

**Marion School District #54
Flathead County, Montana**

Audit Report

Fiscal Year Ended June 30, 2014

**Marion School District #54, Flathead County, Montana
June 30, 2014**

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**Marion School District #54, Flathead County, Montana
June 30, 2014**

ORGANIZATION

OFFICIALS AT JUNE 30, 2014

TRUSTEES

Lily Brower, Chair

Tim Davis

Kate Nelson

Julia Golovko

Glenn Hendershott

CLERK

Rae Mitchell

PRINCIPAL

Cherie Stobie

COUNTY SUPERINTENDENT OF SCHOOLS

Marcia Sheffels

COUNTY ATTORNEY

Ed Corrigan

Nicole M. Noonan, CPA, P.C.
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St. Regis, Montana 59866
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Marion School District #54
Marion, Montana

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion School District #54, Flathead County, Montana (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marion School District #54, Flathead County, Montana, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, in fiscal year 2014, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. My opinion is not modified with respect to this matter.

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 on pages 5-9 and pages 30-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion School District #54, Flathead County, Montana's basic financial statements. The schedule of enrollment on page 33 and the schedule of activities for the extracurricular fund on page 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of enrollment and the schedule of activities for the extracurricular fund 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 my opinion, the schedule of enrollment and the schedule of activities for the extracurricular fund 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*, I have also issued my report dated October 1, 2015, on my consideration of Marion School District #54, Flathead County, Montana's internal control over financial reporting and on my 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 my 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 Marion School District #54, Flathead County, Montana's internal control over financial reporting and compliance.

Nicole M. Noonan, CPA, P.C.

Nicole M. Noonan, CPA, P.C.
St. Regis, Montana
October 1, 2015

**Marion School District # 54, Flathead County, Montana
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014**

In conjunction with the audited financial statements for the fiscal year ending June 30, 2014, district management has prepared the management's discussion and analysis (MD&A) as required by the Governmental Accounting Standards Board, Statement No. 34.

The discussion and analysis of the District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. This discussion was prepared by the Clerk. Comparative data for fiscal year 2012-13 has been included in this report.

Using this Generally Accepted Accounting Principles (GAAP) report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term, as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Marion School District # 54, the general fund is by far the most significant fund.

Budget-to-Actual Comparisons

The District's original and final budgets were identical for the year ending June 30, 2014. The budgetary comparison shows how actual expenditures compared to the original and final budget expenditures for the general fund.

Reporting the School District as a Whole

The report includes two district-wide statements that focus on the operations of the District as a whole. These statements measure sources and uses, using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

Statement of Net Position and Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during 2014?” The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

Reporting the District’s Most Significant Funds

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) established the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District’s most significant funds. The School District’s major governmental funds for fiscal year 2014 were the general fund, retirement fund, miscellaneous programs fund, and building reserve fund.

Governmental Funds

Most of the School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District’s general government operation and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statements of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

School District as a Whole

The Statement of Net Position provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net position for 2014 in comparison to 2013.

Table 1
Statement of Net Position

Governmental Activities

	2014	2013	Change	% Change
Current Assets	325,966	310,072	15,894	5.13%
Capital Assets, Net	841,102	866,500	(25,398)	-2.93%
Total Assets	<u>1,167,068</u>	<u>1,176,572</u>	<u>(9,504)</u>	-0.81%
Current Liabilities	33,015	7,140	25,875	362.39%
Noncurrent Liabilities	486,917	533,637	(46,720)	-8.76%
Total Liabilities	<u>519,932</u>	<u>540,777</u>	<u>(20,845)</u>	-3.85%
Deferred Inflows of Resources	<u>17,852</u>	<u>17,852</u>	-	N/A
Net Investment in Capital Assets	376,102	381,500	(5,398)	-1.41%
Restricted	143,510	130,315	13,195	10.13%
Unrestricted	109,672	106,128	3,544	3.34%
Net Position	<u><u>629,284</u></u>	<u><u>617,943</u></u>	<u><u>11,341</u></u>	1.84%

Table 2 shows the changes in net position for fiscal year 2014 in comparison to 2013.

