

**SCHOOL DISTRICT NUMBER 2  
GOLDEN VALLEY COUNTY  
LAVINA, MONTANA**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2014**

**OLNESS & ASSOCIATES, P. C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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SCHOOL DISTRICT NUMBER 2

ORGANIZATION

June 30, 2014

BOARD OF TRUSTEES

Ben Lehfeldt	Chairman
Craig Jensen	Trustee
Lee Burroughs	Trustee

OFFICIALS

Steven Schwartz	Superintendent
Julie Sperry	Clerk

# OLNESS & ASSOCIATES, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
School District Number 2  
Lavina, Montana

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Number 2, Lavina, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government'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.

### Basis for Qualified Opinion

Management has not recorded the other post employment benefit (OPEB) liability and related expense in the governmental activities. Accounting principles generally accepted in the United States of America require that the OPEB liability and related expense be recorded, which would increase the liabilities, decrease net position and change expenses in the governmental activities. The amount by which this departure would affect the liabilities, net position and expenses has not been determined.

### Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the government, as of June 30, 2014, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### Unmodified Opinions

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Matters

*Required Supplementary Information*

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

*Other Information*

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

The extracurricular fund schedule and schedule of school district 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 extracurricular fund schedule and schedule of school district 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 June 10, 2015, on our consideration of the government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the government's internal control over financial reporting and compliance.

*O'Leary & Associates, PC*

Billings, Montana  
June 10, 2015

SCHOOL DISTRICT NUMBER 2  
MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the Lavina School District Financial Statements present the management's discussion and analysis of the district's financial performance during the fiscal year (FY) ending June 30, 2014. This narrative overview and analysis of the financial activities of the Lavina School District 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 Lavina School District assets exceeded the district liabilities at the close of FY 2014 by \$1,922,076.
- Current and capital assets in the district decreased 1.1% while liabilities increased 14.6% which resulted in a net position decrease of 1.5% for FY 2014 in the district. The net position decrease in the district was mostly the result of depreciation on capital assets.
- The overall revenues from all sources for the Lavina School District in FY 2014 were \$1,427,917 which represented a 6.2% increase from FY 2013.
- State revenue was up 6.7% or \$36,879 in FY 2014.
- Property taxes collected at the local level increased by 6.4% or \$26,252 in FY 2014.
- Approximately 40.9% (40.7% in FY 2013) of the total Lavina School District revenue is collected from state sources. While approximately 30.6% (30.5% in FY 2013) of the district revenue is collected directly from property taxes at the local level.
- The Lavina School District expenses for FY 2014 were \$1,457,084 which represents a 6.5% increase from FY 2013.
- The Lavina School District expenses exceeded revenues for FY 2014 by \$29,167.
- The capital assets of the Lavina School District have no related debt.
- Expenses for instruction account for 56.5% (52.8% in FY 2013) of the district expenses in FY 2014. Expenses for operation & maintenance account for 7.6% (8.9% in FY 2013) of district expenses in FY 2014.
- Transportation expenditures became the second largest in the district in FY 2014.
- The district had total governmental fund balances of \$399,473 at the end of FY 2013 which was a 3.8% increase from FY 2012.
- The Lavina District is in excellent financial condition even with a slight decrease in net assets during the 2014 fiscal year.

**Overview of the Lavina School District Financial Statements**

The management's discussion and analysis report is intended to serve as an introduction to the basic financial statements of the Lavina 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 Lavina School District 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*.

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

The government-wide financial statements distinguish functions of the Lavina School District principally supported by taxes and intergovernmental revenues. 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.

SCHOOL DISTRICT NUMBER 2  
MANAGEMENT'S DISCUSSION & ANALYSIS

**Fund-based Financial Statements**

Fund-based financial statements, consisting of a series of statements, provide information about the 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 changes in fund balance. A *fund* is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The Lavina School District, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Lavina School District can be divided into two categories: governmental 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 Lavina 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 Lavina K-12 Schools are recognized by state law as one entity and will be considered as such for this discussion. Major governmental funds (funds that exceed 10% of the total 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, Transportation Fund, Bus Depreciation Fund, Retirement Fund, Miscellaneous Programs Fund and the Building Reserve Fund because they are considered to be the major funds in FY 2013. The other governmental funds are combined into a single aggregated presentation.

**Fiduciary funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. 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 Lavina School District. Student activity accounts and scholarship trusts are the most common fiduciary funds in school districts.

**Notes to the Financial Statements**

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

**Government-wide Financial Analysis**

**Schedules of net position and changes in net position of the Lavina School District**

NET POSITION:	2014	2013	Inc (Dec)
Current and other assets	\$ 417,876	\$ 411,883	\$ 5,993
Capital assets	1,561,988	1,589,775	(27,787)
Total assets	<u>1,979,864</u>	<u>2,001,658</u>	<u>(21,794)</u>
Other liabilities	8,121	5,684	2,437
Long-term liabilities outstanding	49,667	44,731	4,936
Total liabilities	<u>57,788</u>	<u>50,415</u>	<u>7,373</u>
Net position:			
Net investment in capital assets	1,561,988	1,589,775	(27,787)
Restricted	241,480	223,968	17,512
Unrestricted	118,608	137,500	(18,892)
	<u>\$ 1,922,076</u>	<u>\$ 1,951,243</u>	<u>\$ (29,167)</u>

SCHOOL DISTRICT NUMBER 2  
MANAGEMENT'S DISCUSSION & ANALYSIS

CHANGE IN NET POSITION:

