

SCHOOL DISTRICT No. 23
Lustre, Montana

FINANCIAL AND COMPLIANCE
REPORT

Year ended June 30, 2013

Year ended June 30, 2014

SCHOOL DISTRICT No. 23

Lustre, Montana

**FINANCIAL AND COMPLIANCE REPORT
Year ended June 30, 2013 and year ended June 30, 2014**

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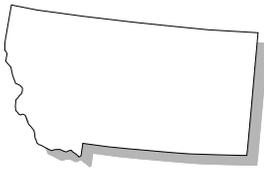
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ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

INDEPENDENT AUDITORS REPORT

Board of Trustees
School District No. 23
Lustre, 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 No. 23, Lustre, Montana, as of and for the year ended June 30, 2013 and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise School District No. 23'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 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of School District No. 23, Lustre, Montana, as of June 30, 2013 and as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter Change in Accounting Principles

As described in Note 2 to the financial statements, the District adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and Amendment of GASB Statements No 14 and No 34*, GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. The opinion is not modified with the implementation of these GASB Statements.

Other Matters

Required Supplementary Information

Accounting Principles generally accepted in the United States of America require that the budgetary comparison information on pages 29-31 be presented to supplement the basic financial statements. Management has omitted the Management Discussion and Analysis which is required by the same standards. 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 response 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. Our opinion on the basic financial statements is not affected by the missing Management Discussion and Analysis.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise School District No. 23's basic financial statements. The accompanying supplementary information the Supplemental Schedule of School District Enrollment (page 32) and the Extracurricular Fund Revenues, Expenditures and Changes in Net Position (pages 33-34) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Schedule of School District Enrollment and the Supplementary Extracurricular Fund Revenues, Expenditures and Changes in Net Position are required by the State of Montana and 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, 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 Supplementary Schedule of School District Enrollment and the Supplementary Extracurricular Fund Revenues, Expenditures and Changes in Net Position is 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 a report dated September 15, 2015 on our consideration of School District No. 23'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 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 School District No. 23's internal control over financial reporting and compliance.

September 15, 2015



Ross R. Stalcup
Certified Public Accountant

**SCHOOL DISTRICT No. 23
Lustre, Montana**

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

	2014	2013
ASSETS		
Current Assets:		
Cash and Investments.	\$279,181	\$208,648
Property Taxes Receivable.	315	555
Due from Other Governments.		10,856
Total Current Assets.	<u>279,496</u>	<u>220,059</u>
Net Capital Assets.	359,924	390,649
Total Assets.	<u>639,420</u>	<u>610,708</u>
Deferred Outflow of Resources.	0	0
Total Assets and Deferred Outflow of Resources.	<u><u>639,420</u></u>	<u><u>610,708</u></u>
LIABILITIES:		
Current Liabilities		
Compensated Absences.	1,087	786
Total Current Liabilities.	<u>1,087</u>	<u>786</u>
Non Current Liabilities		
Compensated Absences.	2,175	1,571
Total Non Current Liabilities	<u>2,175</u>	<u>1,571</u>
Total Liabilities.	<u>3,262</u>	<u>2,357</u>
Deferred Inflow of Resources.	0	0
Total Liabilities and Deferred Inflow of Resources.	<u>3,262</u>	<u>2,357</u>
Total Net Position.	<u><u>636,158</u></u>	<u><u>608,351</u></u>
NET POSITION		
Net Investment in Capital Assets.	359,924	390,649
Restricted		
Transportation.	37,209	33,608
Bus Replacement.	143,448	143,044
Retirement.	5,899	13,200
Capital Projects.	6,469	
School Food.	119	
Other.		22
Total Restricted.	<u>193,144</u>	<u>189,874</u>
Unrestricted.	83,090	27,828
Total Net Position.	<u><u>\$636,158</u></u>	<u><u>\$608,351</u></u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**STATEMENT OF ACTIVITIES
for the Year Ended June 30, 2014**

	Expenses	Program Operating Grants	Revenue Charges for Services	Net (Expense) Revenue 2014	2013
GOVERNMENT OPERATIONS					
Instruction:					
Regular Instruction.	\$258,569	\$5,124	\$4,000	(\$249,445)	(\$240,370)
Special Education.	10,952	1,088		(9,864)	(362)
Support Services - Students.	4,142			(4,142)	(3,906)
Administration:					
General.	48,856			(48,856)	(33,505)
Operation and Maintenance.	67,317		4,200	(63,117)	(61,652)
Transportation.	85,853	30,250		(55,603)	(47,304)
Food Services.	34,596	8,168	19,773	(6,655)	(8,951)
Student Extracurricular.	2,133			(2,133)	(2,199)
Unallocated Depreciation.	12,103			(12,103)	(31,058)
Totals.	<u>\$524,521</u>	<u>\$44,630</u>	<u>\$27,973</u>	<u>(\$451,918)</u>	<u>(\$429,307)</u>
GENERAL REVENUES					
District Property Taxes.				\$204,830	\$98,136
State Equalization.				107,071	98,952
Guaranteed Tax Base.				5,866	1,210
Oil and Gas.				78,891	62,060
Other State Revenue.				31,911	31,566
County Property Taxes.				38,587	28,316
Federal Sources.				11,638	2,688
Interest.				250	616
Other.				681	4,089
Total General Revenues.				<u>479,725</u>	<u>327,633</u>
CHANGE IN NET POSITION.				27,807	(101,674)
NET POSITION					
Beginning of Year.				608,351	710,025
End of the Year.				<u>\$636,158</u>	<u>\$608,351</u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