Table 2
Change in Net Position

	2014	2013	Change	% Change
Program Revenues:				
Charges for Services	11,344	11,518	(174)	-1.51%
Operating Grants and Contributions	170,466	186,502	(16,036)	-8.60%
Capital Grants and Contributions	-	11,700	(11,700)	-100.00%
Total Program Revenues	181,810	209,720	(27,910)	-13.31%
General Revenue:				
Property Taxes	506,428	506,812	(384)	-0.08%
Investment Earnings	3,393	4,100	(707)	-17.24%
State Revenues	447,622	438,574	9,048	2.06%
County Retirement	115,982	96,368	19,614	20.35%
Other	-	1,009	(1,009)	-100.00%
Total General Revenues	1,073,425	1,046,863	26,562	2.54%
Total Revenues	1,255,235	1,256,583	(1,348)	-0.11%
Instruction	769,408	792,401	(22,993)	-2.90%
Supporting Activities	49	11,759	(11,710)	-99.58%
Educational Media	29,844	29,395	449	1.53%
Administration	181,647	173,560	8,087	4.66%
Operation & Maintenance	53,884	63,355	(9,471)	-14.95%
Transportation	78,200	73,826	4,374	5.92%
Community Services	20,440	21,715	(1,275)	-5.87%
Extracurricular	3,947	3,638	309	8.49%
School Food	63,704	67,061	(3,357)	-5.01%
Debt Service	13,150	18,058	(4,908)	-27.18%
Unallocated depreciation	25,174	25,174	-	0.00%
Total Expenses	1,239,447	1,279,942	(40,495)	-3.16%
Excess (deficiency) before Extraordinary Items	15,788	(23,359)	39,147	-167.59%
Extraordinary Item-Insurance Proceeds	17,541	-	17,541	N/A
Extraordinary Item-Operations & Maintenance	(17,541)	-	(17,541)	N/A
Change in Net Position	15,788	(23,359)	39,147	-167.59%

Change in Net Position

Marion School did not use any of the building fund so an increase; did not add any new assets of \$5,000 or more.

Analysis of Fund Financial Information

No significant changes; increase in building reserve fund.

Capital Assets

No new purchases of \$5,000.00 or more.

Long Term Liabilities

At June 30, 2014, the District had \$33,285.83 in compensated absences liabilities, \$23,581.35 for certified staff and \$9,704.48 for classified staff.

Current Economic Factors

Marion School had to do a general fund budget amendment to pay for repair work on new septic system that was installed in the amount of \$17,500.00 in fiscal year 2015.

BASIC

FINANCIAL

STATEMENTS

Marion School District #54, Flathead County, Montana
Statement of Net Position
June 30, 2014

	Governmental Activities
ASSETS	
Cash and investments	\$ 278,373
Taxes receivable	24,735
Accounts receivable	17,541
Due from other governments	5,317
Capital assets	
Nondepreciable capital assets	
Land	12,347
Depreciable capital assets	
Land improvements	13,772
Buildings	1,100,361
Equipment	80,965
Less: accumulated depreciation	(366,343)
Depreciable capital assets - net	828,755
Total Assets	1,167,068
LIABILITIES	
Accounts payable	4,447
Early termination benefits	
Due within one year	8,568
Due in more than one year	8,568
Compensated absences	33,349
Long-term debt	
Due within one year	20,000
Due in more than one year	445,000
Total Liabilities	519,932
DEFERRED INFLOWS OF RESOURCES	
Deferred Grant Revenue	17,852
NET POSITION	
Net investment in capital assets	376,102
Restricted	143,510
Unrestricted	109,672
Total Net Position	\$ 629,284

See accompanying notes to the financial statements

Marion School District #54, Flathead County, Montana
Statement of Activities
For the Year Ended June 30, 2014