	2014	2013	Inc (Dec)
Revenues:			
Program revenues:			
Charges for services	\$ 19,006	\$ 20,151	\$ (1,145)
Operating grants and contributions	242,850	240,031	2,819
General revenues:			
Taxes	436,382	410,130	26,252
State sources	584,352	547,473	36,879
County sources	137,907	122,925	14,982
Federal	148	65	83
Interest	1,276	2,257	(981)
Contributions and donations	744	1,052	(308)
Miscellaneous	3,752	109	3,643
Gain on sale of capital assets	1,500	-	1,500
Total revenues	<u>1,427,917</u>	<u>1,344,193</u>	<u>83,724</u>
Expenses:			
Instruction	823,351	722,718	100,633
Support services-students	18,274	18,132	142
Support services-instructional staff	34,298	33,805	493
Support services-general administration	48,937	51,861	(2,924)
Support services-administration	98,930	98,117	813
Support services-business	54,347	47,479	6,868
Operation and maintenance	111,221	122,719	(11,498)
Student transportation	112,948	112,397	551
Food services	80,584	89,803	(9,219)
Community services	5,690	3,971	1,719
Extracurricular	68,504	67,124	1,380
Total expenses	<u>1,457,084</u>	<u>1,368,126</u>	<u>88,958</u>
Change in net position	(29,167)	(23,933)	(5,234)
Net position, beginning	<u>1,951,243</u>	<u>1,975,176</u>	<u>(23,933)</u>
Net position, ending	<u>\$ 1,922,076</u>	<u>\$ 1,951,243</u>	<u>\$ (29,167)</u>

As noted earlier, net position may serve over time as a useful indicator of the financial position of the district. The Lavina School District net position (assets minus liabilities) at the close of FY 2014 was \$1,922,076. Net position for the district at the end of FY 2014 showed a 1.5% decrease from the close of FY 2013. This change was mainly due to depreciation on capital assets which resulted in more expenses than revenue for the district. District revenue increased 6.2% (up \$83,724) and expenditures increased 6.5% (up \$88,958) in FY 2014. State revenue is the largest source of revenue for the district and it was up 6.7% in FY 2014 while district property tax is the second largest source of revenue in the district and it was up 6.4%. Operating grants and contributions were up \$2,819 while county revenue was up \$14,982 in FY 2014. Instruction is the largest expenditure in the district and it was up 13.9% or \$100,633 in FY 2014. All expenditure areas were up except operation and maintenance (down \$11,498), general administration (down \$2,924), and school food (down \$9,219). Capital assets decreased 1.7% during FY 2014 due to depreciation.

At the close of FY 2014, a portion of the net assets of the Lavina District, \$1,561,988 (81.3% of total assets compared to 81.4% in FY 2013) reflects the investment by the school district in capital assets such as land, buildings, machinery, and equipment. The capital assets of the Lavina District have no related debt. The Lavina School District uses these capital assets to provide educational and related services to students; and as a result, these assets are not available for future spending.

A portion of the net assets of the Lavina School District represent resources that are subject to external restrictions on how they may be used. These *restricted* assets represent 12.6% (11.4% in FY 2013) or \$241,480 of the district's net position. The restricted net assets increased by 12.6% from FY 2013 to FY 2014. Another portion of the net assets of the Lavina School District (6.1% in FY 2014 and 7% in FY 2013) represent *unrestricted net assets* which may be used to meet the ongoing obligations of the school district to citizens and creditors. The unrestricted funds decreased by 13.7% from FY 2013 to FY 2014. The Lavina School District was able to report a positive balance of net position for both the government as a whole, as well as for governmental activities. The net position of the Lavina School District decreased \$29,167 during FY 2014 after showing a decrease of \$23,933 during FY 2013.

SCHOOL DISTRICT NUMBER 2  
MANAGEMENT'S DISCUSSION & ANALYSIS

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

**Governmental funds**

The focus of the *governmental funds* of the Lavina School District 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 district. 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 district reported a combined ending fund balance of \$384,968 and at the end of FY 2014 the fund balance was \$399,473 which represents a 3.8% increase. Approximately 25.9% (25.2% 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 Lavina School District. At the end of FY 2013, the General Fund had a balance of \$113,225 and at the close of FY 2014 the balance was \$104,581. The total fund balances in the district increased \$14,505 from the end of FY 2013 to the end of the FY 2014. The actual Fund Balance sheet can be found later in this report.

**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 for analysis in FY 2014 were the General Fund, Transportation Fund, Bus Depreciation Fund, Retirement Fund, Building Reserve Fund, and Miscellaneous Programs Fund. The other funds category includes all the remaining governmental funds that the district is utilizing. State Aid is the major revenue source for the district general fund category at 56.5% (55.7% in FY 2013) of the total revenue in the general fund in FY 2014. All sources of revenue from the state make up 69% of total general fund revenue in FY 2014. The major expenditure in the general fund is instruction. Instruction expenditures make up 60.2% (60.6% in FY 2013) of the general fund total cost for FY 2014. Operation and maintenance along with school administration rank 2 and 3 respectively for general fund expenditures. Total fund balances increased 3.8% from FY 2013 to FY 2014. The statement of revenues, expenditures, and changes in fund balances can be found later in this report.

**General Fund Budgetary Highlights**

During FY 2014 the General Fund had a budget variance from the original and final budget compared with the amounts actually collected and spent. Actual revenue collected from district tax levies was slightly more than was expected in the final budget (\$5,487). Actual state revenue collected was the same as was budgeted with interest and miscellaneous revenue collected slightly less than was budgeted. When all revenue is considered, the actual revenue collected was \$5,101 more than the final budget amount. Actual expenditures were nearly the same as the budgeted amounts for FY 2014 (only \$946 less than budgeted). When actual revenue and expenditures were determined under the GAAP basis, revenue increased from the state (\$14,434), however, expenditures increased by \$29,125 which created a deficit of \$8,644 in the general fund for FY 2014.