	MAJOR FUNDS			NON MAJOR FUNDS	
	General Fund	Transportation Fund	Bus Depreciation Fund	Other Governmental Funds	Total
ASSETS:					
Cash and Investments.	\$90,047	\$37,192	\$143,448	\$8,494	\$279,181
Property Taxes Receivable.	293		17	5	315
Due from Other Funds.					0
Due from Other Governments.					0
Total Assets.	90,340	37,192	143,465	8,499	279,496
Deferred Outflows of Resources.	0	0	0	0	0
Total Assets and Deferred Outflows of Resources.	90,340	37,192	143,465	8,499	279,496
LIABILITIES:					
Other Current.					0
Due to Other Funds.					0
Total Liabilities.	0	0	0	0	0
Deferred Inflows of Resources.	293		17	5	315
Total Liabilities and Deferred Inflows of Resources.	293	0	17	5	315
FUND BALANCE:					
Reserved.					0
Restricted.		37,192	143,448	12,482	193,122
Assigned.					0
Unassigned.	90,047			(3,988)	86,059
Total Fund Balance.	90,047	37,192	143,448	8,494	279,181
Total Liabilities and Fund Balance.	\$90,340	\$37,192	\$143,465	\$8,499	\$279,496
RECONCILIATION TO THE STATEMENT OF NET POSITION					
Total fund balance from above.					\$279,181
Net capital assets.					359,924
Deferred inflow of resources.					315
Less liabilities not reported above:					
Compensated absences.					(3,262)
Net Position.					<u>\$636,158</u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
for the Year Ended June 30, 2014**

	MAJOR FUNDS			NON MAJOR FUNDS	
	General Fund	Transportation Fund	Bus Depreciation Fund	Other Governmental Funds	Total
REVENUES:					
District Levy.....	\$153,308	\$39,663	\$242	\$11,857	\$205,070
Direct State Aid.....	114,025				114,025
Oil and Gas.....	72,284			6,607	78,891
Other State Sources.....	30,700	15,966		893	47,559
County Sources.....		15,125		38,587	53,712
Federal Sources.....	11,638			12,769	24,407
User Fees.....	4,000			23,973	27,973
Interest.....		43	203	4	250
Other.....	681				681
Total Revenues.....	386,636	70,797	445	94,690	552,568
EXPENDITURES:					
Current Operations:					
Instruction:					
Regular Programs.....	215,198			42,466	257,664
Special Programs.....	10,952				10,952
Adult Education.....					0
Educational Media.....					0
Support Services Students.....	3,866			276	4,142
Administration					
General.....	44,577			4,279	48,856
Building.....					0
Business.....					0
Operation and Maintenance.....	45,334			19,261	64,595
Transportation.....		67,110	37	2,806	69,953
Food Services.....	9,437			25,159	34,596
Student Extracurricular.....	1,976			157	2,133
Total Expenditures.....	331,340	67,110	37	94,404	492,891
OTHER FINANCING SOURCES (USES)					
Transfers					
In.....					0
Out.....					0
Total Transfers.....	0	0	0	0	0
Excess (Deficiency) of Revenues Over Expenditures And Other Financing.....	55,296	3,687	408	286	59,677
FUND BALANCE					
Beginning of the Year.....	34,751	33,505	143,040	8,208	219,504
End of the Year.....	\$90,047	\$37,192	\$143,448	\$8,494	\$279,181

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**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

Change in Fund Balances.	\$59,677
Change in Property Taxes Receivable not included in the Governmental Fund Statements.	(240)
Amounts Reported as Expenditures in the Governmental Fund Statements	
Change in Compensated Absences.	(905)
Expenses on the Statement of Activities not included in the Governmental Fund Statements	
Depreciation.	(30,725)
Change in Net Position.	<u>\$27,807</u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**STATEMENT OF FIDUCIARY NET POSITION
AND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS
for the Year Ended June 30, 2014**

FIDUCIARY NET POSITION

	Extracurricular
ASSETS	
Cash.	\$744
NET POSITION	
Held in Trust.	744
CHANGES IN FIDUCIARY NET POSITION	
Revenue & Transfers.	2,888
Expenditures & Transfers.	(2,646)
NET POSITION	
BEGINNING.	502
ENDING.	\$744

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**STATEMENT OF NET POSITION
June 30, 2013**