	Expenses	Program Revenues			Net (Expenses)
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
<u>Program Activities</u>					Governmental Activities
Governmental activities:					
Instruction - Regular	\$ 602,419	\$ -	\$ 4,304	\$ -	\$ (598,115)
Instruction - Other Programs	166,989	-	62,998	-	(103,991)
Support Services - Students	49	-	-	-	(49)
Support Services - Instruction and Media	29,844	-	-	-	(29,844)
Administration - General	45,399	-	-	-	(45,399)
Administration - School	83,159	-	-	-	(83,159)
Administration - Business Services	53,089	-	-	-	(53,089)
Operation & Maintenance	53,884	-	-	-	(53,884)
Transportation	78,200	-	30,136	-	(48,064)
Community Services	20,440	-	19,876	-	(564)
Extracurricular	3,947	-	-	-	(3,947)
School Food	63,704	11,344	53,152	-	792
Debt Service	13,150	-	-	-	(13,150)
Unallocated Depreciation (excludes direct charges)	25,174	-	-	-	(25,174)
Total government	\$ 1,239,447	\$ 11,344	\$ 170,466	\$ -	(1,057,637)
General revenues:					
Property Taxes					506,428
Investment Earnings					3,393
State Revenues					447,622
County Retirement					115,982
Extraordinary Item - Insurance Proceeds					17,541
Extraordinary Item - Operations & Maintenance					(17,541)
Total general revenues and extraordinary items					<u>1,073,425</u>
Change in net position					15,788
Net position, beginning of year					617,943
Restatements					(4,447)
Net position, beginning of year, restated					<u>613,496</u>
Net position, end of year					<u>\$ 629,284</u>

See accompanying notes to the financial statements

Marion School District #54, Flathead County, Montana
Balance Sheet
Governmental Funds
June 30, 2014

	MAJOR FUNDS					
	General Fund	Retirement Fund	Miscellaneous Programs Fund	Building Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	\$ 140,141	\$ 52,054	\$ 9,914	\$ 60,637	\$ 15,627	\$ 278,373
Interfund Receivable	-	-	52,763	-	-	52,763
Taxes Receivable	19,096	-	-	722	4,917	24,735
Accounts Receivable	-	-	-	17,541	-	17,541
Due from Other Governments	-	-	2,618	-	2,699	5,317
Total Assets	<u>\$ 159,237</u>	<u>\$ 52,054</u>	<u>\$ 65,295</u>	<u>\$ 78,900</u>	<u>\$ 23,243</u>	<u>\$ 378,729</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ -	\$ -	\$ -	\$ 4,447	\$ -	\$ 4,447
Interfund Payable	46,523	6,240	-	-	-	52,763
Total Liabilities	<u>46,523</u>	<u>6,240</u>	<u>-</u>	<u>4,447</u>	<u>-</u>	<u>57,210</u>
Deferred Inflows of Resources:						
Deferred Grant Revenue	-	-	17,852	-	-	17,852
Deferred Tax Revenues	19,096	-	-	722	4,917	24,735
Total Deferred Inflows of Resources	<u>19,096</u>	<u>-</u>	<u>17,852</u>	<u>722</u>	<u>4,917</u>	<u>42,587</u>
Fund Balances:						
Restricted	-	45,814	-	73,731	18,761	138,306
Assigned	41,571	-	47,443	-	-	89,014
Unassigned	52,047	-	-	-	(435)	51,612
Total Fund Balances	<u>93,618</u>	<u>45,814</u>	<u>47,443</u>	<u>73,731</u>	<u>18,326</u>	<u>278,932</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 159,237</u>	<u>\$ 52,054</u>	<u>\$ 65,295</u>	<u>\$ 78,900</u>	<u>\$ 23,243</u>	<u>\$ 378,729</u>

Reconciliation of the Balance Sheet to the Statement of Net Position

Total fund balance for governmental funds	\$ 278,932
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	841,102
Taxes receivable are not available to pay current-period expenditures and, therefore, are deferred in the funds.	24,735
Compensated absences and early termination benefits are not due and payable in the current period and, therefore, are not reported in the funds.	(50,485)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	(465,000)
Net position of governmental activities	<u>\$ 629,284</u>

See accompanying notes to the financial statements

Marion School District #54, Flathead County, Montana
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2014

