |
| <b>Total Expenditures</b>           | <b>423,004</b>  | <b>423,004</b> | <b>415,684</b> | <b>105,000</b>         | <b>105,000</b>  | <b>69,378</b>  |
| <b>NET CHANGES IN FUND BALANCES</b> | <b>-</b>        | <b>-</b>       | <b>55</b>      | <b>(19,955)</b>        | <b>(19,955)</b> | <b>(3,343)</b> |
| <b>FUND BALANCE:</b>                |                 |                |                |                        |                 |                |
| Beginning of the Year               |                 |                | 35,959         | 30,955                 | 30,955          | 30,955         |
| End of the Year                     |                 |                | \$ 36,014      | \$ 11,000              | \$ 11,000       | \$ 27,612      |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2014

|                                  | Bus Depreciation (Elem.) |                 |                | Bus Depreciation (HS) |                 |                |
|----------------------------------|--------------------------|-----------------|----------------|-----------------------|-----------------|----------------|
|                                  | Original<br>Budget       | Final<br>Budget | Actual         | Original<br>Budget    | Final<br>Budget | Actual         |
| <b>REVENUES:</b>                 |                          |                 |                |                       |                 |                |
| District Levies                  | \$ 18,861                | \$ 18,861       | \$ 17,397      | \$ 7,550              | \$ 7,550        | \$ 7,520       |
| Interest                         | -                        | -               | 650            | -                     | -               | 755            |
| County                           | -                        | -               | -              | -                     | -               | -              |
| State                            | -                        | -               | -              | -                     | -               | -              |
| Total Revenues                   | <u>18,861</u>            | <u>18,861</u>   | <u>18,047</u>  | <u>7,550</u>          | <u>7,550</u>    | <u>8,275</u>   |
| <b>EXPENDITURES:</b>             |                          |                 |                |                       |                 |                |
| Current                          |                          |                 |                |                       |                 |                |
| Instructional Services           | -                        | -               | -              | -                     | -               | -              |
| Support Services                 | -                        | -               | -              | -                     | -               | -              |
| Educational Media Services       | -                        | -               | -              | -                     | -               | -              |
| General Administrative Services  | -                        | -               | -              | -                     | -               | -              |
| Operation & Maintenance Services | -                        | -               | -              | -                     | -               | -              |
| Transportation Services          | -                        | -               | -              | -                     | -               | -              |
| School Food Services             | -                        | -               | -              | -                     | -               | -              |
| Extracurricular                  | -                        | -               | -              | -                     | -               | -              |
| Other Current Charges            | -                        | -               | -              | -                     | -               | -              |
| Capital Outlay                   | <u>123,632</u>           | <u>123,632</u>  | -              | <u>136,007</u>        | <u>136,007</u>  | -              |
| Total Expenditures               | <u>123,632</u>           | <u>123,632</u>  | -              | <u>136,007</u>        | <u>136,007</u>  | -              |
| NET CHANGES IN FUND BALANCES     | (104,771)                | (104,771)       | 18,047         | (128,457)             | (128,457)       | 8,275          |
| <b>FUND BALANCE:</b>             |                          |                 |                |                       |                 |                |
| Beginning of the Year            | <u>104,771</u>           | <u>104,771</u>  | <u>104,771</u> | <u>128,457</u>        | <u>128,457</u>  | <u>128,457</u> |
| End of the Year                  | \$ -                     | \$ -            | \$ 122,818     | \$ -                  | \$ -            | \$ 136,732     |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2014