	2013
ASSETS	
Current Assets:	
Cash and Investments.	\$208,648
Property Taxes Receivable.	555
Due from Other Governments.	10,856
Total Current Assets.	220,059
Net Capital Assets.	390,649
Total Assets.	610,708
Deferred Outflow of Resources.	0
Total Assets and Deferred Outflow of Resources.	610,708
LIABILITIES:	
Current Liabilities	
Compensated Absences.	786
Total Current Liabilities.	786
Non Current Liabilities	
Compensated Absences.	1,571
Total Non Current Liabilities	1,571
Total Liabilities.	2,357
Deferred Inflow of Resources.	0
Total Liabilities and Deferred Inflow of Resources.	2,357
Total Net Position.	608,351
NET POSITION	
Net Investment in Capital Assets.	390,649
Restricted	
Transportation.	33,608
Bus Replacement.	143,044
Retirement.	13,200
Other.	22
Total Restricted.	189,874
Unrestricted.	27,828
	\$608,351

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**STATEMENT OF ACTIVITIES
for the Year Ended June 30, 2013**

	Expenses	Program Operating Grants	Revenue Charges for Services	Net (Expense) Revenue 2013
GOVERNMENT OPERATIONS				
Instruction:				
Regular Instruction.....	\$255,944	\$15,574		(\$240,370)
Special Education.....	8,836	8,474		(362)
Support Services - Students.....	3,906			(3,906)
Administration:				
General.....	33,505			(33,505)
Operation and Maintenance.....	72,474		8,100	(64,374)
Transportation.....	90,704	27,500		(63,204)
Food Services.....	43,272	9,192	25,129	(8,951)
Student Extracurricular.....	2,199			(2,199)
Unallocated Depreciation.....	12,436			(12,436)
Totals.....	<u>\$523,276</u>	<u>\$60,740</u>	<u>\$33,229</u>	<u>(\$429,307)</u>
GENERAL REVENUES				
District Property Taxes.....				\$98,136
State Equalization.....				98,952
Guaranteed Tax Base.....				1,210
Oil and Gas.....				62,060
Other State Revenue.....				31,566
County Property Taxes.....				28,316
Federal Sources.....				2,688
Interest.....				616
Other.....				4,089
Total General Revenues.....				<u>\$327,633</u>
CHANGE IN NET POSITION.....				(101,674)
NET POSITION				
Beginning of Year.....				<u>710,025</u>
End of the Year.....				<u><u>\$608,351</u></u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013**

	MAJOR FUNDS			NON MAJOR FUNDS	
	General Fund	Transportation Fund	Bus Depreciation Fund	Other Governmental Funds	Total
ASSETS:					
Cash and Investments.	\$30,763	\$33,505	\$143,040	\$1,340	\$208,648
Property Taxes Receivable.	438	103	4	10	555
Due from Other Funds.	3,988				3,988
Due from Other Governments.				10,856	10,856
Total Assets.	35,189	33,608	143,044	12,206	224,047
Deferred Outflows of Resources.	0	0	0	0	0
Total Assets and Deferred Outflows of Resources.	35,189	33,608	143,044	12,206	224,047
LIABILITIES:					
Other Current					0
Due to Other Funds.				3,988	3,988
Total Liabilities.	0	0	0	3,988	3,988
Deferred Inflows of Resources.	438	103	4	10	555
Total Liabilities and Deferred Inflows of Resources.	438	103	4	3,998	4,543
FUND BALANCE:					
Reserved.					0
Restricted.		33,505	143,040	13,212	189,757
Assigned.					0
Unassigned.	34,751			(5,004)	29,747
Total Fund Balance.	34,751	33,505	143,040	8,208	219,504
Total Liabilities and Fund Balance.	\$35,189	\$33,608	\$143,044	\$12,206	\$224,047
RECONCILIATION TO THE STATEMENT OF NET POSITION					
Total fund balance from above.					\$219,504
Net capital assets.					390,649
Deferred inflow of resources.					555
Less liabilities not reported above:					
Compensated absences.					(2,357)
Net Position.					<u>\$608,351</u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
for the Year Ended June 30, 2013**

	MAJOR FUNDS			NON MAJOR FUNDS	
	General Fund	Transportation Fund	Bus Depreciation Fund	Other Governmental Funds	Total
REVENUES:					
District Levy.....	\$98,366	\$751	\$6	\$13	\$99,136
Direct State Aid.....	108,636				108,636
Oil and Gas.....	38,000	24,000		60	62,060
Other State Sources.....	30,098	14,782		931	45,811
County Sources.....		13,750		28,316	42,066
Federal Sources.....	2,688			24,511	27,199
User Fees.....				33,229	33,229
Interest.....	109	115	343	49	616
Other.....	3,849				3,849
Total Revenues.....	281,746	53,398	349	87,109	422,602
EXPENDITURES:					
Current Operations:					
Instruction:					
Regular Programs.....	216,054			41,077	257,131
Special Programs.....	8,836				8,836
Support Services Students.....	3,649			257	3,906
Administration					
General.....	29,412			4,093	33,505
Operation and Maintenance.....	53,332			16,420	69,752
Transportation.....		71,562	539	2,703	74,804
Food Services.....				43,272	43,272
Student Extracurricular.....	2,043			156	2,199
Capital Outlay.....				37,252	37,252
Total Expenditures.....	313,326	71,562	539	145,230	530,657
OTHER FINANCING SOURCES (USES)					
Transfers					
In.....					0
Out.....					0
Total Transfers.....	0	0	0	0	0
Excess (Deficiency) of Revenues Over Expenditures And Other Financing.....	(31,580)	(18,164)	(190)	(58,121)	(108,055)
FUND BALANCE					
Beginning of the Year.....	66,331	51,669	143,230	66,329	327,559
End of the Year.....	\$34,751	\$33,505	\$143,040	\$8,208	\$219,504