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Retirement Fund	Miscellaneous Programs Fund	Building Reserve Fund	Other Governmental Funds	
REVENUES						
District Levies	\$ 391,092	\$ -	\$ -	\$ 14,673	\$ 108,073	\$ 513,838
Other District Sources	-	-	20,890	-	11,344	32,234
County Sources	-	115,982	-	-	13,467	129,449
State Sources	447,622	-	-	-	19,959	467,581
Federal Sources	-	-	62,998	-	53,152	116,150
Interest Earnings	2,041	184	180	402	586	3,393
Total Revenue	840,755	116,166	84,068	15,075	206,581	1,262,645
EXPENDITURES						
Current Operations:						
Instruction - Regular	518,517	74,450	8,969	2,485	3,290	607,711
Instruction - Other Programs	81,515	12,216	53,485	-	19,773	166,989
Support Services - Students	49	-	-	-	-	49
Support Services - Instruction and Media	26,093	3,751	-	-	-	29,844
Administration - General	39,292	3,752	-	-	-	43,044
Administration - School	72,084	11,075	-	-	-	83,159
Administration - Business Services	44,470	5,427	-	-	-	49,897
Operation & Maintenance	51,821	2,063	-	-	-	53,884
Transportation	-	553	-	-	77,647	78,200
Community Services	-	-	20,440	-	-	20,440
Extracurricular	3,668	279	-	-	-	3,947
School Food	6,000	4,709	-	-	58,318	69,027
Debt Service	-	-	-	-	33,150	33,150
Total Expenditures	843,509	118,275	82,894	2,485	192,178	1,239,341
Excess (Deficiency) of Revenues Over Expenditures	(2,754)	(2,109)	1,174	12,590	14,403	23,304
Extraordinary Items						
Insurance Proceeds	-	-	-	17,541	-	17,541
Operation & Maintenance Expenditure	-	-	-	(17,541)	-	(17,541)
Total Extraordinary Items	-	-	-	-	-	-
Net Change in Fund Balance	(2,754)	(2,109)	1,174	12,590	14,403	23,304
Fund Balance, Beginning of Year	96,372	47,923	46,269	65,588	3,923	260,075
Restatements	-	-	-	(4,447)	-	(4,447)
Fund Balance, Beginning of Year, Restated	96,372	47,923	46,269	61,141	3,923	255,628
Fund Balance, End of Year	\$ 93,618	\$ 45,814	\$ 47,443	\$ 73,731	\$ 18,326	\$ 278,932

See accompanying notes to the financial statements

**Marion School District #54, Flathead County, Montana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2014**

Net change in fund balance-total governmental funds (page 13)	\$ 23,304
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased	5,959
Depreciation expense	(31,357)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in taxes receivable (deferred inflow of resources)	(7,410)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:	
Long-term debt principal payments	20,000
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 governmental funds:	
Change in accrued termination benefits	8,568
Change in accrued compensated absences	(3,276)
Change in Net Position of Governmental Activities (page 11)	\$ 15,788

See accompanying notes to the financial statements

Marion School District #54, Flathead County, Montana
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	<u>Student Extracurricular</u>
ASSETS	
Cash and Investments	\$ 1,364
LIABILITIES	<u>-</u>
NET POSITION	<u><u>\$ 1,364</u></u>

See accompanying notes to the financial statements

Marion School District #54, Flathead County, Montana
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

	Student Extracurricular
ADDITIONS	
Interest	\$ 10
Local revenues	2,527
	2,537
 DEDUCTIONS	
Disbursements for activities	2,988
Change in net position	(451)
Net position, beginning of year	1,815
Net position, end of year	\$ 1,364

See accompanying notes to the financial statements

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies**

The District follows U.S. generally accepted accounting principles (GAAP), which includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The District has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2014. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as assets or liabilities. For the District, the statement required the reclassification of deferred revenues from a liability to a deferred inflow of resources on the governmental funds balance sheet and on the government-wide statement of net position.

In fiscal year 2015, the District will adopt the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governments, establishing standards for measuring and recognizing net pension liabilities, deferred inflows and outflows of resources, and expenses/expenditures. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The statement is effective for fiscal years beginning after June 15, 2014. The effect of adoption of this statement cannot be determined at this time.

