

HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA

**FINANCIAL AND
COMPLIANCE
REPORT**

FOR THE YEAR ENDED
JUNE 30, 2014

DONALD NOLAN DAVIES
Certified Public Accountant

HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA

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**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

ORGANIZATION

JUNE 30, 2014

BOARD OF TRUSTEES

Thomas McLaughlin
Jack Babon
Kate Walker
Diane Beck
Lori Hodge
Rich Thornock
Rod Sharkey

Chairman
Vice-Chairman
Trustee
Trustee
Trustee
Trustee
Trustee

OFFICIALS

Doug Reisig, Ed. D.
Noreen Anderson
Fred Van Valkenburg
Erin Lipkind

School District Superintendent
Clerk of the Board/Business Manager
County Attorney
County Superintendent of Schools

HELLGATE ELEMENTARY SCHOOL

DISTRICT NO. 4
2385 FLYNN LANE
MISSOULA, MONTANA 59808

K-2 PRINCIPAL 721-2160
3-5 PRINCIPAL 549-6109
6-8 PRINCIPAL 721-2452

SUPERINTENDENT 728-5626
BUSINESS OFFICE 728-5626
FAX NO. 406-728-5636

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

This management's discussion and analysis provides an overview of the School's financial activities for the fiscal year ended June 30, 2014. Please read it along with the School's financial statements which begin on page 11.

FINANCIAL HIGHLIGHTS

The School's financial operations in 2014 grew due to an enrollment increase of approximately 5%. Net position decreased by \$511,000 while total revenue increased \$633,000 and total expense increased for the year by \$1,319,000. As mandated by the Montana legislature, the district made a one-time payment to the Teachers Retirement System of \$255,000 to help bring the system back to an actuarially sound basis.

USING THIS ANNUAL REPORT

This annual report consists of financial statements for the School as a whole with more detailed information for certain School funds. The Statement of Net Position and the Statement of Activities (pages 11 and 12) provide information about the activities of the School as a whole and present a long-term view of the School's finances (they include capital assets and long-term liabilities).

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

THE SCHOOL AS A WHOLE

One important question asked about the School's finances is, "Is the financial condition of the School better or worse off as a result of the year's activities?" The information in the government-wide financial statements helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

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

Over One Century of Quality Education
(Established in 1869)

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

	2014	2013	Change	%
Current assets	\$3,386,000	\$3,891,000	(\$505,000)	(13)%
Capital assets - net	15,353,000	15,753,000	(400,000)	(3)%
Other assets	214,000	223,000	(9,000)	(4)%
Total assets	18,953,000	19,867,000	(914,000)	(5)%
Current liabilities	(757,000)	(745,000)	(12,000)	2%
Non-current liabilities	(11,333,000)	(11,748,000)	415,000	(4)%
Total liabilities	(12,090,000)	(12,493,000)	403,000	(3)%
Net position	\$6,863,000	\$7,374,000	(\$511,000)	(7)%
Net position consist of:				
Net investment in capital assets	\$5,021,000	\$4,901,000	\$120,000	2%
Restricted	1,625,000	2,007,000	(382,000)	(19)%
Unrestricted	217,000	466,000	(249,000)	(53)%
Net position	\$6,863,000	\$7,374,000	(\$511,000)	(7)%

The increase in capital assets net of related debt reflects the District's debt payments and capital purchases exceeding the depreciation expense. Legislative changes resulted in a one time payment to the Teacher's Retirement System resulted in a decrease in the restricted net position. Increased operational costs due to ever increasing enrollment reflect in the decrease in unrestricted net position.

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

	2014	2013	Change	%
Federal grants:				
School food program	\$359,000	\$337,000	\$22,000	7%
Other federal programs	581,000	630,000	(49,000)	(8)%
State program funding	597,000	590,000	7,000	1%
Charges for services:				
School food program	195,000	191,000	4,000	2%
Other	416,000	157,000	259,000	165%
Other program revenue	70,000	70,000		
Total program revenue	\$2,218,000	\$1,975,000	\$243,000	12%

The decrease in the other federal program funding was due to decrease in the Title I Improving Basic Programs grant monies. Increased support services resulted in an increase in Medicaid funding.

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

	2014	2013	Change	%
School property taxes	\$4,458,000	\$4,379,000	\$79,000	2%
State equalization	4,853,000	4,583,000	270,000	6%
Other state revenue	811,000	850,000	(39,000)	(5)%
County property taxes	1,100,000	1,002,000	98,000	10%
Investment earnings and other	72,000	90,000	(18,000)	(20)%
Total general revenue	11,294,000	10,904,000	390,000	4%
Total program revenue	2,218,000	1,975,000	243,000	12%
Total revenue	\$13,512,000	\$12,879,000	\$633,000	5%

State equalization increased due to continued enrollment increases. Other general revenues were relatively stable.

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

	2014	2013	Change	%
Instruction - regular programs	\$5,839,000	\$5,288,000	\$551,000	10%
Instruction - other programs	1,729,000	1,502,000	227,000	15%
Support services	1,582,000	1,277,000	305,000	24%
Administration	1,320,000	1,298,000	22,000	2%
Operation and maintenance	1,139,000	983,000	156,000	16%
Student transportation	800,000	755,000	45,000	6%
School food	610,000	570,000	40,000	7%
Depreciation expense	494,000	497,000	(3,000)	(1)%
Interest expense	439,000	456,000	(17,000)	(4)%
Extracurricular activities	71,000	78,000	(7,000)	(9)%
Total expenses	14,023,000	12,704,000	1,319,000	10%
Less program revenues	2,218,000	1,975,000	243,000	12%
Net expenses	11,805,000	10,729,000	1,076,000	10%
Less general revenues	11,294,000	10,904,000	390,000	4%
Change in net position	(\$511,000)	\$175,000	(\$686,000)	

Of the increased District expenses from 2013 to 2014, \$305,000 of the increase can be attributed to Medicaid/Medicare report coding adjustments and the District's expansion of its Comprehensive School Community Treatment (CSCT) teams from two (2) teams staffed by Western Montana Mental Health to three (3) teams (one team for each Hellgate elementary buildings). Each team consists of a behavioral specialist and a mental health therapist so that the district now has six (6) members from Western Montana Mental Health service in the mental health needs of students across the District. The enrollment increases results in across the board increases in expenses as did scheduled increase in

salaries. The remaining expenses remained stable. The payment of \$255,000 to the Teachers Retirement System (as noted above) is included in the increase in regular program instructional expenses.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant of the School's funds. The School is required to provide detailed information for its "major" funds. Major funds are defined as the general fund and other funds where the assets, liabilities, revenues, or expenditures exceed 10% of total government fund amounts. In the 2014 fiscal year, the assets, and liabilities of the transportation fund, the building fund, and debt service fund, and the assets of the miscellaneous programs fund exceeded this 10% threshold.