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**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, 2013

Change in Fund Balances.	(\$108,055)
Change in Property Taxes Receivable not included in the Governmental Fund Statements.	(1,000)
Amounts Reported as Expenditures in the Governmental Fund Statements	
Capital Outlay.	37,252
Change in Compensated Absences	1,187
Expenses on the Statement of Activities not included in the Governmental Fund Statements	
Depreciation.	(31,058)
Change in Net Position.	<u>(\$101,674)</u>

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**STATEMENT OF FIDUCIARY NET POSITION
AND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS
for the Year Ended June 30, 2013**

FIDUCIARY NET POSITION

	Extracurricular
ASSETS	
Cash.	\$502
NET POSITION	
Held in Trust.	502
CHANGES IN FIDUCIARY NET POSITION	
Revenue & Transfers.	2,459
Expenditures & Transfers.	(3,984)
NET POSITION	
BEGINNING.	2,027
ENDING.	\$502

See Notes to Financial Statements

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013
June 30, 2014**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

All operations of School District No. 23, Lustre, Montana 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 District's operations controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and fiscal or financial dependency on other governments), the District is considered to be an independent reporting entity and has no component units.

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 District with the exception of the student activity fund.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the District 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. Adjustments have been made to eliminate the double recording of internal activities.

The Statement of Activities present comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. The District does not charge indirect expenses to programs or functions. Program revenues include fees for services (primarily school lunch and breakfast charges) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Fund Financial Statements - These statements provide information about the District's funds, including a separate statement for the District's fiduciary fund (the student activity fund). The emphasis of fund financial statements is on major governmental 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 governmental funds.

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue.

Most current property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred inflow of resources are recorded for these receivables. Property tax levies for the subsequent fiscal year are recorded as property tax receivables because they become a lien on real property as of January 1. Because these taxes are levied for the subsequent fiscal year, they are offset by deferred inflows.

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

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

Generally accepted accounting principles require that the general fund be reported as a major fund and that all other governmental funds whose assets & deferred inflow of resources, liabilities & deferred outflow of resources, revenues, or expenditures exceed 10% or more of the total for all governmental funds also be reported as major funds.

Accordingly, the District reports the following major governmental funds:

General fund

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

Transportation fund

This fund is to account for financial activities of student transportation.

Bus Depreciation fund

This fund accounts for revenues from a District levy on taxable property to build a reserve for replacing school buses or radios used in the transportation program.

The District also has a student activity fund accounting for the extracurricular activities of its students. This fund is a private-purpose trust fund.

The general policy is to spend resources in the following order: Restricted, Committed, Assigned, Unassigned assuming that there are different classifications within a particular fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Investments

State law permits investment of District 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 private purpose trust fund, all cash and investments are held by the County Treasurer. Investments are stated at cost.

D. Inventories

Inventories are considered to be immaterial and are not recorded.

E. Property Taxes

Property taxes receivable at June 30 consist primarily of delinquent and protested property taxes from the current and prior year levies. Property taxes receivable are offset by deferred inflow of resources in the fund financial statements. Approximately 95% of protested taxes are collected. The District 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 or estimated historical cost based on appraisals. Major additions and betterments with a cost in excess of \$5,000 are recorded as additions to fixed assets. Repair and maintenance costs are not capitalized. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Buildings and improvements.	20-80 years
Equipment.	6- 20 years

G. Compensated Absences

Vacation leave, within certain limitations, may be payable to administrative and classified (non-teaching) employees on termination. Sick leave is accumulated for classified employees at the rate of 12 working days for each year of service. 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 on termination.

Upon termination, certified employees (teachers) are paid pursuant to the master agreement.

H. Fund Equity

See Note 9.

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Use of Estimates

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

J. Deferred Inflow/Outflow of Resources

A *deferred outflow* of resources is defined as a consumption of net position by the government that is applicable to a future reporting period and a *deferred inflow* of resources as an acquisition of net position by the government that is applicable to a future reporting period. A deferred outflow of resources has a positive effect on net position, similar to assets, and a deferred inflow of resources has a negative effect on net position, similar to liabilities.

2. IMPLEMENTATION OF NEW GASB STATEMENTS

Beginning in fiscal year 2013 the District implemented the following statements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement 61 "*The Financial Reporting Entity: Omnibus*" - which modifies certain requirements for inclusion of component units in the financial reporting entity. As a result of early implementing this statement, the District was not required to change the classification of its reporting entities.