**Capital Asset and Debt Administration**

**Capital assets**

The investment by the Lavina School District in capital assets for governmental activities as of June 30, 2014, was \$1,561,988 after depreciation was subtracted. This investment in capital assets included land, building improvements, buildings, machinery, and equipment. The capital assets of the Lavina School District have no related debt. The value of the capital assets for the Lavina District showed a 1.75% decrease for FY 2014 when compared to FY 2013 after depreciation was subtracted. The capital assets decrease was due to depreciation.

**Long-term debt**

At the end of the 2014 fiscal year, the Lavina School District had long-term liabilities of \$49,667 for compensated absences.

**Economic Factors for Fiscal Year Budgets for FY 2014**

The population of Golden Valley County decreased by 3.6% or about 32 residents from 2010 to 2014. This compares to the Montana average of a 3.5% increase.

Residents of Golden Valley County under the age of 18 made up 20.4% of the population in 2013 compared to the state at 22.1%.

Residents 65 years and older made up 22.5% of the population in Golden Valley County in 2013 while Montana was 16.2%.

District enrollment dropped 7 students from the fall of 2013 to the fall of 2014 with the elementary school down 4 students, the 7-8 school down 3, and the high school remaining the same both years.

The unemployment rate for Golden Valley County was 3.5% in June 2014 compared to Montana at 4.7%. The poverty rate for Golden Valley County was 20.7% from 2009-2013, when Montana was at 15.2%.

The median income for Golden Valley County was \$39,313 with Montana at \$46,230 in 2009-2013.

**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 Lavina School District for all those with an interest in the government's finances. Questions concerning the information contained in this report should be addressed to the Lavina administration and business office located in Lavina, Montana.

SCHOOL DISTRICT NUMBER 2  
STATEMENT OF NET POSITION  
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 394,093
Receivables:	
Taxes	10,282
Governments	13,501
Capital assets not being depreciated-land	52,213
Capital assets, net of accumulated depreciation	<u>1,509,775</u>
Total assets	<u>1,979,864</u>
LIABILITIES	
Accounts payable	4,532
Due to other governmental agencies	2,909
Unearned revenues	680
Noncurrent liabilities:	
Due within one year:	
Compensated absences	8,321
Due in more than one year:	
Compensated absences	<u>41,346</u>
Total liabilities	<u>57,788</u>
NET POSITION	
Net Investment in capital assets	1,561,988
Restricted for:	
Instruction	76,057
Support services:	
Operations and maintenance	35,087
Student transportation	124,255
Food services	6,081
Unrestricted	<u>118,608</u>
Total net position	<u>\$ 1,922,076</u>

SCHOOL DISTRICT NUMBER 2  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Instruction	\$ 823,351	\$ 220	\$ 168,606	\$ (654,525)
Support services:				
Students	18,274	-	-	(18,274)
Instructional staff	34,298	-	-	(34,298)
General administration	48,937	-	-	(48,937)
School administration	98,930	-	-	(98,930)
Business services	54,347	-	-	(54,347)
Operation and maintenance	111,221	6,000	-	(105,221)
Student transportation	112,948	-	50,716	(62,232)
Food services	80,584	12,786	23,528	(44,270)
Community services	5,690	-	-	(5,690)
Extracurricular	68,504	-	-	(68,504)
<b>Total</b>	<b>\$ 1,457,084</b>	<b>\$ 19,006</b>	<b>\$ 242,850</b>	<b>(1,195,228)</b>

General revenues:	
Property taxes	436,382
Intergovernmental:	
State aid	551,852
State other	32,500
County	137,907
Federal	148
Interest	1,276
Contributions and donations	744
Miscellaneous	3,752
Gain on sale of capital assets	1,500
<b>Total general revenues</b>	<b>1,166,061</b>
Change in net position	(29,167)
Net position - beginning	1,951,243
Net position - ending	<b>\$ 1,922,076</b>

SCHOOL DISTRICT NUMBER 2  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

	General	Transportation	Bus Depreciation	Retirement	Miscellaneous Programs	Building Reserve	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>								
Cash and cash equivalents	\$ 108,128	\$ 14,627	\$ 108,027	\$ 59,053	\$ 40,825	\$ 29,785	\$ 33,648	\$ 394,093
Receivables:								
Taxes	6,524	1,232	369	-	-	1,982	175	10,282
Governments	-	-	-	-	13,501	-	-	13,501
Total assets	<u>\$ 114,652</u>	<u>\$ 15,859</u>	<u>\$ 108,396</u>	<u>\$ 59,053</u>	<u>\$ 54,326</u>	<u>\$ 31,767</u>	<u>\$ 33,823</u>	<u>\$ 417,876</u>
<b>LIABILITIES</b>								
Accounts payable-vendors	\$ 3,547	\$ -	\$ -	\$ -	\$ 304	\$ -	\$ 681	\$ 4,532
Payable to other governments	-	-	-	-	2,909	-	-	2,909
Unearned revenue	-	-	-	-	680	-	-	680
Total liabilities	<u>3,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,893</u>	<u>-</u>	<u>681</u>	<u>8,121</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Unavailable revenue-taxes	6,524	1,232	369	-	-	1,982	175	10,282
Total deferred inflows of resources	<u>6,524</u>	<u>1,232</u>	<u>369</u>	<u>-</u>	<u>-</u>	<u>1,982</u>	<u>175</u>	<u>10,282</u>
<b>FUND BALANCES</b>								
Restricted:								
Instruction	-	-	-	59,053	-	-	16,829	75,882
Support services:								
Operation and maintenance	-	-	-	-	-	29,785	3,320	33,105
Student transportation	-	14,627	108,027	-	-	-	-	122,654
Food services	-	-	-	-	-	-	6,081	6,081
Committed:								
Instruction	-	-	-	-	50,433	-	6,704	57,137
Support services:								
General administration	-	-	-	-	-	-	33	33
Assigned:								
Instruction	917	-	-	-	-	-	-	917
Extracurricular	269	-	-	-	-	-	-	269
Unassigned:	103,395	-	-	-	-	-	-	103,395
Total fund balances	<u>104,581</u>	<u>14,627</u>	<u>108,027</u>	<u>59,053</u>	<u>50,433</u>	<u>29,785</u>	<u>32,967</u>	<u>399,473</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 114,652</u>	<u>\$ 15,859</u>	<u>\$ 108,396</u>	<u>\$ 59,053</u>	<u>\$ 54,326</u>	<u>\$ 31,767</u>	<u>\$ 33,823</u>	<u>\$ 417,876</u>