The following is a summary of the District's significant accounting policies:

Reporting Entity

Marion School District #54, is located in Flathead County, Montana. The District provides educational services for kindergarten through eighth grade. The District is managed by a five-member Board of Trustees, which is elected from within the boundaries of the District. The Trustees appoint administrators responsible to the Board. The District is a primary government and these financial statements include all of the funds and accounts of the District. There are no component units of the District.

Flathead County bills and collects the taxes levied by the District. The Flathead County Treasurer also maintains the District's cash accounts. However, the District is not considered a component unit of the County, since the County does not significantly influence the operations of the District. The District is a separate and independent unit of local government.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies (continued)**

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, other nonexchange revenues, and program revenues. The District's program revenues consist of charges for services, mainly food sales, and grants related to specific program operations. The District utilizes restricted net position first, when both restricted and unrestricted resources are available. The District does not have any business-type activities.

Fund Financial Statements:

Fund financial statements are organized by fund, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues, and expenditures/expenses. The District's funds are organized into two categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- Total assets, liabilities, revenues, or expenditures of that individual fund are at least 10 percent of the corresponding total for all the funds of that category.

Governmental Funds

The major funds of the financial reporting entity are described below:

General Fund – The primary operating fund of the District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Retirement Fund – This fund is used to account for the District's contribution to the Teachers' Retirement System, Unemployment, and Social Security. These contributions are funded by a countywide tax levy.

Miscellaneous Programs Fund – This fund is used to account for local, state, and federal grants and reimbursements. Donations that support district programs are also accounted for in this fund.

Building Reserve Fund – This fund is used to account for financing voter approved building and construction projects funded with District mill levies.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies (continued)**

Fiduciary Funds

Trust and Agency Funds - Used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These may include (a) pension trust funds, (b) investment trust funds, (c) private-purpose trust funds and (d) agency funds. The District uses a private-purpose trust fund to account for student extracurricular activities.

Measurement Focus

The government-wide Statement of Net Position and Statement of Activities and the fiduciary fund statements are presented using the economic resources measurement focus as defined below. The governmental fund financial statements are presented using the current financial resources measurement focus.

- a) All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b) The accounting objectives of the economic resources measurement focus is the determination of operating income, changes in net position (or cost recovery), and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.
- c) Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

The government-wide Statement of Net Position and Statement of Activities, and the fiduciary fund statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies (continued)**

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Budget

A budget is adopted by the Board of Trustees each fiscal year for the funds classified by State law as budgeted funds. A listing of these funds is included in the Summary of Significant Accounting Policies. The budget is formulated in accordance with State law. The General Fund budget limitations are calculated by the State and are designed to equalize taxing effort throughout the State, basing the budget primarily on enrollment. Budgets of other funds are based primarily on estimated expenditures and revenues. Fund expenditures are limited by State law to budgeted amounts, except they can be increased for unforeseen needs as defined by State law.

Budget transfers may be made between expenditure objects and/or functions within the same fund. The budgeted amounts as shown in the financial statements are as originally adopted and as revised by legal budget amendments, if applicable.

The District’s budgetary basis of accounting differs from generally accepted accounting principles (GAAP) due to recording encumbrances as expenditures under the budgetary basis. Encumbrances are commitments related to unperformed, legally binding contracts for the purchase of goods or construction in progress. Encumbrances at year end are used to set aside spending authority for obligations in budgeted funds. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual reflects expenditures on the budgetary basis, and includes only budgeted funds.

Budgeted Funds - under State statutes, the General, Transportation, Tuition, Retirement, Technology, Flexibility, Debt Service, and Building Reserve funds are considered budgeted funds, which means that a budget must be adopted in order to disburse money from these funds. The statutes define other funds as non-budgeted funds. A budget is not required to disburse money from non-budgeted funds, although spending is limited to the available cash balance in the fund.