|                                  | Flexibility Fund (Elem.) |              |          | Flexibility Fund (HS) |              |          |
|----------------------------------|--------------------------|--------------|----------|-----------------------|--------------|----------|
|                                  | Original Budget          | Final Budget | Actual   | Original Budget       | Final Budget | Actual   |
| <b>REVENUES:</b>                 |                          |              |          |                       |              |          |
| District Levies                  | \$ -                     | \$ -         | \$ -     | \$ -                  | \$ -         | \$ -     |
| Interest                         | -                        | -            | 54       | -                     | -            | 53       |
| County                           | -                        | -            | -        | -                     | -            | -        |
| State                            | -                        | -            | -        | -                     | -            | -        |
| Total Revenues                   | -                        | -            | 54       | -                     | -            | 53       |
| <b>EXPENDITURES:</b>             |                          |              |          |                       |              |          |
| Current                          |                          |              |          |                       |              |          |
| Instructional Services           | -                        | -            | -        | -                     | -            | -        |
| Support Services                 | -                        | -            | -        | -                     | -            | -        |
| Educational Media Services       | -                        | -            | -        | -                     | -            | -        |
| General Administrative Services  | -                        | -            | -        | -                     | -            | -        |
| Operation & Maintenance Services | -                        | -            | -        | -                     | -            | -        |
| Transportation Services          | -                        | -            | -        | -                     | -            | -        |
| School Food Services             | 9,466                    | 9,466        | 255      | 9,261                 | 9,261        | -        |
| Extracurricular                  | -                        | -            | -        | -                     | -            | -        |
| Other Current Charges            | -                        | -            | -        | -                     | -            | -        |
| Capital Outlay                   | -                        | -            | -        | -                     | -            | -        |
| Total Expenditures               | 9,466                    | 9,466        | 255      | 9,261                 | 9,261        | -        |
| NET CHANGES IN FUND BALANCES     | (9,466)                  | (9,466)      | (201)    | (9,261)               | (9,261)      | 53       |
| <b>FUND BALANCE:</b>             |                          |              |          |                       |              |          |
| Beginning of the Year            | 9,466                    | 9,466        | 9,466    | 9,261                 | 9,261        | 9,261    |
| End of the Year                  | \$ -                     | \$ -         | \$ 9,265 | \$ -                  | \$ -         | \$ 9,314 |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 (Budget and Actual)  
 ALL BUDGETED MAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2014

|                                  | General (HS)       |                 |                  |
|----------------------------------|--------------------|-----------------|------------------|
|                                  | Original<br>Budget | Final<br>Budget | Actual           |
| <b>REVENUES:</b>                 |                    |                 |                  |
| District Levies                  | \$ 134,964         | \$ 134,964      | \$ 128,800       |
| Interest                         | 728                | 728             | 720              |
| County                           | -                  | -               | -                |
| State                            | 365,026            | 365,026         | 365,026          |
| Total Revenues                   | <u>500,718</u>     | <u>500,718</u>  | <u>494,546</u>   |
| <b>EXPENDITURES:</b>             |                    |                 |                  |
| Current                          |                    |                 |                  |
| Instructional Services           |                    |                 | 275,230          |
| Support Services                 |                    |                 | 12,116           |
| Educational Media Services       |                    |                 | 8,226            |
| General Administrative Services  |                    |                 | 65,229           |
| Operation & Maintenance Services |                    |                 | 84,262           |
| Transportation Services          |                    |                 | -                |
| School Food Services             |                    |                 | 20,257           |
| Extracurricular                  |                    |                 | 21,462           |
| Other Current Charges            |                    |                 | -                |
| Capital Outlay                   |                    |                 | <u>7,703</u>     |
| Total Expenditures               | <u>500,718</u>     | <u>500,718</u>  | <u>494,485</u>   |
| NET CHANGES IN FUND BALANCES     | -                  | -               | 61               |
| <b>FUND BALANCE:</b>             |                    |                 |                  |
| Beginning of the Year            | -                  | -               | 42,751           |
| End of the Year                  | <u>\$ -</u>        | <u>\$ -</u>     | <u>\$ 42,812</u> |

The accompanying NOTES TO THE FINANCIAL STATEMENTS are an integral part of these statements.

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE BUDGET VS ACTUAL SCHEDULE  
Fiscal Year-Ended June 30, 2014

NOTE 1. BUDGETS

1. a. BUDGETS

Budgets are adopted on a basis consistent with the State of Montana budget laws which are consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for the general fund, budgeted special revenue funds including (Transportation, Bus Depreciation, Tuition, Retirement, Adult Education, Technology, Flexibility), debt service fund, and budgeted capital project funds (Building Reserve). All annual appropriations lapse at fiscal year-end, unless the School District elects to encumber supplies and personal property ordered but not received at year end.

1. a. 1 GENERAL BUDGET POLICIES:

The School District's funds are either budgeted or non-budgeted in accordance with State statutes. Budgeted funds are those of which a legal budget must be adopted to have expenditures from such funds and are noted above. All other funds are non-budgeted, meaning a legal budget is not required in order to spend the cash balance of such a fund. The Schedule of Revenues, Expenditures, and Changes in Fund Balances, Budget vs. Actual, has been prepared on the modified accrual basis of accounting and contains financial information for only the major general and special revenue fund budgeted funds.