SCHOOL DISTRICT NUMBER 2  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
June 30, 2014

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

Total fund balances, governmental funds	\$ 399,473
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,561,988
Other long-term assets are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the funds.	10,282
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not included in the funds.	<u>(49,667)</u>
Net position of governmental activities	<u>\$ 1,922,076</u>

SCHOOL DISTRICT NUMBER 2  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	General	Transportation	Bus Depreciation	Retirement	Miscellaneous Programs	Building Reserve	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>								
Property taxes	\$ 303,055	\$ 105,485	\$ 30,615	\$ -	\$ -	\$ 680	\$ 7,496	\$ 447,331
Intergovernmental:								
County	-	25,358	-	137,907	-	-	-	163,265
State aid	551,852	-	-	-	-	-	-	551,852
State other	122,037	28,593	-	-	984	-	3,653	155,267
Federal	102	31	11	-	68,461	-	23,268	91,873
Charges for services	-	-	-	-	-	-	19,006	19,006
Interest	135	1	83	49	949	29	30	1,276
Miscellaneous	36	-	-	-	3,744	-	3,716	7,496
<b>Total revenues</b>	<b>977,217</b>	<b>159,468</b>	<b>30,709</b>	<b>137,956</b>	<b>74,138</b>	<b>709</b>	<b>57,169</b>	<b>1,437,366</b>
<b>EXPENDITURES</b>								
Current:								
Instruction	593,433	-	-	120,237	68,573	-	13,269	795,512
Support services:								
Students	16,033	-	-	2,149	-	-	-	18,182
Instructional staff	24,864	-	-	2,177	6,639	-	-	33,680
General administration	32,243	11,588	-	4,128	-	-	-	47,959
School administration	60,335	26,020	-	11,392	-	-	-	97,747
Business services	37,943	11,206	-	4,439	-	-	-	53,588
Operation and maintenance	91,379	7,860	-	5,146	110	-	-	104,495
Student transportation	-	89,887	-	4,402	-	-	-	94,289
Food services	41,802	-	-	4,502	-	-	31,915	78,219
Community services	-	-	-	-	-	-	5,690	5,690
Extracurricular	56,439	-	-	5,671	-	-	-	62,110
Capital outlay	31,390	-	-	-	-	-	-	31,390
<b>Total expenditures</b>	<b>985,861</b>	<b>146,561</b>	<b>-</b>	<b>164,243</b>	<b>75,322</b>	<b>-</b>	<b>50,874</b>	<b>1,422,861</b>
Excess (deficiency) of revenues over expenditures	(8,644)	12,907	30,709	(26,287)	(1,184)	709	6,295	14,505
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	-	-	-	-	-	3,056	-	3,056
Transfers out	-	-	-	-	-	-	(3,056)	(3,056)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,056</b>	<b>(3,056)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(8,644)</b>	<b>12,907</b>	<b>30,709</b>	<b>(26,287)</b>	<b>(1,184)</b>	<b>3,765</b>	<b>3,239</b>	<b>14,505</b>
Fund balances - beginning	113,225	1,720	77,318	85,340	51,617	26,020	29,728	384,968
<b>Fund balances - ending</b>	<b>\$ 104,581</b>	<b>\$ 14,627</b>	<b>\$ 108,027</b>	<b>\$ 59,053</b>	<b>\$ 50,433</b>	<b>\$ 29,785</b>	<b>\$ 32,967</b>	<b>\$ 399,473</b>

SCHOOL DISTRICT NUMBER 2  
 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

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

Net change in fund balances - total governmental funds	\$ 14,505
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
This is the amount by which depreciation (\$60,677) exceeded capital outlays (\$31,390) in the current period.	(29,287)
The net effect of various transactions involving capital assets (i.e., sales, donations and trade-ins) is to increase net position.	1,500
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(10,949)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>	
Compensated absences	<u>(4,936)</u>
Change in net position of governmental activities	<u>\$ (29,167)</u>

SCHOOL DISTRICT NUMBER 2  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
June 30, 2014

	Private Purpose Trust Fund- Extracurricular	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 44,199	\$ 7,440
Total assets	44,199	\$ 7,440
<b>LIABILITIES</b>		
Accounts payable	-	\$ 7,440
Total liabilities	-	\$ 7,440
<b>NET POSITION</b>		
Net position held in trust	\$ 44,199	

SCHOOL DISTRICT NUMBER 2  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUND  
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Fund- Extracurricular</u>
<b>ADDITIONS</b>	
Student extracurricular activities	<u>\$ 42,933</u>
Total additions	<u>42,933</u>
<b>DEDUCTIONS</b>	
Student extracurricular activities	<u>41,401</u>
Total deductions	<u>41,401</u>
Change in net position	1,532
Net position - beginning	<u>42,667</u>
Net position - ending	<u><u>\$ 44,199</u></u>

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the government have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

The government's significant accounting policies are described below.