The government funds provide a short-term view of the School's operations. They are reported using an accounting method called modified accrual accounting which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

Total government fund balances decreased \$517,000 in 2014 as compared to the government-wide decrease in net position of \$511,000. See page 15 for a detailed explanation of the differences between the changes in government fund balances and changes in net position.

All budgeted fund expenditures were within the budget authority and there were no significant variations between the budget and actual revenues and expenditures which are detailed on the supplemental schedule on page 28.

CAPITAL ASSET AND DEBT ADMINISTRATION

The School continues to pay down the debt of the 2008 bonds and the SID assessment. See Notes 4 on page 21 and 7 on page 22 for more information on the capital assets and long term debt.

THE FUTURE OF THE SCHOOL

Hellgate Elementary student enrollment numbers are continuing to increase. The school district's enrollment has increased about fifty-three (53) students over the enrollment numbers from the 2013/2014 school year. That increase, when combined with the fifty-eight (58) student increase from 2012/2013 to 2013/2014, continues to place pressure on the school district in terms of facility space. Currently, Hellgate Elementary is working with architects and construction manager companies to put together a facilities enhancement plan to accommodate projected increased student enrollment increases, especially in the Kindergarten through 2nd Grade Building. Clearly, the increase in student enrollment is, in part, due to the construction of new apartment complexes within the Hellgate Elementary school district boundaries as well as residential home construction. As with last year, this increase has occurred even though the Hellgate Elementary Board of Trustees made a decision, in June of 2012, to eliminate all out-of-district student enrollment except for children of school district employees who live out-of-district.

The potential funding increase (due to increased student enrollment and an increase in state funding), has helped to brighten the long-term financial picture for the school district. However, the school district continues to be in a guarded financial posture with concern about rising fixed costs for district operation and maintenance, potential future building needs and construction, and on-going program analysis to optimize district financial resources in order to provide quality and meaningful educational experiences for students. To accomplish this, the school district is continuing to look for ways to maximize its financial resources by examining its academic program offerings; eliminating, where possible, non-essential certified, classified, and administrative staff positions; tightly controlling financial allowances

to fund classroom and district supply, textbook, and equipment requests; and finding creative ways to replace any district retirees that might choose to retire at the end of the current school year.

As an aside, Hellgate Elementary is also deeply involved in the Montana legislative process. Senate Bill 107, introduced in the 2015 legislative session, is a bill that would allow "large" independent elementary school districts to explore the option of transitioning from a K- 8 school district to a K-12 school district. Since Hellgate Elementary is the largest Montana independent elementary school district, there is a deep interest and philosophical investment in the outcome of the bill. The district believes that by transitioning into a K-12 school district, the bonded indebtedness of the district will increase to approximately \$47 million dollars, well with the range to facilitate the construction of a new high school should Senate Bill 107 pass.

As with every year, Hellgate Elementary is taking steps to successfully transition and focus budget priorities to reflect school district student aspirations and goals in the reality of limited financial resources. First, for successful transition and budget focus, Hellgate Elementary is setting major goals and/or target performance areas for students that are clearly understood. Second, the school district has initiated a mission/vision strategic planning process that allows for review and analyze of school district functions that includes a description and examination of each district activity, its expected outcome, its impact on students, and ultimately, its cost. Third, the school district is developing, implementing, and fine-tuning what it believes to be legitimate indicators of progress and the key strategies for measuring achievement of results/outcomes.

Fourth, Hellgate Elementary is developing methods to involve the public in interactive, informational gatherings that provide an open forum for discussion and input on proposed district goal areas. Fifth, the school district, for fiscal accountability, is beginning the process of prioritizing school district activities and expenditures and seeking ways to identifying potential savings. Finally, Hellgate Elementary is allocating its limited resources among goal areas in a fashion that serves to maximize the opportunity to enhance student achievement and fulfill district student aspiration goals.

This type of approach to school operations has required and will continue to require district leadership to align resources, services, and structures with the core mission of increasing the achievement of every student. Thus the school district and school board has undertaken a review of the district's mission and vision with an eye on establishing long-term core beliefs and educational goals to guide the district's processes and procedures. The school board's mandate throughout this budget and mission/vision review process has been two-fold:

1. Every child must meaningfully graduate.
2. All of our students must have the skill set to find ways to succeed in the ever-changing global society and economy.

The budget analysis and review, as well as through the mission/vision strategic planning activities, has placed the focus of the school district firmly fixed on the staffing of school operations with enough efficient and effective school personnel to maximize opportunities to enhance student performance. The Hellgate Elementary Board of Trustees has taken a proactive approach in hopes of maximizing expenditure of taxpayer funds and providing quality educational opportunities for students. The Board of Trustees clearly understands that whatever it does, will require district leadership to align resources, services, and structures within its core beliefs to ensure that every child meaningfully graduates. The school board has initiated a process that allows for review and analysis of school district functions that will include a description and examination of each district activity, its expected outcome, its impact on students, and ultimately, its cost. The financial future of Hellgate Elementary and the academic future of Hellgate Elementary students clearly rest in the balance.

DONALD NOLAN DAVIES
CERTIFIED PUBLIC ACCOUNTANT
8281 PHILPOTT COURT
CLINTON, MONTANA 59825

:
TELEPHONE:
(406) 544-9410

E-Mail:
rpfdavies@yahoo.com

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hellgate Elementary School
District No. 4, Missoula County
Missoula, Montana

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the government activities, each major fund, and the aggregate remaining fund information of Hellgate Elementary School, District No. 4, Missoula County, Missoula, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Audit Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of Hellgate Public Schools, District No. 4, Missoula County, Missoula, Montana, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 6 and the schedule of revenues, expenditures, and encumbrances - budget and actual - general and transportation funds on page 28 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 by placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplemental information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures applied do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

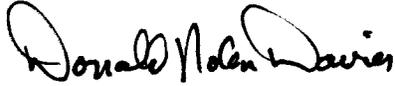
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hellgate Public School's basic financial statements. The schedule of expenditures of federal awards on pages 30 and 31 is required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The schedule of school district enrollment on page 32 and the schedule of revenues, expenditures, and changes in fund balance by student activity on page 33 are supplementary information required by the State of Montana. These schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards.

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

The other supplemental information listed in the accompanying table of contents, and appearing on pages 34 through 37, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, I have also issued a report dated February 26, 2015 on my consideration of Hellgate Public School's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hellgate Public School's control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Donald Allen Davis". The signature is written in a cursive, flowing style.