1. a. 2 BUDGET OPERATION:

The School District operates within the budget requirements for School Districts as specified by State law. The financial report reflects the following budgetary standards:

- By the second Monday in July, the County Assessor transmits a statement of the assessed valuation and taxable valuation of all property in the School District's borders.
- Before the fourth Monday in July, the County Superintendent estimates the revenue required for each fund.
- Before the fourth Monday in August, the Board of Trustees must meet to legally adopt the final budget. The final budget for the general fund is fund total only.
- Once adopted, the budget can be amended by subsequent Board action. An increase of the total budget of a given fund requires the adoption of an amended budget in accordance with State statutes.
- According to State statutes, the expenditures of a budgeted fund may not legally exceed the adopted budget.
- At the end of a fiscal year, unencumbered appropriations lapse unless specifically obligated by the School District.

NOTE 2. BUDGET AMENDMENT

The original budget was not amended so the original budget and the final budget are the same.

GRASS RANGE SCHOOL DISTRICT NO. 27

NOTES TO THE BUDGET VS ACTUAL SCHEDULE (continued)  
Fiscal Year-Ended June 30, 2014

NOTE 3. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

|                             | <u>Sub-fund<br/>General<br/>Fund<br/>(EL)</u> | <u>Sub-fund<br/>General<br/>Fund<br/>(HS)</u> | <u>Sub-fund<br/>Flexibility<br/>Fund (EL)</u> | <u>Sub-fund<br/>Flexibility<br/>Fund (HS)</u> | <u>Total<br/>General<br/>Fund</u> |
|-----------------------------|---|---|---|---|-----------------------------------|
| <b>REVENUES:</b>            |   |   |   |   |                                   |
| District Levies             | \$ 139,471                                    | \$ 128,800                                    | \$ 0  | \$ 0  | \$ 268,271                        |
| Interest Earnings           | 1,017   | 720   | 54  | 53  | 1,844                             |
| Other                       | 16,000  | 0   | 0   | 0   | 16,000                            |
| State Sources               | <u>275,251</u>                                | <u>365,026</u>                                | <u>0</u>                                      | <u>0</u>                                      | <u>640,277</u>                    |
| Total Revenues              | <u>\$ 431,739</u>                             | <u>\$ 494,546</u>                             | <u>\$ 54</u>                                  | <u>\$ 53</u>                                  | <u>\$ 926,392</u>                 |
| <b>EXPENDITURES:</b>        |   |   |   |   |                                   |
| Instructional Services      | 229,536                                       | 281,754                                       | 0   | 0   | 511,290                           |
| Support Services            | 11,639  | 12,116  | 0   | 0   | 23,755                            |
| Educational Media           | 13,241  | 8,226   | 0   | 0   | 21,467                            |
| General Administrative      | 53,238  | 65,229  | 0   | 0   | 118,467                           |
| Operation & Maintenance     | 73,714  | 84,262  | 0   | 0   | 157,976                           |
| Transportation              |   |   |   |   |                                   |
| Extracurricular             | 7,910   | 21,462  | 0   | 0   | 29,372                            |
| School Food                 | 21,065  | 20,257  | 255   | 0   | 41,577                            |
| Other Current Charges       | 873   | 0   | 0   | 0   | 873                               |
| Capital                     | <u>16,000</u>                                 | <u>0</u>                                      | <u>0</u>                                      | <u>0</u>                                      | <u>16,000</u>                     |
| Total Expenditures          | <u>\$ 427,216</u>                             | <u>\$ 493,306</u>                             | <u>\$ 255</u>                                 | <u>\$ 0</u>                                   | <u>\$ 920,777</u>                 |
| Net Changes In Fund Balance | 4,523   | 1,240   | (201)   | 53  | 5,615                             |
| <b>FUND BALANCE:</b>        |   |   |   |   |                                   |
| Beginning of the Year       | 73,688  | 73,109  | 0   | 0   | 146,797                           |
| Prior Period Adjustment     | <u>0</u>                                      | <u>0</u>                                      | <u>9,466</u>                                  | <u>9,261</u>                                  | <u>18,727</u>                     |
| Ending of the Year          | <u>78,211</u>                                 | <u>74,349</u>                                 | <u>9,265</u>                                  | <u>9,314</u>                                  | <u>171,139</u>                    |

The fund balances of the general fund displayed above is different than the one displayed on the Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) by \$73,734. This is due to the reserve for encumbrances. Encumbrances are not included as expenditures above as they do not meet the GAAP definition of expenditures. The District reports encumbrances at year end as budgeted expenditures and displays these amounts as assigned or restricted fund balances, as applicable.

In the reconciliation the general funds and flexibility funds are added together to get to the aggregate general fund shown as a major fund on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds. The flexibility funds are maintained as special revenue funds for accounting purposes, however, for external financial reporting they are added to the general fund because they have unassigned fund balance like the general fund.