Reporting Entity

The government was established under Montana law to provide educational services below the college and university level to residents of the district. The government consists of a kindergarten through twelfth grade district, which is managed by a central Board of Trustees, elected in a district wide election and by a central administration appointed by and responsible to the Board.

The County provides substantial services to the government; tax billing, cash collections, debt payments and warrant redemption. The County also maintains the government's cash and invests available funds at the direction of the government. The County Commissioners have a legal obligation to set levy amounts and to approve the budget adopted by the government. However, despite the degree of services provided, the government does not qualify as a component unit of the County.

These financial statements present, as a single reporting entity, all activities of the primary government. A primary government is defined as having a separately elected governing body, being legally separate, and fiscally independent.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges for services which report fees and other charges provided by a given function or identifiable activity 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. 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 as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

The government reports the following major governmental funds:

The general fund is used to account for all financial resources, except those required by law or administrative action to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specific purposes other than debt service or capital projects. The following special revenue funds are reported as major.

The transportation fund accounts for resources accumulated and payments made for the purpose of operating the transportation program.

The bus depreciation fund accounts for resources accumulated and payments made for the purchase of buses.

The retirement fund accounts for resources accumulated and payments made for retirement, unemployment compensation, social security and Medicare.

The miscellaneous programs fund accounts for resources accumulated and payments made for miscellaneous revenues and state and federal grants.

The building reserve fund accounts for financial resources earmarked or segregated for the acquisition and construction of major capital facilities and other project-oriented activities.

Additionally, the government reports the following fund types:

The government has a private-purpose trust fund, the student extracurricular fund, which accounts for the extracurricular student activities.

Agency funds are custodial in nature and are used to account for assets that the government holds for others in an agency capacity.

Assets, Liabilities, Deferred Inflows and Net Position/Fund Balance

Cash and Investments

Cash and investments, except amounts in the extracurricular, Geisler Memorial and flexible benefits funds, are held by the County Treasurer. The County Treasurer invests the District's cash at the direction of the government as required by state statute. Allowable investments include direct obligations of the United States Government, repurchase agreements, savings or time deposits in a state or national bank, building and loan associations, savings and loan associations, or credit unions insured by the FDIC, FSLIC, or NCUA and the State Short Term Investment Pool (STIP). STIP is classified as a 2a7-like pool, and as such, uses amortized cost to report unit values.

Investments in the pool are reported at fair value. Fair value is determined annually, based on year-end market values. Short-term investments are reported at cost, which approximates fair value. Cash on hand, demand, savings and time deposits, STIP and short-term investments with original maturities of three months or less from the date of acquisition are considered cash equivalents.

Receivables

Most property taxes are levied in September of each fiscal year, based on assessments as of the prior January 1. Real property taxes are billed as of November 1 and are payable in two payments, November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. Most personal property taxes are due and payable on January 1 and become delinquent February 1. Property taxes are maintained and collected by the County Treasurer. No allowance is made for uncollectible taxes as they are not considered significant.

Inventories

All inventories are recorded as expenses/expenditures when purchased. Inventories at year-end were immaterial and not recorded.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks, and similar items) are reported in the government-wide financial statements. The government has elected not to report major infrastructure assets retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation on capital assets is calculated on the straight-line method over the following estimated useful lives:

Assets	Years
Land improvements	25
Building and improvements	25-100
Machinery and equipment	5-15

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are the collections are held for public exhibition or education in the furtherance of public service, not held for financial gain; the collections are protected, kept unencumbered, cared for, and preserved; and any sale proceeds are expected to be used to acquire other items for the collections.

Compensated Absences

Liabilities associated with accumulated vacation and sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Classified employees (non-teaching) earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Accumulated vacation is restricted under state statute to a maximum accumulation of two times the amount earned annually. Vacation leave is absorbed by time off from work, or, with certain limitations, may be payable to the employee upon termination.

Sick leave is accumulated for classified employees at the rate of 12 days per year with no limit on the carry over amount. Sick leave for certified personnel (teachers) is awarded at 12 days per year up to a cumulative maximum of 60 days. Upon retirement or resignation, classified and certified employees are eligible for sick leave compensation at one fourth of the accumulated amount.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report 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 that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Net Position

In the government-wide statements, equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets (net of accumulated depreciation), plus capital-related deferred outflows of resources, less capital-related borrowings and deferred inflows of resources.

Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - any portion of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

Fund Balance

In the fund statements, governmental fund equity is classified as fund balance. The following classifications describe the relative strength of the spending constraints:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balance - amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority (i.e., governing body). The government establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts the government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The governing body has by resolution authorized the clerk to assign fund balance. Assigned fund balance in the general fund represents year-end encumbrances.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the government considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing body has provided otherwise in its commitment or assignment actions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. DETAILED NOTES ON ALL FUNDS

Equity in Pooled Cash and Investments

As discussed in Note 1, the government's cash and investments, except amounts in the extracurricular, Geisler Memorial and flexible benefits funds, are held by the County Treasurer. The government directs the investment of money pursuant to the provisions of state statute. The extracurricular and flexible benefits funds bank balances were entirely insured by the FDIC.

Montana law allows the local governing body to require security for the portion of deposits not guaranteed or insured. Deposit insurance is administered by the FDIC. The County Treasurer has the fiduciary responsibility to ensure that adequate collateral is pledged for all investments that are not fully covered by Federal Deposit Insurance. Montana code allows the County Treasurer to take collateral up to 50% of deposits if the institution in which the deposit is made has a net worth to total assets ratio of 6% or more and 100% if the ratio is less than 6%. Risk in the event of loss is unclear in state law, but may be the liability of the County government. Custodial credit risk, interest rate risk and concentration of credit risk classifications of the government's deposits and pooled investments can be obtained from the Golden Valley County Treasurer.