GASB Statement 62 "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*" - this statement improves financial reporting by continuing to codify sources of generally accepted accounting principles for state and local governments so that they derive from a single source. As a result of implementing this statement, the District was not required to change the reporting of current or past transactions.

GASB Statement 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" - providing guidance for the reporting of deferred outflows, deferred inflows and identifies net position as the residual of all other elements presented in a statement of financial position. As a result of implementing this statement, the computation of equity of the Statement of Net Position was changed and equity was retitled as "net position".

GASB Statement 65 "*Items Previously Reported as Assets and Liabilities*" - clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenditures. As a result of early implementing this statement, the District changed the classification of certain liabilities to deferred inflows. There were no other effects on the financial statements of implementing this statement.

Notes to Financial Statements (continued)

3. CASH AND INVESTMENTS

District cash and investments are held by the Valley County Treasurer and invested at the direction of the District.

Student activity funds are deposited in FDIC insured, interest bearing, checking accounts.

The District does not have policies regarding credit risk, interest rate risk, or custodial credit risk, but relies on State law for allowable investments which are made by and in the custody of the County Treasurer.

4. CAPITAL ASSETS

Capital asset activity during 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Cost of assets:				
Land	4,800			\$4,800
Land Improvements	10,000			10,000
Buildings and Improvements	734,614			734,614
Equipment	205,399			205,399
Total	<u>\$954,813</u>	<u>\$0</u>	<u>\$0</u>	<u>\$954,813</u>
Accumulated depreciation:				
Land Improvements	9,999			9,999
Buildings and Improvements	364,666	14,825		379,491
Equipment	189,499	15,900		205,399
Total	<u>564,164</u>	<u>30,725</u>	<u>0</u>	<u>594,889</u>
Capital Assets, Net	<u>\$390,649</u>	<u>(\$30,725)</u>	<u>\$0</u>	<u>\$359,924</u>

Capital asset activity during 2013 was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Cost of assets:				
Land	4,800			\$4,800
Land Improvements	10,000			10,000
Buildings and Improvements	697,362	37,252		734,614
Equipment	205,399			205,399
Total	<u>917,561</u>	<u>37,252</u>	<u>0</u>	<u>954,813</u>
Accumulated depreciation:				
Land Improvements	9,666	333		9,999
Buildings and Improvements	349,841	14,825		364,666
Equipment	173,599	15,900		189,499
Total	<u>533,106</u>	<u>31,058</u>	<u>0</u>	<u>564,164</u>
Capital Assets, Net	<u>\$384,455</u>	<u>\$6,194</u>	<u>\$0</u>	<u>\$390,649</u>

Depreciation	2014	2013
Operation and Maintenance	2,722	2,722
Transportation	15,900	15,900
Unallocated	12,103	12,436
	<u>30,725</u>	<u>31,058</u>

Notes to Financial Statements (continued)

5. RETIREMENT PLANS

The District 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 member and beneficiaries.

Contribution rates for both plans are required and determined by State law. The state of Montana makes on behalf payments for the District. 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>
TRS	8.47%	8.15%	2.11%	18.73%
PERS	7.80%	7.90%	0.37%	16.07%

The State on behalf payment is considered immaterial and has not been included in the financial statements.

The amounts contributed to TRS and PERS 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 District and its employees (including additional voluntary contributions by employees as permitted by State law) were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
TRS	\$23,428	\$23,086	\$21,962
PERS	6,704	6,592	6,405
Total	<u>\$30,132</u>	<u>\$29,678</u>	<u>\$28,367</u>

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:

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

MT Public Employees Retirement System
P.O. Box 200131
1712 Ninth Avenue
Helena, Montana 59620-0131
Telephone (406) 444-3154

Notes to Financial Statements (continued)

6. LONG TERM DEBT

	June 30 2013	Payment	Additions	June 30 2014	Current
Compensated Absences	2,357		905	3,262	1,087
	2,357	0	905	3,262	1,087

	June 30 2012	Payment	Additions	June 30 2013	Current
Compensated Absences	3,544	(1,187)		2,357	786
	3,544	(1,187)	0	2,357	786

7. OTHER POST EMPLOYMENT BENEFITS

Retirees may remain on the School's health plan to age 65, provided they pay the monthly premiums. State law requires the School to provide this benefit. No cost has been estimated for the above benefits, although there is the probability that there are higher medical costs for retirees which would result in higher premium rates for the plan. The potential cost is considered immaterial to the School's financial statements. There are no retired employees using this benefit.

8. RISK MANAGEMENT

The District faces a number of risks including:

- a) loss or damage to property
- b) general liability
- c) workers compensation
- d) employee medical insurance

Commercial insurance policies are purchased for loss or damage to property, general liability, and health insurance.

The District participates in a statewide public risk pool, the Montana Schools Group Workers Compensation Risk Retention Program (WCRRP), for workers compensation coverage. Approximately 200 schools participate in WCRRP. All school participants in this pool are jointly and severally liable for the liabilities of this public risk pool.