February 26, 2015

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA
STATEMENT OF NET POSITION
JUNE 30, 2014**

	2014
ASSETS:	
Current Assets:	
Cash and Investments	\$3,003,409
Property Taxes Receivable	353,043
Other Receivables	29,797
Total Current Assets	3,386,249
Capital Assets	20,884,798
Less Accumulated Depreciation	(5,531,972)
Capital Assets - Net	15,352,826
Due from Mountain Water	160,613
Total Assets	18,899,688
DEFERRED OUTFLOWS:	
Bond Issue Costs	53,485
Total Assets and Deferred Outflows	18,953,173
LIABILITIES:	
Current Liabilities	
Accrued Interest Payable	17,211
Unearned Revenue	39,765
Current Portion of Long-term Debt	699,990
Total Current Liabilities	756,966
Non-current Liabilities:	
General Obligation Bonds	9,835,000
Special Improvement District Bonds	151,780
Early Retirement Incentives	82,875
Estimated Retiree Health Care Costs	618,812
Compensated Absences	644,627
Total Non-current Liabilities	11,333,094
Total Liabilities	12,090,060
NET POSITION:	
Net investment in Capital Assets	5,021,311
Restricted	1,624,878
Unrestricted	216,924
Total Net Position	\$6,863,113

See Notes to Financial Statements

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	--Program Revenue--		
	Charges for Services	Operating Grants	Net (Expense) Revenue 2014
Expenses			
GOVERNMENT OPERATIONS			
Instruction:			
Regular Programs	\$5,839,319		(\$5,839,319)
Other Programs	1,729,385	\$1,078,880	(650,505)
Support Services	1,582,075	\$415,733	27,674
Administration	1,320,170		(1,320,170)
Operation and Maintenance	1,138,529		(1,138,529)
Student Transportation	800,500		139,712
School Food	609,699	195,122	361,318
Extracurricular	70,748		(70,748)
Interest Expense	438,535		(438,535)
Unallocated Depreciation	494,523		(494,523)
Total	<u>\$14,023,483</u>	<u>\$610,855</u>	<u>\$1,607,584</u>
			(11,805,044)
GENERAL REVENUES:			
School Property Taxes			4,458,268
State Equalization			4,853,513
Other State Revenue			810,664
County Property Taxes			1,100,170
Investment Earnings			7,996
Other			63,797
Total General Revenues			<u>11,294,408</u>
CHANGE IN NET POSITION			(510,636)
NET POSITION			
Beginning of the Year			<u>7,373,749</u>
End of the Year			<u><u>\$6,863,113</u></u>

See Notes to Financial Statements

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

**BALANCE SHEET - GOVERNMENT FUNDS
JUNE 30, 2014**

	-----MAJOR FUNDS-----						
	General Fund	Transpor- tation Fund	Miscel- laneous Programs Fund	Debt Service Fund	Building Fund	Other Govern- ment Funds	Total
ASSETS:							
Cash and Investments	\$788,929	\$319,621	\$342,540	\$563,032	\$389,710	\$599,577	\$3,003,409
Property Taxes Receivable	215,705	57,263		69,968		10,107	353,043
Due from Other Governments	4,465		23,199			2,133	29,797
Due from Mountain Water					160,613		160,613
Total Assets	\$1,009,099	\$376,884	\$365,739	\$633,000	\$550,323	\$611,817	\$3,546,862
LIABILITIES:							
Unearned Revenues			\$39,765				\$39,765
Total Liabilities	0	0	39,765	0	0	0	39,765
DEFERRED INFLOWS OF RESOURCE:							
Deferred Revenue	\$215,705	\$57,263		\$69,968	\$160,613	\$10,107	\$513,656
Total Deferred Inflows	215,705	57,263	0	69,968	160,613	10,107	513,656
FUND BALANCE:							
Restricted		299,599	\$23,199	563,032		601,710	1,487,540
Assigned	144,634	20,022	\$302,775		389,710		857,141
Unassigned	648,760						648,760
Total Fund Balance	793,394	319,621	325,974	563,032	389,710	601,710	2,993,441
Total Liabilities, Deferred Inflows of Resource, and Fund Balance	\$1,009,099	\$376,884	\$365,739	\$633,000	\$550,323	\$611,817	\$3,546,862

See Notes to Financial Statements

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

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

JUNE 30, 2014

Total fund balance on the governmental funds statement		\$2,993,441
Add capital assets not reported on government funds statement	\$20,884,798	
Less accumulated depreciation	<u>(5,531,972)</u>	15,352,826
Less liabilities not reported on government funds statement:		
Accrued interest payable	(17,211)	
General obligation bonds	(10,385,000)	
Special improvement district bonds	(164,428)	
Early retirement incentives	(112,395)	
Estimated retiree health care costs	(618,812)	
Compensated absences	<u>(752,449)</u>	(12,050,295)
Deferred revenue for property taxes receivable recognized as revenue in the government-wide statement of net position		353,043
Deferred revenue for Mountain Water receivable recognized as revenue in government-wide statement of net position		160,613
Deferred bond issue costs reported as expenditures on government funds statement in prior years		<u>53,485</u>
Net Position		<u><u>\$6,863,113</u></u>

See Notes to Financial Statements

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	-----MAJOR FUNDS-----						
	General Fund	Transportation Fund	Miscellaneous Programs Fund	Debt Service Fund	Building Fund	Other Government Funds	Total
REVENUES:							
School Property Taxes	\$2,798,917	\$749,776		\$809,560		\$128,338	\$4,486,591
Intergovernmental:							
County		69,856				1,100,170	1,170,026
State	5,824,643	105,073	\$362,440	132,331		42,198	6,466,685
On Behalf of Payments - Retirement Plans						155,140	155,140
Federal			581,062			359,535	940,597
School Food Sales						195,122	195,122
Interest and Other	16,815	499	106,210	1,724	\$4,693	1,530	131,471
Total Revenues	8,640,375	925,204	1,049,712	943,615	4,693	1,982,033	13,545,632
EXPENDITURES:							
Instruction:							
Regular Programs	4,550,657		28,560		4,938	1,155,901	5,740,056
Other Programs	1,049,374		620,553			59,458	1,729,385
Instructional Support	969,901		316,881			295,293	1,582,075
Administration	1,062,479	117,822	10,113		284	129,472	1,320,170
Operation and Maintenance ...	937,368				60,409	140,752	1,138,529
Transportation	17,039	783,461					800,500
Food Service	1,185		991			603,647	605,823
Extracurricular	57,958		7,380			5,410	70,748
Debt Service				976,895			976,895
Capital Outlay	90,057		7,928				97,985
Total Expenditures	8,736,018	901,283	992,406	976,895	65,631	2,389,933	14,062,166
Excess (deficiency) of Revenues over expenditures ...	(95,643)	23,921	57,306	(33,280)	(60,938)	(407,900)	(516,534)
Other Sources (Uses):							
Transfers	(18,628)					18,628	
CHANGE IN FUND BALANCE ...	(114,271)	23,921	57,306	(33,280)	(60,938)	(389,272)	(516,534)
FUND BALANCES:							
Beginning	907,665	295,700	268,668	596,312	450,648	990,982	3,509,975
Ending	\$793,394	\$319,621	\$325,974	\$563,032	\$389,710	\$601,710	\$2,993,441