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 52,213	\$ -	\$ -	\$ 52,213
Total capital assets, not being depreciated	<u>52,213</u>	<u>-</u>	<u>-</u>	<u>52,213</u>
Capital assets, being depreciated				
Buildings/improvements	1,903,514	-	-	1,903,514
Improvements other than buildings	53,213	-	-	53,213
Machinery and equipment	456,039	32,890	(19,194)	469,735
Total capital assets, being depreciated	<u>2,412,766</u>	<u>32,890</u>	<u>(19,194)</u>	<u>2,426,462</u>
Less accumulated depreciation for:				
Buildings/improvements	(557,012)	(28,894)	-	(585,906)
Improvements other than buildings	(10,520)	(2,128)	-	(12,648)
Machinery and equipment	(307,672)	(29,655)	19,194	(318,133)
Total accumulated depreciation	<u>(875,204)</u>	<u>(60,677)</u>	<u>19,194</u>	<u>(916,687)</u>
Total capital assets, being depreciated, net	<u>1,537,562</u>	<u>(27,787)</u>	<u>-</u>	<u>1,509,775</u>
Governmental activities capital assets, net	<u>\$ 1,589,775</u>	<u>\$ (27,787)</u>	<u>\$ -</u>	<u>\$ 1,561,988</u>

Depreciation expense was charged as follows:

Instruction	\$ 24,363
Support services-students	92
Support services-instructional staff	618
Support services-general administration	1,047
Support services-administration	536
Support services-business	409
Operation and maintenance	6,269
Student transportation	18,439
Food services	2,510
Extracurricular	6,394
	<u>\$ 60,677</u>

Interfund Transfers

During fiscal year 2014, the debt service fund was closed into the building reserve fund.

Long-Term Debt

Compensated absences increased \$4,936 to \$49,667 as of June 30, 2014. \$8,321 is considered to be due within one year. Compensated absences are generally liquidated by the general fund.

NOTE 3. OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability (i.e., errors and omissions); workers compensation (i.e., employee injuries); medical insurance costs; and environmental damages. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for the theft, damage or destruction of assets, professional liabilities and employee medical costs. The government participates in the Montana Schools Group's Workers' Compensation Risk Retention Program, a state-wide public risk pool currently operating as a common risk management and insurance program for the member school districts. The government pays

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

quarterly premiums for its employee injury insurance coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums. There are no deductibles or maximum coverage limits in the plan. Given lack of coverage available, the government has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the commercial policies have remained relatively constant for the last several years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Interlocal Cooperative

The government participates with other school districts located in the Central Montana Learning Resource Center Cooperative. The Cooperative provides special education services to its member schools.

Commitments and Contingencies

At year-end, the government had commitments outstanding, in the form of purchase orders, of \$56,535, primarily for the purchase of supplies and equipment. The following schedule displays encumbrances by major funds in the aggregate:

	General Fund	Bus Depreciation	Miscellaneous Programs	Total Governmental Funds
Restricted:				
Transportation	\$ -	\$ 54,300	\$ -	\$ 54,300
Committed:				
Instruction	-	-	1,049	1,049
Assigned:				
Transportation	917	-	-	917
Extracurricular	269	-	-	269
	\$ 1,186	\$ 54,300	\$ 1,049	\$ 56,535

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any to be immaterial.

Retirement Plans

The government 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 Teachers' Retirement System (TRS) covers teaching employees, including principals and superintendents. The Public Employees Retirement System (PERS) covers non-teaching employees. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

The plans issue a publicly available financial report that include financial statements and required supplementary information. The reports may be obtained from the Public Employees' Retirement Board, 100 North Park, P.O. Box 200131, Helena, Montana 59620-0131, telephone (406) 444-3154.

Contribution rates for the plans are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	Total
TRS:			
Tier 1 member	8.470%	8.150%	16.620%
Tier 2 member	8.470%	8.150%	16.620%
PERS	7.800%	7.900%	15.700%

TRS:  
A "tier 1 member" is a person who became a member before July 1, 2013 and who has not withdrawn his/her account balance. A "tier 2 member" is a person who became a member on or after July 1, 2013 or who, after withdrawing his/her account balance, became a member again on or after July 1, 2013. Effective July 1, 2013, the Tier 1 member supplemental contribution may be decreased, and a Tier 2 member may be required to contribute a supplemental contribution, under circumstances described in Section 19-20-608, MCA. Also, the employer supplemental contribution may be decreased under circumstances described in Section 19-20-609, MCA.

SCHOOL DISTRICT NUMBER 2  
NOTES TO BASIC FINANCIAL STATEMENTS

PERS:  
On January 1 following an actuarial valuation, the employee contribution rate will be reduced to 6.9%, and the additional contributions by the employer (1%) and the State of Montana will terminate, if the actuarial valuation determines that these reductions and terminations would not cause the amortization period to exceed 25 years. Effective July 1, 2013, retired members who return to active service are subject to the above employee, employer, and state contributions. For retired members who return to work in a covered position, but who have not become active members, the employer and state shall contribute the amounts specified in Sections 19-3-316 and 319. (MCA 19-3-1113)

The State of Montana contributes .37% and 2.49% per year to the PERS and TRS plans, respectively, on behalf of the employer. The State of Montana TRS (\$14,434) contribution has been recorded in the financial statements.