On the Statement of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) All Budgeted Major Governmental Funds display budgeted information for the general and major special revenue funds. The Statement presents budgetary information for the general funds and flexibility funds because they are reported as major funds and have legally adopted budgets.

Grass Range SD  
Schedule of Revenues, Expenses and Balances  
Student Activity Funds  
Fiscal Year-Ended June 30, 2014

| Activity Account Name | Beginning<br>Balance<br><u>7/1/2013</u> | Revenues      | Expenses      | Transfers | Ending Balance<br><u>6/30/2014</u> |
|-----------------------|---|---------------|---------------|-----------|------------------------------------|
| ATHLETICS             | 3,869                                   | 19,121        | 19,658        | 220       | 3,552                              |
| REVOLVING             | -                                       | -             | -             | -         | -                                  |
| MUSIC                 | 337                                     | 137           | -             | -         | 474                                |
| SCIENCE CLUB          | 428                                     | -             | -             | -         | 428                                |
| STUDENT COUNCIL       | 1,238                                   | 2,676         | 2,570         | (220)     | 1,124                              |
| VO-AG                 | 409                                     | 2,991         | 2,659         | -         | 741                                |
| HOME EC               | 221                                     | -             | -             | -         | 221                                |
| ELEMENTARY            | 449                                     | 304           | 600           | -         | 153                                |
| FCCLA                 | (107)                                   | 12,100        | 9,376         | 55        | 2,672                              |
| YEARBOOK              | 2,874                                   | 3,106         | 2,328         | -         | 3,652                              |
| LIBRARY FUND          | 116                                     | 1,584         | 1,326         | -         | 374                                |
| ART FUND              | 74                                      | 36            | 7             | -         | 103                                |
| CLOSE-UP              | 5,246                                   | 11,309        | 16,152        | -         | 403                                |
| CLASS OF 2013         | (33)                                    | 33            | -             | -         | -                                  |
| CLASS OF 2014         | 1,049                                   | 1,302         | 2,281         | -         | 70                                 |
| CLASS OF 2015         | 1,610                                   | 1,060         | 524           | (55)      | 2,091                              |
| CLASS OF 2016         | 963                                     | 872           | 335           | -         | 1,500                              |
| CLASS OF 2017         | 847                                     | 856           | 335           | -         | 1,368                              |
| CLASS OF 2018         | 637                                     | 470           | 172           | -         | 935                                |
| CLASS OF 2019         | 460                                     | 470           | 172           | -         | 758                                |
| CLASS OF 2020         | 473                                     | 303           | 172           | -         | 604                                |
| CLASS OF 2021         | 382                                     | 293           | 157           | -         | 518                                |
| CLASS OF 2022         | 353                                     | 304           | -             | -         | 657                                |
| CLASS OF 2023         | 212                                     | 294           | -             | -         | 506                                |
| CLASS OF 2024         | 198                                     | 328           | 11            | -         | 515                                |
| CLASS OF 2025         | 96                                      | 323           | 11            | -         | 408                                |
| CLASS OF 2026         | -                                       | 376           | 104           | -         | 272                                |
| <b>Total</b>          | <u>22,401</u>                           | <u>60,648</u> | <u>58,950</u> | <u>-</u>  | <u>24,099</u>                      |

GRASS RANGE SCHOOL DISTRICT NO. 27

SCHEDULE OF REPORTED ENROLLMENT  
Fiscal Year-Ended June 30, 2014

FALL ENROLLMENT - OCTOBER, 2013

|                     |                 |                |                 |
|---------------------|-----------------|----------------|-----------------|
| Elementary          |                 |                |                 |
|                     | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Kindergarten Full   | 4               | 4              | 0               |
| Grade 1 - 6         | 23              | 23             | 0               |
| Grade 7 - 8         | <u>12</u>       | <u>12</u>      | <u>0</u>        |
| Total               | <u>39</u>       | <u>39</u>      | <u>0</u>        |
|                     |                 |                |                 |
| High School         |                 |                |                 |
|                     | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Grade 9 - 12        | <u>25</u>       | <u>25</u>      | <u>0</u>        |
|                     |                 |                |                 |
| Part-time Students  |                 |                |                 |
| Less than 181 hours | 0               | 0              | 0               |
| Less than 359 hours | 0               | 0              | 0               |
| Less than 539 hours | 0               | 0              | 0               |
| Less than 719 hours | <u>4</u>        | <u>4</u>       | <u>0</u>        |
| Total Part-time     | <u>4</u>        | <u>4</u>       | <u>0</u>        |
| 19 year olds        | <u>0</u>        | <u>0</u>       | <u>0</u>        |