Cash and Investments

All District cash is held by the Flathead County Treasurer. It is invested using a surplus cash method with other County funds. Interest is distributed on the basis of average cash balance for the period. Cash and investments are reported at cost, which approximates fair value.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies (continued)**

Taxes Receivable

Amounts to be collected by the County Treasurer for real and personal property taxes levied, is reported as taxes receivable. Since these amounts are not measurable and available at year end, revenue is reported as deferred revenue under the modified accrual basis of accounting in the fund financial statements.

Due From Other Governments

Amounts due the District from other districts or for the balance of federal grants and state equalization payments are recorded as Due From Other Governments.

Capital Assets

Government-wide Financial Statements

In the government-wide financial statements, capital assets with a cost of \$5,000 or more, are recorded and depreciated. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the capital assets acquired prior to June 30, 2003.

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Land Improvements	20 years
Buildings	10-70 years
Equipment	5-30 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the fund upon acquisition.

Due To Other Governments

Amounts due the State for unexpended balances of completed grants, if any, are reported as Due To Other Governments.

Compensated Absences

Liabilities incurred due to unused vacation and sick leave accumulated by employees are recorded in the government-wide Statement of Net Position as compensated absences payable. The liability is determined as the number of hours of leave accumulated that would be paid upon termination, multiplied by the employee's current rate of pay plus any applicable taxes and benefits.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

1. **Summary of Significant Accounting Policies (continued)**

Equity Classifications

Government-wide Financial Statements

Equity is classified as net position and displayed in three components:

- a) Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position - Consists of net position with constraints placed on 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.
- c) Unrestricted net position - All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements

Governmental fund equity is classified as fund balance in the following categories:

- a) Nonspendable – resources not in spendable form, such as inventory, or those legally required to be maintained intact, such as the principal portion of permanent funds.
- b) Restricted – constraint is externally imposed by a third party, State Constitution or enabling legislation.
- c) Committed – constraint is internally imposed by the Board of Trustees by majority vote.
- d) Assigned – constraint is internally expressed by District Clerk, Principal, or Board of Trustees.
- e) Unassigned – negative fund balance in any fund, or fund balance with no constraints in the General fund.

The District has adopted a formal spending policy which states that the District will utilize funds in the following order: restricted, committed, assigned, then unassigned.

2. **Cash and Investments**

Cash and investments are held by the Flathead County Treasurer. The District is authorized by State law to invest in direct obligations of the United States government; savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union located in the state; repurchase agreements; and the state unified investment program.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

2. **Cash and Investments** (continued)

By written agreement, the Flathead County Treasurer invests the funds of the District. District funds are combined with those of other entities by the Treasurer for investment. Interest is credited to each fund on the basis of average monthly cash balances. The District does not have a formal investment policy, but limits its exposure to credit risk (the risk that an issuer or other counter party to an investment will not fulfill its obligation) by following state law and participating in the County's investment pool. It was not possible to determine the credit risk associated with the District's cash and investments because of the method used by the County Treasurer to account for these monies (i.e. pooling of cash and investments of common accounts not specifically designated as belonging to the District). Additional information regarding the County's investment pool can be obtained from the County's annual financial report. The County's pool is not rated.

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned or the District will not be able to recover the collateral securities in the possession of the outside party. The District's custodial credit risk is minimized by restrictions set forth in state law, which require that the District deposit all funds with the County Treasurer. The County is required by state law to have financial institutions pledge collateral equal to at least 50% of the total County-controlled demand and savings deposits held by that financial institution which are not insured.

3. **Property Taxes**

Real property taxes are levied against the property owners as of January 1. The taxes are due in two payments; November 30 and May 31. Unpaid taxes become delinquent on December 1 and June 1. After three years of delinquency, the County may proceed to take tax title to the property. The valuation of real property is the responsibility of the State of Montana and is done by statutory methods.