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

	2014	2013	2012
TRS	\$ 105,556	\$ 89,901	\$ 92,308
PERS	17,416	14,879	14,950
	\$ 122,972	\$ 104,780	\$ 107,258

Future Implementation of GASB Pronouncements

The GASB has issued the following pronouncements:

Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 Effective Date: The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
General Fund  
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
<b>REVENUES</b>					
Property taxes	\$ 297,568	\$ 297,568	\$ 303,055	\$ -	\$ 303,055
Intergovernmental:					
State aid	551,852	551,852	551,852	-	551,852
State other	107,603	107,603	107,603	14,434	122,037
Federal	-	-	102	-	102
Interest	549	549	135	-	135
Miscellaneous	110	110	36	-	36
<b>Total revenues</b>	<u>957,682</u>	<u>957,682</u>	<u>962,783</u>	<u>14,434</u>	<u>977,217</u>
<b>EXPENDITURES</b>					
Total expenditures	<u>957,682</u>	<u>957,682</u>	<u>956,736</u>	<u>29,125</u>	<u>985,861</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	6,047	(14,691)	(8,644)
Fund balances - beginning			<u>97,348</u>	<u>15,877</u>	<u>113,225</u>
Fund balances - ending			<u>\$ 103,395</u>	<u>\$ 1,186</u>	<u>\$ 104,581</u>

SCHOOL DISTRICT NUMBER 2  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
 Transportation Fund  
 For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
<b>REVENUES</b>					
Property taxes	\$ 104,264	\$ 104,264	\$ 105,485	\$ -	\$ 105,485
Intergovernmental:					
County	25,730	25,730	25,358	-	25,358
State other	28,965	28,965	28,593	-	28,593
Federal	-	-	31	-	31
Interest	-	-	1	-	1
<b>Total revenues</b>	<b>158,959</b>	<b>158,959</b>	<b>159,468</b>	<b>-</b>	<b>159,468</b>
<b>EXPENDITURES</b>					
Total expenditures	158,959	158,959	146,561	-	146,561
Net change in fund balances	\$ -	\$ -	12,907	-	12,907
Fund balances - beginning			1,720	-	1,720
Fund balances - ending			\$ 14,627	\$ -	\$ 14,627

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
Bus Depreciation Fund  
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
<b>REVENUES</b>					
Property taxes	\$ 30,100	\$ 30,100	\$ 30,615	\$ -	\$ 30,615
Intergovernmental:					
Federal	-	-	11	-	11
Interest	-	-	83	-	83
<b>Total revenues</b>	<u>30,100</u>	<u>30,100</u>	<u>30,709</u>	<u>-</u>	<u>30,709</u>
<b>EXPENDITURES</b>					
Total expenditures	<u>107,419</u>	<u>107,419</u>	<u>54,300</u>	<u>(54,300)</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>\$ (77,319)</u>	<u>\$ (77,319)</u>	<u>(23,591)</u>	<u>54,300</u>	<u>30,709</u>
Fund balances - beginning			<u>77,318</u>	<u>-</u>	<u>77,318</u>
Fund balances - ending			<u>\$ 53,727</u>	<u>\$ 54,300</u>	<u>\$ 108,027</u>

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
Retirement Fund  
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
<b>REVENUES</b>					
Intergovernmental:					
County	\$ 137,907	\$ 137,907	\$ 137,907	\$ -	\$ 137,907
Interest	-	-	49	-	49
Total revenues	<u>137,907</u>	<u>137,907</u>	<u>137,956</u>	<u>-</u>	<u>137,956</u>
<b>EXPENDITURES</b>					
Total expenditures	<u>186,039</u>	<u>186,039</u>	<u>164,243</u>	<u>-</u>	<u>164,243</u>
Net change in fund balances	<u>\$ (48,132)</u>	<u>\$ (48,132)</u>	(26,287)	-	(26,287)
Fund balances - beginning			<u>85,340</u>	<u>-</u>	<u>85,340</u>
Fund balances - ending			<u>\$ 59,053</u>	<u>\$ -</u>	<u>\$ 59,053</u>

SCHOOL DISTRICT NUMBER 2  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2014

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

State law requires budgets be prepared for certain funds - generally those supported by property tax revenues. Budgets are prepared on the modified accrual basis. State law requires only that a fund's total expenditures not exceed total budgeted expenditures. Budgets may be amended as defined by State law. There were no budget amendments during 2014.

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 of Trustees approves the original budget not later than August 25th.

State law permits the inclusion of obligations (encumbrances) for construction in progress and the purchase of personal property as expenditures for budget purposes. Differences between budget and GAAP expenditures on the required supplementary schedules consist of the state of Montana on-behalf TRS contribution and current and prior year encumbrances.

A budget is not adopted for the miscellaneous programs fund (a major special revenue fund) because it is not legally required and, therefore, presentation of budgetary comparison information is not required.

OTHER SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NUMBER 2  
EXTRACURRICULAR FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2014

Activity	Balance July 1, 2013	Revenues	Expenditures	Transfers In (Out)	Balance June 30, 2014
Advertising	\$ -	\$ 1,700	\$ 677	\$ (1,023)	\$ -
Athletics	11,500	11,320	11,265	-	11,555
Boys & Girls State	2,323	411	383	-	2,351
Business Prof. of America	3,733	12,884	11,678	1,066	6,005
Christmas Bazaar	659	349	139	-	869
Class of 2013	159	-	-	(159)	-
Class of 2014	3,684	202	2,836	249	1,299
Class of 2015	2,989	508	681	408	3,224
Class of 2016	713	470	-	23	1,206
Class of 2017	759	1,384	830	353	1,666
Class of 2018	342	-	-	705	1,047
Class of 2019	-	-	-	736	736
Concessions	-	4,727	2,232	(2,495)	-
Foreign Language	182	47	47	-	182
Greenhouse	1,634	221	497	-	1,358
Golden Valley FFA	4,285	1	-	-	4,286
Library Fund	461	70	344	-	187
Life Skills	56	25	78	-	3
Music	916	692	933	-	675
National Honor Society	264	625	624	-	265
National Junior Honor Society	245	625	624	-	246
Outdoor Sign	-	-	-	159	159
Publications	1,753	1,847	1,724	(12)	1,864
Stage Fund	2,577	1	-	-	2,578
Student Council	2,407	4,004	5,085	24	1,350
Vo Ag	596	800	308	-	1,088
Student Incentives	430	20	416	(34)	-
<b>Total</b>	<b>\$ 42,667</b>	<b>\$ 42,933</b>	<b>\$ 41,401</b>	<b>\$ -</b>	<b>\$ 44,199</b>