See Notes to Financial Statements

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

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

FOR THE YEAR ENDED JUNE 30, 2014

Change in fund balance on the government funds statement		(\$516,534)
Expenses on the government-wide statement of activity not included in the government funds statement:		
Depreciation expense	(\$498,399)	
Increase in early retirement incentives	(19,800)	
Decrease in compensated absences	38,464	
Increase in estimated retiree health care costs	(114,106)	
Decrease in accrued interest payable	711	(593,130)
Expenditures reported on the government funds statement not included on the government-wide statement of activity:		
Capital outlays	97,985	
Principal payments on general obligation bonds	525,000	
Principal payments on SID bonds	12,649	635,634
Amounts on the government-wide statement of activity not included in the government funds statement:		
Bond issuance costs amortized	(3,821)	
Decrease in deferred revenue from Mountain Water for share of construction costs	(4,462)	
Decrease in property taxes receivables	(28,323)	(36,606)
Change in net position reported on the government-wide statement of activity		(\$510,636)

See Notes to Financial Statements

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

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

STUDENT ACTIVITY FUND AND RETIREE HEALTH INSURANCE FUND

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Student Activity Fund	Retiree Health Insurance
FIDUCIARY NET POSITION		
ASSETS:		
Cash	\$30,769	(\$433)
LIABILITIES:		
Due to Insurance Providers		\$433
NET POSITION:		
Held in Trust for Student Activities	\$30,769	\$0

CHANGES IN FIDUCIARY NET POSITION

ADDITIONS:		
Revenue from Student Activities	\$57,567	
DEDUCTIONS:		
Expenses of Student Activities	51,141	
CHANGES IN NET POSITION HELD IN TRUST	6,426	
NET POSITION, BEGINNING OF YEAR	24,343	
NET POSITION, END OF YEAR	\$30,769	

See Notes to the Financial Statements

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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Hellgate School District 2014 - Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Basis of Presentation and Basis of Accounting

Government-wide Statements - The statement of net position and the statement of activities show information about the overall financial position and activities of the School with the exception of the student activity fund and the retiree health insurance fund. The student activity fund, which accounts for the extracurricular activities of the School's students, is reported as a private-purpose trust fund and the retiree health insurance fund is reported as an agency fund in the fund financial statements section. The statement of net position reflects new wording and categories as required by Government Accounting and Standards Board (GASB) 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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

The statement of activities present a comparison between direct expenses and program revenues for the functions of the School's government activities. Direct expenses are those that are specifically associated with a program or function. The School does not charge indirect expenses to programs or functions. Program revenues include fees for services (primarily school lunch and medicaid fees) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes and investment earnings, are presented as general revenues. Generally, the School applies restricted resources to expenses incurred before using unrestricted resources when both types are available.

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

Generally accepted accounting principles require that the general fund be reported as a major fund and that all other government funds whose assets, liabilities, revenues, or expenditures

Hellgate School District 2014 - Notes to Financial Statements (continued)

exceed 10% or more of each total amount for all government funds also be reported as major funds. Accordingly, the School reports the following major government funds:

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

Transportation Fund. This fund accounts for student transportation costs.

Miscellaneous Programs Fund. This fund accounts for the School's federal and state grants and other miscellaneous revenues not accounted for in other funds. .

Debt Service. This fund is used for the principal and interest payments on the School's general obligation bond and special improvement district.

Building Fund. This fund accounts for the proceeds from the School's general obligation bond which was issued to pay for the costs of designing, construction, furnishing and equipping improvements to the Hellgate Elementary School Campus.

These funds (except the fiduciary funds which use the total resources focus and accrual basis of accounting) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other government revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue. Property tax revenues are reported on the cash basis because most property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred property tax revenues are recorded as deferred inflows of resources in the government funds for these receivables. This change from previous years, when deferred property taxes were reported as a liability, results from the School's early implementation of GASB 65, *Items Previously Reported as Assets and Liabilities*.

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

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

- C. Cash and Investments - State law permits investment of school funds in insured savings or time deposits, bank repurchase agreements, direct obligations of the U. S. Government, and the State's unified investment program. Except for the student activity fund, all cash and investments are held by the County Treasurer. Investments are stated at estimated fair value which approximates cost.
- D. Inventories - Inventories are considered to be immaterial and are not recorded.

Hellgate School District 2014 - Notes to Financial Statements (continued)

E. Property Taxes - Property taxes receivable at June 30 consist primarily of delinquent property taxes from the current and prior year levies. Property taxes receivable are offset by deferred revenue in the fund financial statements. The School does not record an allowance for uncollectible taxes because it is considered to be immaterial.

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

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

Land improvements	20 - 50 years
Buildings and improvements	20 - 50 years
Equipment	5 - 25 years

G. Compensated Absences - Sick leave for certified personnel (teaching employees) is awarded at 11 days per year up to a maximum of 130 days. Upon termination and, depending on longevity, certified personnel are eligible for sick leave compensation at one-third of the teacher's salary to a maximum of the number of days allowed.

Sick leave is accumulated for classified employees at the rate of 12 working days for each year of service. Vacation leave for administrative and classified (non teaching) employees is earned at 15 to 24 days a year depending on the number of years employed. Part-time classified employees are entitled to prorated benefits upon fulfillment of the qualifying period of time. Classified employees are eligible for compensation at one fourth of the accumulated sick leave amount upon resignation or retirement. Vacation leave, within certain limitations, may be payable to administrative and classified (non teaching) employees on termination. The District, in its sole discretion and/or subject to the terms of the collective bargaining agreement, may provide cash compensation for unused vacation leave in lieu of the accumulation of vacation leave.

H. Early Retirement Incentives - Consist of payments for retirees health insurance costs for a specific period of time.

I. Deferred Revenue - Deferred revenue in the government fund financial statements consists of property taxes receivable as discussed above, and the Mountain Water receivable (see Note 3).

2. CASH AND INVESTMENTS

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

Hellgate School District 2014 - Notes to Financial Statements (continued)

It is not practical to determine the investment risk, collateral, or insurance coverage for the School's share of these pooled investments. Information about the pooled investments is included in the County's annual financial statements. Student activity trust funds are deposited in FDIC insured accounts.

3. DUE FROM MOUNTAIN WATER

The District performed work on the water lines during construction and Mountain Water agreed to reimburse the District for these costs. The annual payments will be \$4,462 beginning in fiscal year 2009-10 and are payable over 40 years.

4. CAPITAL ASSETS

Capital asset activity during 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions	Other Changes	Balance June 30, 2014
Cost of assets:					
Land	\$1,060,143				\$1,060,143
Land improvements	1,686,038	\$29,174			1,715,212
Buildings and improvements	17,058,951	38,317			17,097,268
Equipment	981,681	30,494			1,012,175
Total	20,786,813	97,985	0	0	20,884,798
Accumulated depreciation:					
Land improvements	(386,023)	(78,003)			(464,026)
Buildings and improvements	(4,182,430)	(341,154)			(4,523,584)
Equipment	(465,120)	(79,242)			(544,362)
Total	(5,033,573)	(498,399)	0	0	(5,531,972)
Net capital assets	\$15,753,240	(\$400,414)	\$0	\$0	\$15,352,826

Depreciation expense of \$498,399, primarily on general purpose buildings and special improvements, was not allocated to various functions, except for \$3,876 allocated to School Food program.