The pool issues 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 at:

WCRRP
1 South Montana Avenue
Helena, Montana 59601

9. FUND BALANCE/NET POSITION DISCLOSURES

Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* was issued to enhance the usefulness of Fund Balance information and clarify existing governmental fund type definitions. To that end GASB 54 established the following fund balance classifications in the fund statements:

Non-spendable

Includes fund balances that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. Example- inventories.

Restricted

Includes fund balances that are constrained for specific purposes which are externally imposed by providers such as creditors, or amounts constrained due to law, constitutional provisions or enabling legislation.

Committed

Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. An example is a resolution by the Board.

Assigned

Includes fund balance amounts that are intended to be used for a specific purpose that are neither considered restricted or committed. A designee can be authorized to assign fund balance. The District Clerk has been designated to assign fund balance.

Unassigned

Unassigned fund balance includes positive fund balance within the General Fund which has not been classified within the above mentioned classifications. Negative fund balances in other governmental will be reported as unassigned.

Additionally the statement addresses fund classification to the extent that the fund type is dependent on proceeds of specific revenue sources which are restricted or committed to expenditure in accordance with a specific purpose.

LustreSchool District has a general policy that fund balance is restricted for the statutory purpose of a fund, or in the case of the Miscellaneous Fund to the purpose of the individual grants.

The general policy also applies to fund classification.

Additionally the District has a general policy that resources will be spent in the following order: Restricted, Committed, Assigned, Unassigned assuming that there are different classifications within a particular fund.

Notes to Financial Statements (continued)

9. **FUND BALANCE/NET POSITION DISCLOSURES** (continued)

Fund Balance Classification is as follows:

Year ended June 30, 2014

	MAJOR FUNDS		NON-MAJOR		Total
	General Fund	Transportation Fund	Bus Depreciation Fund	Other Government Funds	
Restricted:					
Instruction					0
Transportation		37,192			37,192
Bus Replacement			143,448		143,448
Retirement Benefits				5,899	5,899
School Food Program				119	119
Capital Projects				6,464	6,464
	0	37,192	143,448	12,482	193,122
Assigned:					
Instruction					0
	0	0	0	0	0
Unassigned:	90,047			(3,988)	86,059
	90,047	0	0	(3,988)	86,059
Total Fund Balance	90,047	37,192	143,448	8,494	279,181

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

Invested in capital assets, net of related debt. Composed of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any debt incurred that is attributable to the acquisition thereof.

Restricted. Further classified as expendable and non-expendable, generally the net position resulting from property taxes levied for a statutory purpose.

Unrestricted. All other assets.

Net Position Classifications:

Restricted	
Non expendable	\$0
Expendable	193,144
Invested in Capital Assets	359,924
Unrestricted	83,090
	<u>\$636,158</u>

A reconciliation of Fund Balance by classification to restricted net position by classification follows:

		Deferred Inflow of Resources	Capital Assets	Compensated Absences	Adjustments	Net Position
Fund Balances						
Restricted	193,122	22				193,144
Invest Capital Assets			359,924			359,924
Assigned	0					0
Unrestricted				(3,262)	86,352	83,090
Unassigned	86,059	293			(86,352)	0
Total	\$279,181	\$315	\$359,924	(\$3,262)	\$0	\$636,158

Notes to Financial Statements (continued)

9. FUND BALANCE/NET POSITION DISCLOSURES (continued)

Fund Classification by Revenue Source	General Fund	Flexibility Fund	Impact Aid Fund	General Fund Report
Taxes	153,308			153,308
Direct State Aid	114,025			114,025
Oil and Gas	30,201	42,083		72,284
Other State Revenue	30,700			30,700
Federal			11,638	11,638
User Fees	4,000			4,000
Interest	681			681
Other				0
Total Revenues	332,915	42,083	11,638	386,636
Expenditures	302,185	17,517	11,638	331,340
Change in Fund Balance	30,730	24,566	0	55,296
Fund Balance July 1	30,709	54	3,988	34,751
Fund Balance June 30	61,439	24,620	3,988	90,047

Year ended June 30, 2013

	MAJOR FUNDS			NON-MAJOR	
	General Fund	Transportation Fund	Bus Depreciation Fund	Other Government Funds	Total
Restricted:					
Instruction					0
Transportation		33,505			33,505
Bus Replacement			143,040		143,040
Tuition					0
Retirement Benefits				13,212	13,212
School Food Program					0
	0	33,505	143,040	13,212	189,757
Assigned:					
Instruction					0
	0	0	0	0	0
Unassigned:	34,751			(5,004)	29,747
	34,751	0	0	(5,004)	29,747
Total Fund Balance	34,751	33,505	143,040	8,208	219,504

Notes to Financial Statements (continued)

9. FUND BALANCE/NET POSITION DISCLOSURES (continued)

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

Invested in capital assets, net of related debt. Composed of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any debt incurred that is attributable to the acquisition thereof.

Restricted. Further classified as expendable and non-expendable, generally the net position resulting from property taxes levied for a statutory purpose.

Unrestricted. All other assets.