SCHOOL DISTRICT NUMBER 2  
 SCHEDULE OF SCHOOL DISTRICT ENROLLMENT  
 For the Year Ended June 30, 2014

	<u>Reported Enrollment</u>	<u>Enrollment per Records</u>	<u>Difference</u>
FALL ENROLLMENT - October 2013			
<u>Elementary District</u>			
Kindergarten	6	6	-
Grades one through six	25	25	-
Grades seven and eight	13	13	-
	<u>44</u>	<u>44</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	25	25	-
	<u>25</u>	<u>25</u>	<u>-</u>
 WINTER ENROLLMENT - December 2013			
<u>Elementary District</u>			
Kindergarten	6	6	-
Grades one through six	26	26	-
Grades seven and eight	15	15	-
	<u>47</u>	<u>47</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	24	24	-
	<u>24</u>	<u>24</u>	<u>-</u>
 SPRING ENROLLMENT - February 2014			
<u>Elementary District</u>			
Kindergarten	6	6	-
Grades one through six	25	25	-
Grades seven and eight	15	15	-
	<u>46</u>	<u>46</u>	<u>-</u>
 <u>High School District</u>			
Grades nine through twelve	25	25	-
	<u>25</u>	<u>25</u>	<u>-</u>

# OLNESS & ASSOCIATES, P. C.

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

To the Board of Trustees  
School District Number 2  
Lavina, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District Number 2, Lavina, Montana (the government) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the government's basic financial statements, and have issued our report thereon dated June 10, 2015. The report on governmental activities was qualified because the government did not record its other post employment benefit (OPEB) liability and related expense.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the government'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 government's internal control. Accordingly, we do not express an opinion on the effectiveness of the government's internal control.

Our 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, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. (Findings 2014-001 through 2014-004)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the government's financial statements are free from 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2014-004.

### The Government's Response to Findings

The government did not respond to the findings identified in our audit as described in the accompanying schedule of findings. Section 2-7-515, Montana Code Annotated, states that the government should respond to any findings in the audit report within 30 days after the receipt of the final audit report.

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

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.

*Olness & Associates, PC*

Billings, Montana  
June 10, 2015

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2014

2014-001. FINANCIAL STATEMENT PREPARATION

Criteria: We were engaged to assist in the preparation of the government's financial statements. The government ensures the quality of its financial statements by engaging a qualified audit firm with expertise in governmental audits and by reading a preliminary draft of the financial statements.

Condition: The government does not have specific controls in place to review the selection and application of accounting principles and resulting disclosures and presentations within the financial statements.

Cause: The government is a small organization with limited resources.

Effect: It is common within the governmental sector to rely on the audit firm to prepare the financial statements; however, an audit firm cannot be considered part of the government's internal control by professional standards currently in effect. Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation: The government should continue to read its draft financial statements and ensure the quality of the document and the preparer.

2014-002. SEGREGATION OF DUTIES

Criteria: Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition: In many financial areas, including federal award programs, the government lacks segregation of duties.

Cause: The extent to which the government can segregate duties is limited based on the number of personnel, their skill set and work load, and organizational structure.

Effect: The risk of errors or irregularities occurring and not being detected in a timely manner increases when a lack of segregation of duties exists.

Recommendation: There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The government should continue to evaluate its segregation of duties and when possible assign tasks to strengthen controls.

2014-003. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED

Criteria: U.S. generally accepted accounting principles require the OPEB liability and related expense be recorded in the financial statements.

Condition: The government did not record the other post employment benefit (OPEB) liability and related expense (GASB Statement No. 45) in the financial statements.

Cause: The government did not engage an actuarial firm to assist in determining the OPEB liability and related expense as of and for the year ended June 30, 2014.

Effect: The governmental activities liabilities are understated, net position is overstated and expenses would change.

Recommendation: The government should engage an actuarial firm to determine the OPEB liability and related expense.

2014-004. UNSUPPORTED ADMINISTRATIVE WAGES CHARGED TO THE TRANSPORTATION FUND

Criteria: Administrative wages charged to the transportation fund should be based on documentation that supports the charges (i.e., formal time records).

Condition: The district does not have documentation to support the allocation of the administrative wages to the transportation fund.

Cause: Unknown

Effect: Unsupported charges to the transportation fund.

Recommendation: Documentation (i.e., formal time records) should be developed to support the allocation of administrative salaries/wages to the transportation fund.

SCHOOL DISTRICT NUMBER 2  
SCHEDULE OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

<u>PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u>	<u>STATUS</u>
2013-1. FINANCIAL STATEMENT PREPARATION	CONTINUED DISCLOSURE
2013-2. SEGREGATION OF DUTIES	CONTINUED DISCLOSURE
2013-3. OTHER POST EMPLOYMENT BENEFIT LIABILITY NOT RECORDED	NOT IMPLEMENTED
2013-4. TIME CARDS	IMPLEMENTED
2013-5. UNSUPPORTED ADMINISTRATIVE WAGES CHARGED TO THE TRANSPORTATION FUND	NOT IMPLEMENTED