5. TRANSFERS

The District made operating transfers of \$18,268 from the general fund to the compensated absences fund as permitted by state law.

Hellgate School District 2014 - Notes to Financial Statements (continued)

6. BOND ISSUE COSTS

The District issued the 2008 General Obligation Bonds in February of 2008, at a cost of \$76,411. These costs were recorded as other uses of funds on the government funds statement. On the government-wide statement, these costs have been deferred and are being amortized on the straight-line basis over the 20 year life of the bonds. Annual amortization cost is \$3,821.

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

	Balance June 30, 2013	Additions	Payments and other changes	Balance June 30, 2014	Due Within One Year
General obligation bonds:					
2008 Series	10,910,000		(525,000)	\$10,385,000	\$550,000
Special improvement district ..	177,077		(12,649)	164,428	12,648
Early retirement incentives ...	92,595	\$19,800		112,395	29,520
Estimated retiree health care costs	504,706	114,106		618,812	
Compensated absences	790,913		(38,464)	752,449	107,822
Total	\$12,475,291	\$133,906	(\$576,113)	\$12,033,084	\$699,990

2008 General Obligation Bonds - The School issued \$13,000,000 of general obligation school building bonds in February 2008. These serial bonds are payable over 20 years with variable principal payments due annually on June 15 and interest payments due semiannually on June 15 and December 15. Interest rates range from 3.25% to 4.25% with an average coupon rate of 4.01%. Bonds maturing on or after June 15, 2019 are subject to early redemption on June 15, 2018 or thereafter at a price equal to the unpaid principal plus accrued interest.

Special Improvement District Bond - In August 2007, the City of Missoula created a special improvement district (SID No. 540) to extend and make improvements to England Boulevard and issued special improvement district bonds in the total amount of \$1,570,000. The School District's share of this special improvement district bond was \$252,966. The bond is payable over 20 years with semiannual payments due in November and May. Interest rate is 4.95% on the unpaid balance. The first installment was due in November 2007. The balance may be paid at any time with no prepayment penalty. The bond payments will be from debt service property tax levies.

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

Hellgate School District 2014 - Notes to Financial Statements (continued)

Future debt service requirements, including interest, are as follows:

Year Ended June 30,	General Obligation Bonds		SID Bonds		Total
	2008 Series Principal	Interest	Principal	Interest	
2015	\$550,000	\$413,069	\$12,648	\$8,139	\$983,856
2016	575,000	395,194	12,648	7,513	990,355
2017	600,000	376,506	12,648	6,887	996,041
2018	625,000	355,506	12,648	6,261	999,415
2019	655,000	332,068	12,648	5,635	1,005,351
2020	685,000	307,506	12,648	5,009	1,010,163
2021	715,000	281,819	12,648	4,383	1,013,850
2022	745,000	253,219	12,648	3,757	1,014,624
2023	780,000	222,488	12,648	3,130	1,018,266
2024	815,000	189,337	12,648	2,504	1,019,489
2025	850,000	154,700	12,648	1,878	1,019,226
2026	890,000	118,575	12,648	1,252	1,022,475
2027	930,000	80,750	12,652	626	1,024,028
2028	970,000	41,225			1,011,225
Total	\$10,385,000	\$3,521,962	\$164,428	\$56,974	\$14,128,364

8. ESTIMATED RETIREE HEALTH CARE COSTS

Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB) requires the reporting of a liability and expense for the cost of allowing its retirees to participate in its group health insurance plan. The information presented below was as of the valuation date of July 1, 2013. The Hellgate School District Employee Benefits Plan is a single employer health insurance plan administered by an insurance company. The District pays for all of its health care coverage on a pay-as-you go basis.

For retirees to qualify for the Plan, an employee must have attained age 50 and have completed 5 years of service. Once enrolled in the plan, retirees may continue coverage until age 65. If a retiree is covering a spouse, coverage continues until both the spouse and the retiree reach age 65. It is assumed all retirees age 65 and older will be covered by Medicare, which becomes their primary plan.

The District provides four types of health plan coverage for its participants; a \$4,000 deductible, a \$1,000 deductible, and two high deductible health plans (HDHP). These plans have varying amounts of out-of-pocket maximum cost and co-insurance. The monthly medical cost of coverage for retirees varies from \$468 to \$576. Retirees monthly contributions vary from \$622 to \$735 based on age and marital status.

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continued revision as actual results are compared with past expectations and new estimates

Hellgate School District 2014 - Notes to Financial Statements (continued)

are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. Changes in the national health care policies occur frequently and the changes in estimates reported will vary as these policies are modified.

The District had an actuarial study performed for the retirees future health care costs as of July 1, 2013 using the projected unit credit cost method. The valuation for initial medical cost trend rates were 6.5% for 2011 decreasing to 5% for 2018 and after. The assumed discount rate was 4.28%. The unfunded actuarial liability was amortized on a level-dollar basis over a open period of years. The participation rate used was 45% and 60% of active employees were assumed to be married upon retirement of which 70% elect the spousal coverage.

Based on the actuarial study, the Accrued Actuarial Liability (AAL) at June 30, 2014 was \$1,304,479 and the ARC for retirees was \$123,874. The Annual Required Contribution (ARC) is an actuarially determined rate that represents a level of funding projected to cover the normal cost each year and amortize the unfunded actuarial liabilities over a period of 30 years. The normal cost component of the ARC was \$46,841 and the amortization of the unfunded AAL, on a level dollar basis, was \$74,821. The ARC was 1.7% of total salaries for the year of \$7,277,396. No contributions were or have been made toward these costs, consequently no schedule of funding progress has been presented. There are no plan assets set aside to fund these costs. . The next actuarial determination is required to be done for the 2016 fiscal year.

The change in Net OPEB obligation is as follows:

Net OPEB Obligation at June 30, 2013	\$504,706
Annual Required Contribution	123,874
Interest and other Adjustments	(9,768)
	<hr/>
Net OPEB Obligation at June 30, 2014	<u>\$618,812</u>

9. GOVERNMENT-WIDE RESTRICTED NET POSITION

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

Debt Service	\$633,000
Retirement	305,173
Transportation	356,862
Special Programs - Instruction	43,390
School Food	115,660
Compensated Absences	66,788
Building Reserve	6,241
Tuition	71,652
Technology Acquisition	7,731
Adult Education	18,381
	<hr/>
Total	<u>\$1,624,878</u>

Hellgate School District 2014 - Notes to Financial Statements (continued)

10. GOVERNMENT FUND BALANCE REPORTING

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires classifying fund balances into specifically defined classifications. Committed and assigned funds must be so designated by the School Board and/or assigned by the Superintendent. There were no committed funds at June 30, 2014.