Net Position Classifications:

Restricted	
Non expendable	\$0
Expendable	189,874
Invested in Capital Assets	390,649
Unrestricted	27,828
	<u>\$608,351</u>

A reconciliation of Fund Balance by classification to restricted net position by classification follows:

	Deferred Inflow of Resources	Capital Assets	Compensated Absences	Adjustments	Net Position	
Fund Balances						
Restricted	189,757	117			189,874	
Invest Capital Assets		390,649			390,649	
Assigned					0	
Unrestricted			(2,357)	30,185	27,828	
Unassigned	29,747	438		(30,185)	0	
Total	\$219,504	\$555	\$390,649	(\$2,357)	\$0	\$608,351

Fund Classification by Revenue Source	General Fund	Flexibility Fund	Impact Aid Fund	General Fund Report
Taxes	98,366			98,366
Direct State Aid	108,636			108,636
Oil and Gas	23,000	15,000		38,000
Other State Revenue	30,098			30,098
Federal			2,688	2,688
Interest	109			109
Other	3,849			3,849
Total Revenues	264,058	15,000	2,688	281,746
Expenditures	290,034	16,100	7,192	313,326
Change in Fund Balance	(25,976)	(1,100)	(4,504)	(31,580)
Fund Balance July 1	56,685	1,154	8,492	66,331
Fund Balance June 30	30,709	54	3,988	34,751

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL
GENERAL FUND**

Year Ended June 30, 2014

	General Fund			Transportation Fund		
	Original Budget	Amended & Final Budget	Actual Amounts Budgetary Basis	Original Budget	Amended & Final Budget	Actual Amounts Budgetary Basis
REVENUES						
District Levy	\$153,521	\$153,521	\$153,308	\$40,404	\$40,404	\$39,663
Direct State Aid	114,429	114,429	114,025			
Oil and Gas			30,201			
Other State Sources	30,701	30,701	30,700	15,966	15,966	15,966
County Sources				15,125	15,125	15,125
Federal Sources						
User Fees			4,000			
Interest	109	109				43
Other	4,089	4,089	681			
Total Revenues	302,849	302,849	332,915	71,495	71,495	70,797
Total Expenditures	303,162	303,162	302,185	87,500	87,500	67,110
Excess of Revenues over Expenditures	(313)	(313)	30,730	(16,005)	(16,005)	3,687
Net Change in Fund Balance			30,730			3,687

See notes to required supplemental information.

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL**

Year Ended June 30, 2013

	General Fund			Transportation Fund		
	Original Budget	Amended & Final Budget	Actual Amounts Budgetary Basis	Original Budget	Amended & Final Budget	Actual Amounts Budgetary Basis
REVENUES						
District Levy	\$100,496	\$100,496	\$98,366	\$655	\$655	\$751
Direct State Aid	108,636	108,636	108,636			
Oil and Gas	23,000	23,000	23,000	24,000	24,000	24,000
Other State Sources	30,098	30,098	29,858	1,117	1,117	14,782
County Sources				27,500	27,500	13,750
Federal Sources						
User Fees						
Interest	100	100	109			115
Other	1,837	1,837	4,089			
Total Revenues	264,167	264,167	264,058	53,272	53,272	53,398
Total Expenditures	293,738	293,738	290,034	87,500	87,500	71,562
Excess of Revenues over Expenditures	(29,571)	(29,571)	(25,976)	(34,228)	(34,228)	(18,164)
Net Change in Fund Balance			(25,976)			(18,164)

See notes to required supplemental information.

**SCHOOL DISTRICT No. 23
Lustre, Montana**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2013 and Year Ended June 30, 2014**

Budgets:

Budgets are adopted by funds defined as budgeted funds as defined in state law (MCA 20-9-201).

The budgets must be adopted on or before August 20th of each year, but may be continued day to day until August 25th. If taxable value information is not available. (MCA 20-9-131). Appropriations (budgetary spending authority) lapse at year end except for construction in progress and obligations for the purchase of personal property ordered but not paid for during the current year (MCA 20-9-209). Because Montana schools have appropriations which lapse at year end encumbrances are allowed as a means of budgetary control (NCGA Statement 1 Para 91). Encumbrances do not represent expenditures for the period for generally accepted accounting principles. None were included in the financial statements.

State law requires with certain exceptions only that total actual expenditures not exceed total budgeted expenditures. There were amendments to the budgets, the amounts shown above are the original, amended, and final budgeted amounts.

GAAP based expenditures differ from budgetary basis by the fund classification required by GASB Statement No. 54.