WINTER ENROLLMENT - DECEMBER, 2013

|                     |                 |                |                 |
|---------------------|-----------------|----------------|-----------------|
| Elementary          |                 |                |                 |
|                     | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Kindergarten Full   | 4               | 4              | 0               |
| Grade 1 - 6         | 23              | 23             | 0               |
| Grade 7 - 8         | <u>12</u>       | <u>12</u>      | <u>0</u>        |
| Total               | <u>39</u>       | <u>39</u>      | <u>0</u>        |
|                     |                 |                |                 |
| High School         |                 |                |                 |
|                     | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Grade 9 - 12        | <u>25</u>       | <u>25</u>      | <u>0</u>        |
|                     |                 |                |                 |
| Part-time Students  |                 |                |                 |
| Less than 181 hours | 0               | 0              | 0               |
| Less than 359 hours | 0               | 0              | 0               |
| Less than 539 hours | 0               | 0              | 0               |
| Less than 719 hours | <u>4</u>        | <u>4</u>       | <u>0</u>        |
| Total Part-time     | <u>4</u>        | <u>4</u>       | <u>0</u>        |
| 19 year olds        | <u>0</u>        | <u>0</u>       | <u>0</u>        |

SPRING ENROLLMENT - FEBRUARY, 2014

|                     |                 |                |                 |
|---------------------|-----------------|----------------|-----------------|
| Elementary          |                 |                |                 |
|                     | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Kindergarten Full   | 4               | 4              | 0               |
| Grade 1 - 6         | 21              | 21             | 0               |
| Grade 7 - 8         | <u>12</u>       | <u>12</u>      | <u>0</u>        |
| Total               | <u>37</u>       | <u>37</u>      | <u>0</u>        |
|                     |                 |                |                 |
| High School         |                 |                |                 |
|                     | <u>Reported</u> | <u>Audited</u> | <u>Variance</u> |
| Grade 9 - 12        | <u>24</u>       | <u>24</u>      | <u>0</u>        |
|                     |                 |                |                 |
| Part-time Students  |                 |                |                 |
| Less than 181 hours | 0               | 0              | 0               |
| Less than 359 hours | 0               | 0              | 0               |
| Less than 539 hours | 0               | 0              | 0               |
| Less than 719 hours | <u>4</u>        | <u>4</u>       | <u>0</u>        |
| Total Part-time     | <u>4</u>        | <u>4</u>       | <u>0</u>        |
| 19 year olds        | <u>0</u>        | <u>0</u>       | <u>0</u>        |

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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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*

INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Grass Range School District No. 27  
Fergus County  
Grass Range, Montana 59032

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 *Governmental 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 Grass Range School District No. 27 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Grass Range School District No. 27's basic financial statements and have issued our report thereon dated April 22, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Grass Range School District No. 27'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Grass Range School District No. 27's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-001.

**Grass Range School District No. 27's Response to Findings**

The District did not provide a response to the findings identified in our audit are described in the schedule of findings and responses. State law provides if a response is not included in the report the audited entity has thirty-days to provide a response to the State.

**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.

*Strom & Associates, P.C.*

STROM & ASSOCIATES, PC  
Billings, Montana  
April 22, 2015

GRASS RANGE SCHOOL DISTRICT NO. 27

SCHEDULE OF REPORTED ENROLLMENT  
Fiscal Year-Ended June 30, 2014

STROM & ASSOCIATES, PC  
Certified Public Accountants  
P.O. Box 1980  
Billings, Montana 59103

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SCHEDULE OF FINDINGS AND RESPONSES

There were no findings or recommendations in the prior audit report and one for the fiscal year ended June 30, 2014.

2014-001 FINDING NUMBER - SCHEDULED HOURS:

Criteria: Montana Code 20-7-117, 20-1-301, 20-9-805 requires the District to meet a minimum aggregate hours of instruction time.

Condition: The District is not meeting the required minimum of aggregate hours for 4-6 grades.

Effect: The effect was not meeting the aggregate hours required by state code.

Context: It was found that the fourth through sixth grades did not meet the required 1080 hours of instruction time for fiscal year 2014 by 40 hours. The actual hours attended was 1040.

Cause: The cause was not checking the actual hours of instruction time when adjusting schedule for early out days for the fourth thru six grades.

Recommendation: Recommend that the District review the required instructional hours to make sure they are meeting the minimum aggregate hours set by the Montana Code.