Restricted fund balances consist of the following:

Restricted for expenditures related to:	
Debt Service	\$563,032
Retirement	305,173
Special Program Instruction	43,390
Transportation	299,599
Operation and Maintenance	6,226
School Food	115,660
Tuition	71,298
Compensated Absences	66,788
Adult Education	16,374
Total Restricted Fund Balance	<u>\$1,487,540</u>

Assigned fund balances consist of the following:

Assigned for Encumbrances:	
General Funds	\$144,634
Building Fund	89,674
Miscellaneous Projects Fund	43,874
Non-Major Funds	20,022
Assigned for Operation and Maintenance	558,937
Total Assigned Fund Balances	<u>\$857,141</u>

Unassigned fund balances consist of the following:

General Funds	<u>\$648,760</u>
---------------------	------------------

Total fund balance as shown on the Balance Sheet - Government Funds \$2,993,441

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

11. RETIREMENT PLANS

The School participates in two statewide, mandatory, cost-sharing, multiple employer, defined benefit retirement plans which cover all employees, (except certain substitute teachers and part-time, non-teaching employees). The Montana Teachers' Retirement System (MTRS) covers teaching employees, including principals and superintendents. The Montana Public Employees' Retirement System (MPERS) covers other non-teaching employees. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Hellgate School District 2014 - Notes to Financial Statements (concluded)

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

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

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

	<u>Employer</u>	<u>Employee</u>	<u>State</u>	<u>Total</u>
MTRS	8.47%	8.15%	2.49%	19.11%
MPERS	7.80%	7.90%	0.37%	16.07%

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
MTRS	\$1,026,704	\$1,072,925	\$1,189,218
MPERS	121,801	141,353	157,640
Total	<u>\$1,148,505</u>	<u>\$1,214,278</u>	<u>\$1,346,858</u>

The State's contributions to the plans in 2014 were approximately \$151,510 for MTRS and \$3,630 for MPERS and are shown as on-behalf-of payments on the statement of revenues, expenditures, and changes in fund balance on page 14.

Contributions in 2014 for MTRS includes one time payments of \$255,099 made in October 2013. Montana House Bill 377 approved in the 2013 Legislative session contained a provision requiring school district to remit excess reserves in the retirement funds to MTRS.

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

Montana Teachers Retirement System
1500 East Sixth Avenue
Helena, Montana 59620-0139
Telephone (406) 444-3134

Montana Public Employees Retirement System
100 N. Park Avenue, Suite 200
Helena, Montana 59620-0131
Telephone (406) 444-3154

12. RISK MANAGEMENT

The School faces a number of risks including (a) loss or damage to property, (b) general liability, (c) workers compensation, and (d) employee medical insurance. Commercial insurance policies are purchased for loss or damage to property and general liability. There were no changes in how the School managed its risk during the last three years.

Hellgate School District 2014 - Notes to Financial Statements (concluded)

The School participates in the Montana Unified School Trust (MUST), a self-insured trust providing group health benefits and plan administration for Montana school districts and the Montana Schools Group Workers Compensation Risk Retention Program (WCRRP) for workers compensation coverage. All school district participants are jointly and severally liable for the liabilities of these public risk pools.

The pools issue audited financial statements. Information about the amount of claim liabilities, changes in claims liabilities, amount of claims paid, operating results, and other information is available from WCRRP and MUST.

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

**SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
BUDGET AND ACTUAL
GENERAL AND TRANSPORTATION FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund			Transportation Fund	
	Original	Final	Actual	Original and Final	Actual
	Budget	Budget		Budget	
REVENUES:					
Property Taxes	\$2,838,858	\$2,838,858	\$2,798,917	\$764,077	\$749,776
Intergovernmental:					
County				76,713	69,856
State Equalization	5,157,857	5,199,444	5,199,443		
State Other	625,200	625,200	625,200	111,930	105,073
Interest	5,285	5,285	3,691		499
Other	601	601	13,124		
Total Revenues	8,627,801	8,669,388	8,640,375	952,720	925,204
EXPENDITURES AND ENCUMBRANCES:					
Current Operations:					
Instruction - Regular Programs			4,486,780		
Instruction - Other Programs			1,049,293		
Instructional Support			1,004,015		
Administration			1,063,809		117,822
Operation and Maintenance			893,320		
Student Transportation			17,039		803,483
School Food			2,297		
Extracurricular			58,421		
Capital Outlay			39,202		
Transfers Out			18,628		
Total Expenditures, Transfer Out, and Encumbrances	8,627,801	9,085,971	8,632,804	1,040,350	921,305
Excess (Deficiency) of Revenue Over Expenditures, Encumbrances	0	(416,583)	7,571	(87,630)	3,899
Change in Encumbrances			(121,842)		20,022
Excess (Deficiency) of Revenues Over Expenditures	\$0	(\$416,583)	(\$114,271)	(\$87,630)	\$23,921

See Notes to Budget and Actual Schedule

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

NOTES TO BUDGET AND ACTUAL SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2014

State law requires the School to prepare budgets for certain funds - generally funds supported by property tax revenues. Budgets are prepared on the modified accrual basis. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. The budget amounts presented for the general and transportation funds are the original and final budget. The budget is not presented for the debt service fund. The building fund (capital projects) is not required to be budgeted.

The general fund budget is based on the State of Montana's foundation program which is based primarily on enrollment. Budgets of other funds are based on expected revenues and expenditures. The Board must approve the final budget by the fourth Monday in August.

State law permits the inclusion of obligations (encumbrances) for construction-in-progress and the purchase of personal property as expenditures for budget purposes. The School's general fund had \$266,476 of obligations outstanding at June 30, 2013 and \$144,634 at June 30, 2014. The transportation fund had \$20,022 of obligations outstanding at June 30, 2014.

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

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Project Title	CFDA Number	Project Number	Grant Award	Expendi- tures
DEPARTMENT OF AGRICULTURE:				
State Administered - Office of Public Instruction:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	N/A	N/A	\$73,770
School Lunch Program	10.555	N/A	N/A	253,774
School Food Commodities	10.555	N/A	N/A	<u>31,991</u>
Total Department of Agriculture				<u>359,535</u>
DEPARTMENT OF EDUCATION:				
State Administered - Office of Public Instruction:				
Title I, Part A, Improving Basic Programs	84.010A	32-0586-3114	\$285,900	246,135
Special Education Cluster (IDEA):				
IDEA, Part B, Children with Disabilities	84.027	32-0586-7714	239,151	260,549
IDEA, Preschool Section 619	84.173	32-0586-7914	10,722	10,722
Total Special Education Cluster (IDEA)				<u>271,271</u>
Title II, Part A, Teacher/Principal Training/Recruitment	84.367	32-0586-1414		<u>60,656</u>
Total Department of Education				<u>578,062</u>
Total Federal Funds				<u>\$937,597</u>

See Notes to the Schedule of Expenditure of Federal Awards

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY**

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
DISTRICT NO.4, MISSOULA COUNTY
MISSOULA, MONTANA**

NOTES TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

A. ACCOUNTING POLICIES

The accounting policies used in preparing the schedule of expenditure of federal awards are the same as those used in the preparation of the fund financial statements as described in Note 1. B to the financial statements (Fund Financial Statements) except that school lunch and breakfast federal reimbursement revenues and food commodities received are also reported as expenditures.