**DISTRICT No. 23
Lustre, Montana**

SUPPLEMENTARY SCHEDULE OF SCHOOL DISTRICT ENROLLMENT

Year Ended June 30, 2014

	District Records	Fall Enrollment Report	District Records	Winter Enrollment Report	District Records	Spring Enrollment Report
Kindergarten	3	3	3	3	3	3
Grades 1 - 6	24	24	24	24	24	24
Grades 7 - 8	11	11	11	11	11	11
Total	38	38	38	38	38	38

Students who attend Part-time School

	District Records	Fall Enrollment Report	District Records	Winter Enrollment Report	District Records	Spring Enrollment Report
Kindergarten	3	3	3	3	3	3
Total	3	3	3	3	3	3

Year Ended June 30, 2013

	District Records	Fall Enrollment Report	District Records	Spring Enrollment Report
Kindergarten	4	4	5	5
Grades 1 - 6	24	24	24	24
Grades 7 - 8	11	11	10	10
Total	39	39	39	39

Students who attend Part-time School

	District Records	Fall Enrollment Report	District Records	Spring Enrollment Report
Kindergarten	4	4	5	5
Total	4	4	5	5

SCHOOL DISTRICT NO. 23
Lustre, Montana

EXTRACURRICULAR FUND

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN NET POSITION
BY STUDENT ACTIVITY

for the Year Ended June 30, 2014

Student Activity	Balance June 30, 2013	Revenues & Misc Earnings	Expenditures & Misc Charges	Transfers In (Out)	Balance June 30, 2014
7 th - 8 th grade	\$502	\$2,888	\$2,646		\$744
Total	\$502	\$2,888	\$2,646	\$0	\$744

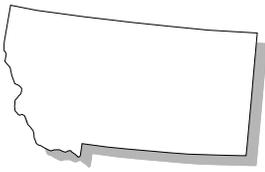
SCHOOL DISTRICT NO. 23
Lustre, Montana

EXTRACURRICULAR FUND

SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN NET POSITION
BY STUDENT ACTIVITY

for the Year Ended June 30, 2013

Student Activity	Balance June 30, 2013	Revenues & Misc Earnings	Expenditures & Misc Charges	Transfers In (Out)	Balance June 30, 2014
7 th - 8 th Grade	\$2,027	\$2,459	\$3,984		\$502
Total	\$2,027	\$2,459	\$3,984	\$0	\$502



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

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

Board of Trustees
School District No. 23
Lustre, Montana

We have audited 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District No. 23, Lustre, Montana as of and for the year ended June 30, 2013 and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise School District No. 23's basic financial statements, and have issued our report thereon dated September 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered School District No. 23'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 School District No. 23's internal control. Accordingly, we do not express an opinion on the effectiveness of School District No. 23's internal control.

Our consideration of internal control over financial reporting 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, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. (Finding No. 2014-2013-01)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies. (Findings No. 2014-2013-02 and Finding No. 2014-2013-03)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether School District No. 23'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* in the accompanying Schedule of Findings and Questioned Costs.

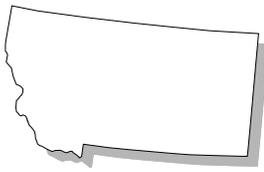
Purpose of this Report

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

September 15, 2015



Ross R. Stalcup
Certified Public Accountant



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.
INDEPENDENT AUDITORS REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Board of Trustees
School District No. 23
Lustre, Montana

The following is a Schedule of Findings and Questioned Costs which arose during the audit of the year ended June 30, 2013 and the year ended June 30, 2014.

Current Year
INTERNAL CONTROL FINDINGS

2014-2013 (-01) Segregation of Duties

- Criteria: Segregation of duties is essential for internal control.
- Condition: The District does not have ideal segregation of duties.
- Context: The District has one employee assigned to the accounting function.
- Effect: Internal control is not optimal.
- Cause: The small staff of the District does not allow for ideal segregation of duties.
- Recommendation: We recommend the Board direct the Superintendent to take an active role so that compensating controls exist and that the Board monitor the District's activities.

2014-2013 (-02) Negative Cash in Non-Budgeted Funds (Food & Miscellaneous)

- Criteria: Montana law- MCA 20-9-210 limits expenditures in non-budgeted funds to available cash.
- Condition: For the 2013 fiscal year Food Services and Miscellaneous Funds had deficit cash. For the 2014 fiscal year the Miscellaneous Fund had deficit cash.
- Context: The Funds spent more than they took in.
- Effect: Violation of state law.
- Cause: Miscellaneous Funds- Accounts receivable had not been collected.
Food- It was a monitoring issue.
- Recommendation: Monitor Food Service.

2014-2013 (-03) Management's Discussion and Analysis

Criteria: The Management's Discussion and Analysis is required by standard to be presented as Required Supplementary Information.

Condition: The school has not presented the Management's Discussion and Analysis.

Context: The Required Supplementary Information was not prepared.

Effect: The MD & A was not included.

Cause: The District did not prepare it.

Recommendation: Tentative arrangements have been made to prepare the Management's Discussion and Analysis for fiscal year ended June 30, 2015.

Prior Year
2011-12

1. Segregation of Duties- recurring, see 2014-2013 (01)
2. Budget Line Item Detail- not a finding (see MCA 20-9-133)
3. Budget Over Expended- corrected
4. Negative Fund Equity- recurring in non-budgeted funds, see 2014-2013 (02)
5. Opening and Closing Funds- corrected
6. Management Discussion and Analysis- recurring, see 2014-2013 (03)

September 15, 2015



Ross R. Stalcup
Certified Public Accountant