Personal property is assessed by the County Assessor, an agent of the State of Montana. Valuations are determined under State law and submitted to the County Treasurer in May/June with all but mobile homes due in June/July. Mobile home taxes are due in two payments, one in June/July and the second due September 30. Delinquent taxes may be collected for up to 10 years. The County Treasurer may issue a writ of execution to the County Sheriff to seize the property and sell it to collect unpaid taxes. Unpaid taxes at the end of 10 years may be written off by the County Commissioners. The District receives its information on taxable values and taxes receivable from the County Treasurer.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

4. **Capital Assets**

Capital assets are presented in the government-wide Statement of Net Position. The following is a summary of changes for the year:

	Beginning Balance	Additions	Disposals	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 12,347	\$ -	\$ -	\$ 12,347
Depreciable Capital Assets:				
Land Improvements	\$ 13,772	\$ -	\$ -	\$ 13,772
Buildings	1,100,361	-	-	1,100,361
Equipment	75,006	5,959	-	80,965
Less: Accumulated Depreciation	(334,986)	(31,357)	-	(366,343)
Total Depreciable Capital Assets	<u>\$ 854,153</u>	<u>\$ (25,398)</u>	<u>\$ -</u>	<u>\$ 828,755</u>

Capital assets depreciation expense was charged to functions as follows:

Administration - General	\$ 2,355
Administration - Business Services	3,192
School Food	636
Unallocated	25,174
Total Depreciation Expense	<u>\$ 31,357</u>

5. **Long-Term Liabilities**

Long-term liabilities are recorded in the governmental-wide Statement of Net Position. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period. Issuance costs are reported as expenditures.

Changes in long-term liabilities during the year ended June 30, 2014 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 485,000	\$ -	\$ 20,000	\$ 465,000	\$ 20,000
Compensated Absences	30,073	3,276	-	33,349	-
Termination Benefits	25,704	-	8,568	17,136	8,568
Total	<u>\$ 540,777</u>	<u>\$ 3,276</u>	<u>\$ 28,568</u>	<u>\$ 515,485</u>	<u>\$ 28,568</u>

In previous years, the General fund and Compensated Absences fund have been used to liquidate compensated absences. The General fund was used to liquidate termination benefits during fiscal year 2014.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

5. **Long-Term Liabilities** (continued)

General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. In fiscal year 2012, the District issued \$500,000 in general obligation bonds to build an addition onto the school building.

General obligation bonds outstanding as of June 30, 2014 were as follows:

<u>Title</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
Series 2012	2/23/2012	2.0-3.0%	20 yrs	7/1/2032	\$ 500,000	Varies	\$ 465,000

Annual requirement to amortize debt:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 20,000	\$ 12,400	\$ 32,400
2016	20,000	12,000	32,000
2017	20,000	11,600	31,600
2018	20,000	11,200	31,200
2019	25,000	10,800	35,800
2020-2024	125,000	45,750	170,750
2025-2029	140,000	27,300	167,300
2030-2033	95,000	5,850	100,850
Total	<u>\$ 465,000</u>	<u>\$ 136,900</u>	<u>\$ 601,900</u>

6. **Retirement Plans**

The District participates in a state-wide, cost-sharing multiple employer defined benefit retirement plan. The Teachers' Retirement System (TRS) covers certified teaching employees, including principals and superintendents, instructional aides and substitute teachers. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and their beneficiaries as defined by State law.

The plan issues publicly available annual reports that include financial statements and required supplemental information. The TRS plan reports may be obtained from Teachers' Retirement System, P.O. Box 200139, Helena, MT 59620-0139.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

6. **Retirement Plans (continued)**

Contribution rates for the plan are required and determined by State law. 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%	2.49%	19.11%

Contributions to the plan during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year. The amounts contributed by the District were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$ 42,886	\$ 43,446	\$ 48,220

7. **Post Employment Benefits**

Retirees may remain on the District's health plan, provided they pay the monthly premiums. State law requires the District to provide this benefit until age 65. The District pays an implicit rate subsidy since generally there are higher medical costs for retirees, which results in higher premium rates for all members of the plan. The cost of providing this benefit has been estimated and is considered immaterial to the District's financial statements. There was one retired employee participating in the plan at June 30, 2014.