N/A = Not Applicable or Not Available

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

SCHEDULE OF SCHOOL DISTRICT ENROLLMENT

FOR THE YEAR ENDED JUNE 30, 2014

	School Records	Enrollment Report	Variance
FALL ENROLLMENT, OCTOBER 2013			
Kindergarten	172	172	0
Grades 1 - 6	949	949	0
Grades 7 - 8	287	287	0
Total	1,408	1,408	0
 WINTER ENROLLMENT, DECEMBER 2013			
Kindergarten	173	173	0
Grades 1 - 6	952	952	0
Grades 7 - 8	283	283	0
Total	1,408	1,408	0
 SPRING ENROLLMENT, FEBRUARY 2014			
Kindergarten	174	174	0
Grades 1 - 6	951	951	0
Grades 7 - 8	281	281	0
Total	1,406	1,406	0

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

EXTRACURRICULAR FUND

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

Student activity	Balance June 30, 2013	Revenues	Expend- itures	Transfers In (Out)	Balance June 30, 2014
Referees/District		\$3,583	\$3,583		
Copper League	\$1,053	5,378	4,730		\$1,701
K-2 Box Tops	2,648	3,892	2,581		3,959
Class of 2016		55	1,873	\$2,000	182
Class of 2015 (6 th Grade)	61	971	1,778	2,000	1,254
Class of 2014	561	1,889	3,191	741	0
Class of 2013	(246)			246	0
6-8 Student Council		67			67
Wings Store (B. Hall)	(79)	1,366	462		825
Special Ed Student Fundraisers ...	3,045	2,028	1,497		3,576
3-5 Building #1 Misc	784	1,318			2,102
Middle School - General Misc.		539	539		0
Building #3 Misc	765	11,142	6,225	(4,987)	695
7 th Kenya Chess Project	220		220		0
3-5 Library (Building #1)	2,811				2,811
6-8 Library (Building #3)	5,515	11,467	11,802		5,180
Middle School PE Donation (Building #3)	823	663	101		1,385
K-2 Cola Fund		335			335
3-5 Cola Fund		57			57
6-8 Cola Fund		35			35
Coca Cola Clearing Fund		21	21		0
Ninja-Bots Fundraiser		10,836	10,836		0
Robotics Club	850	287	408		729
K-2 Building #2	5,532	1,638	1,294		5,876
Total	\$24,343	\$57,567	\$51,141	\$0	\$30,769

**HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA**

SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2014

DESCRIPTION OF THE SCHOOL DISTRICT

School District Number 4 is an elementary school for grades kindergarten through 8th grade. The School District is located just west of the City of Missoula. The School District encompasses 33 square miles within and adjacent to the City of Missoula. The estimated population of the School District as of March 2006 was 8,680.

The average fall enrollment of students (excluding pre-kindergarten students) attending the District's schools is as follows:

	Average Fall Enrollment Year Ended June 30,								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Kindergarten - 6th Grade . . .	946	937	971	1,010	1,040	1,039	1,045	1,065	1,121
Grades 7 - 8	253	260	287	283	277	267	272	277	287
School District Total	<u>1,199</u>	<u>1,197</u>	<u>1,258</u>	<u>1,293</u>	<u>1,317</u>	<u>1,306</u>	<u>1,317</u>	<u>1,342</u>	<u>1,408</u>
Increase (decrease)		(2)	61	35	24	(11)	11	25	66
Percentage Change from Prior Year		0%	5%	3%	2%	(1)%	1%	2%	5%

SCHOOL DISTRICT PROPERTY TAX VALUATIONS

As of January 1,	Assessed (Market) Valuation	Taxable Valuation	Taxable Value as a % of Assessed Value
2004	\$688,655,250	\$22,596,838	3.281%
2005	\$726,879,493	\$24,025,214	3.305%
2006	\$824,847,774	\$25,972,866	3.149%
2007	\$900,240,512	\$27,338,923	3.037%
2008	\$957,517,404	\$29,101,856	3.039%
2009	\$1,049,810,940	\$30,246,018	2.881%
2010	\$1,095,202,722	\$30,417,936	2.777%
2011	\$1,129,793,529	\$30,498,849	2.700%
2012	\$1,150,421,731	\$30,332,644	2.637%
2013	\$1,209,199,910	\$30,981,614	2.562%
2014	\$1,232,565,097	\$30,454,841	2.471%

SCHOOL DISTRICT TAX LEVIES (in mills)

	Year Ended June 30,								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
General	92.01	96.33	89.52	86.93	85.20	85.56	90.86	92.01	91.63
Transportation	19.18	22.05	20.60	23.27	21.76	22.50	24.83	22.52	24.66
Debt Service	12.25	12.65	12.58	41.76	45.43	45.17	33.22	26.82	26.43
Technology		3.89	3.66	3.44	3.31	3.29	3.28	3.30	3.23
Adult Education	0.08	0.02	0.93	0.65	0.47	0.60	0.75	0.21	1.01
Tuition		0.94	0.85	0.81	0.98	1.10	0.01		
Building Reserve	9.49	8.87							
Total School Levies .	133.01	144.75	128.14	156.86	157.15	158.22	152.95	144.86	146.96

OTHER TAX LEVIES (in mills)

	Year Ended June 30,							
	2007	2008	2009	2010	2011	2012	2013	2014
University Millage	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Statewide School Equalization ..	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00
County-wide School Levy	104.26	104.04	104.62	104.62	104.62	100.94	100.17	104.60
Missoula County	133.64	136.19	138.94	142.13	142.13	142.47	145.04	150.32
Hellgate Elementary	144.75	128.14	156.86	157.15	158.22	152.95	144.86	146.96
Missoula Co. High School	82.21	77.05	76.46	74.63	74.63	76.44	71.92	72.19
Urban Transportation	13.91	14.62	16.30	16.45	16.45	17.69	19.51	21.05
Rural Levies:								
Fire District (Missoula Rural Fire)	80.89	91.13	94.13	97.98	97.98	97.97	100.33	102.39
Road/Health	22.29	23.26	23.22	23.22	23.22	23.24	23.38	23.38
Animal Control	1.27	1.33	1.60	1.60	1.60	1.60	1.61	1.61
Medical Levy	2.17	1.94	1.84	1.82	1.82	2.19	2.19	2.18
Health	8.77	9.15	9.14	9.14	9.14	9.15	9.20	9.20
Total	640.16	632.85	669.11	674.74	675.81	670.64	664.21	679.88
City of Missoula	198.39	204.73	212.23	222.45	225.56	233.24	240.90	243.52

TAX COLLECTIONS

The following table demonstrates the tax collection history for real estate taxes levied by the School's general fund for the fiscal years ending June 30, 2004 through 2014. Total tax collections include delinquencies from prior tax years and motor vehicle tax, but excludes penalty and interest.

Year Ended June 30,	Current Total Tax Levy	Real Estate Tax Collections	Current Collections as a Percent of Levy	Total Tax Collections	Total Collections as a Percent of Levy
2004	\$1,683,111	\$1,518,052	90.19%	\$1,771,778	105.27%
2005	\$1,978,915	\$1,674,338	84.61%	\$1,968,517	99.47%
2006	\$2,212,886	\$1,910,807	86.35%	\$2,247,238	101.55%
2007	\$2,475,812	\$2,095,055	84.62%	\$2,439,913	98.55%
2008	\$2,447,258	\$2,050,291	83.78%	\$2,319,252	94.77%
2009	\$2,529,791	\$2,145,857	84.82%	\$2,506,569	99.08%
2010	\$2,576,834	\$2,146,205	83.29%	\$2,525,413	98.00%
2011	\$2,602,768	\$2,214,948	85.10%	\$2,411,892	92.67%
2012	\$2,771,374	\$2,379,326	85.85%	\$2,865,584	103.40%
2013	\$2,790,880	\$2,439,815	87.42%	\$2,828,884	101.36%
2014	\$2,838,858	\$2,627,439	92.55%	\$2,808,410	98.93%

MAJOR TAXPAYERS

The following table lists the major taxpayers within the School District for the year ended June 30, 2014 listed in declining order of taxable value.

Taxpayer	Business	Taxable Value	% of Total Taxable Value	Market Value
1. Northwest Energy	Transmission/Distribution	\$616,672	2.03%	\$4,305,592
2. Yellowstone Pipeline Co.	Transmission/Distribution	420,599	1.39%	3,504,981
3. Roseburg Forest Products Co.	Wood Products	363,591	1.20%	16,075,567
4. Westview Mobile Home Park LLC	Lot Rentals	211,849	0.70%	8,340,489
5. Bordon Chemical, Inc.	Plastics and resins	210,475	0.69%	8,088,723
6. Missoula Electric Cooperative Inc.	Electrical Distribution	207,262	0.68%	6,908,707
7. Missco LLC	Hotel	172,117	0.57%	6,856,819
8. Montana Rail Link Inc.	Railroad	171,921	0.57%	5,722,141
9. Grant Creek Inn LLC	Hotel	157,809	0.52%	6,212,965
10. Cenex Harvest States Co-Op	Agriculture Cooperativel	151,533	0.50%	9,995,909
Total		<u>\$2,683,828</u>	<u>8.85%</u>	<u>\$76,011,893</u>

MAXIMUM BONDED INDEBTEDNESS - State statutes limit the maximum bonded indebtedness to 50% of the School District's taxable valuation or \$15,227,420. However, for school districts that qualify for guaranteed tax base aid, the law permits maximum bonded indebtedness equal to 50% of the statewide taxable valuation per student (average number belonging).

Maximum bonded indebtedness under this exception is as follows:

	Statewide Taxable Value Per Student	Average Number Belonging for Fiscal Year June 30, 2014	Percent Allowed	Maximum Bonded Indebtedness
School District	\$33,140	1,463	50%	\$24,241,910
Less Bonds Outstanding				
2008 Issue				(10,385,000)
Special Improvement District				<u>(164,428)</u>
Remaining Bonding Capacity				<u><u>\$13,692,482</u></u>

DONALD NOLAN DAVIES

CERTIFIED PUBLIC ACCOUNTANT

8281 PHILPOTT COURT

CLINTON, MONTANA 59825

TELEPHONE:
(406) 544-9410

E-MAIL:
rpfdavies@yahoo.com

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

Board of Trustees
Hellgate Elementary School
District Number 4, Missoula County
Missoula, Montana

I have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the government activities, each major fund, and the aggregate remaining fund information of Hellgate Elementary School, District No. 4, Missoula County, Missoula, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Hellgate Elementary School's basic financial statements, and have issued my report thereon dated February 26, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. I consider item **2014-001** described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider item **2014-002** described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Hellgate Elementary School's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

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

ENTITY'S RESPONSE

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

PURPOSE OF THIS REPORT

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



February 26, 2015

DONALD NOLAN DAVIES

CERTIFIED PUBLIC ACCOUNTANT
8281 PHILPOTT COURT
CLINTON, MONTANA 59825

TELEPHONE:
(406) 544-9410

E=MAIL:
rpfdavies@yahoo.com

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE**

Board of Trustees
Hellgate Elementary School
District Number 4, Missoula County
Missoula, Montana

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

I have audited the compliance of Hellgate Elementary School, District No. 4, Missoula County, Missoula, Montana, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hellgate Elementary School's major federal programs for the year ended June 30, 2014. Hellgate Elementary School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Hellgate Elementary School's compliance.

Opinion on Each Major Federal Program

In my opinion, Hellgate Elementary School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

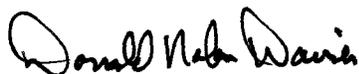
Management of Hellgate Elementary School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Hellgate Elementary School's internal control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

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies.

I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



February 26, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR HELLGATE ELEMENTARY SCHOOL
DISTRICT NO. 4, MISSOULA COUNTY
MISSOULA, MONTANA

FOR THE YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF THE AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued: Unqualified opinion
2. Internal control over financial reporting:
Material weaknesses identified? X yes no
Significant deficiencies identified not
considered to be material weaknesses? X yes none reported
3. Noncompliance material to the
financial statements noted? yes X no

Federal Awards

4. Internal control over major programs:
Material weaknesses identified? yes X no
Significant deficiencies identified not
considered to be material weaknesses? yes X none reported
5. Type of auditor's report issued on
compliance for major programs: Unqualified opinion
6. Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? yes X no
7. Identification of major programs:
- U.S. Department of Agriculture
CFDA No.10.553, 10.555, 10.556, 10.559 Child Nutrition Cluster
- U.S. Department of Education
CFDA No. 84.027, 84.173 Special Education Cluster (IDEA)
8. Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000
9. Auditee qualified as low-risk auditee? yes X no

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING - MATERIAL WEAKNESS:

2014-001 Financial Reporting

Auditing standards require that the auditor determine whether the School's internal control system allows for the reliable reporting of financial data in accordance with generally accepted accounting principles (GAAP). The School does not have the expertise to prepare or to evaluate the auditor prepared financial statements to ensure proper preparation in accordance with GAAP.

It may not be cost effective for the School to retain and train personnel to evaluate or prepare GAAP financial statements. However, I recommend the School consider correcting this material weakness in their internal controls over financial statement preparation by hiring a qualified consultant to evaluate the auditor prepared financial statements. Management should be aware of and continue to evaluate the impact of this deficiency.

FINDING - SIGNIFICANT DEFICIENCY:

2014-002 Segregation of Accounting Duties

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

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

Prior Audit Findings

2013-001 Financial Reporting - See above comment.

2013-002 Segregation of Accounting Duties - See above comment.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.