8. **Termination Benefits**

In fiscal year 2013, the District offered an early retirement incentive to certified staff at the top step of the pay matrix of four years of health insurance premiums, at a rate of \$714 per month. One employee accepted this offer with the first year paid in cash during fiscal year 2013, and the remaining three years of health insurance premium payments beginning September 2013. The health insurance premium payments will extend through August 2016. At June 30, 2014, the District owed the employee \$17,136 in termination benefits, which were recorded as a liability in the government-wide financial statements. Expenditures in the fund financial statements are recognized as the liability becomes due and is paid.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

9. **Fund Balance/Restricted Net Position**

Fund Balance

The District has categorized fund balance at June 30, 2014 as follows:

<i>General Fund</i>	<u>Balance</u>	<u>Description</u>
Assigned	\$ 30,457	Encumbered for regular instructional programs
Assigned	3,400	Encumbered for operations and maintenance
Assigned	1,755	Encumbered for extracurricular activities
Assigned	5,959	Encumbered for capital outlay
Unassigned	52,047	Remainder
<i>Retirement Fund</i>		
Restricted	45,814	Restricted to employee benefits by state law
<i>Miscellaneous Programs Fund</i>		
Assigned	47,443	Assigned for Special Programs
<i>Building Reserve Fund</i>		
Restricted	73,731	Restricted to voter approved building projects
<i>Other Governmental Funds</i>		
Restricted	18,761	Restricted to fund purpose by state law
Unassigned	(435)	Negative Fund Balance - Tuition Fund
Total	<u><u>\$ 278,932</u></u>	

Restricted Net Position

Restricted net position for the government-wide financial statements is restricted by state law.

The District maintains reserves in certain budgeted funds, in accordance with state statutes. The reserves are limited to a certain percentage of the next years budgeted expenditures. These percentages and actual reserves for the fiscal year 2015 budget follow:

<u>Reserved for FY15 Budget</u>	<u>Amount</u>	<u>Actual Percentage</u>	<u>Allowed Percentage</u>
General Fund	\$ 86,126	10.5%	10%
Transportation Fund	14,486	16.8%	20%
Retirement Fund	21,296	20.0%	20%

Subsequent to adoption of the FY15 budget, an audit adjustment reduced General and Retirement fund balances by \$46,523 and \$6,240, respectively. This adjustment was not reflected in the District's FY15 or FY16 budgets since the budgets were finalized prior to the audit adjustment, therefore the reduction in reserves will be reflected in the FY17 budget.

10. **Fund Balance Deficit**

The Tuition fund had a fund balance deficiency of \$435, at June 30, 2014. This deficit will be reduced as delinquent taxes are collected.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

11. **Joint Ventures**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain an ongoing financial interest or an ongoing financial responsibility. The District is a participant in two joint ventures.

The District is a member of the Flathead Special Education Cooperative. Each member of the cooperative contributes to the operating costs of the cooperative based on an annual fiscal budget adopted by the cooperative. Annually, each member district appoints a representative to the Joint Advisory Board. From this board, a four member Management Council is elected to administer the cooperative. The County Superintendent of Schools is the prime fiscal agent. The District paid \$1,919 to the Cooperative during the fiscal year ended June 30, 2014. Separate financial statements are available from the Flathead Special Education Cooperative.

The District is also a member of the Northwest Montana Educational Cooperative. The purpose of the cooperative is to oversee and coordinate curriculum development and implementation in the member districts. The member districts contribute fees to the cooperative based on enrollment at the district. The management board of the cooperative consists of a representative from each member district. A nine member executive council is made up of representatives from member districts based on location and school size. The District's contribution to the cooperative was \$3,364 for the fiscal year ended June 30, 2014. Separate financial statements are available from the Northwest Montana Educational Cooperative.

12. **Risk Management**

The District faces a considerable number of risks of loss, (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e. errors and omissions, (d) environmental damage, (e) workers' compensation, i.e. employee injuries, and (f) medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. Commercial policies, transferring all risks of loss except for relatively small deductible amounts, are purchased for general liability, property and contents damage, employee medical costs and professional liabilities. The District participates in two state-wide public risk pools, the Montana Schools Group Workers' Compensation Risk Retention Program for workers' compensation and the Montana Schools Unemployment Program for unemployment insurance. Given the lack of coverage available, the District has no coverage for potential losses from environmental damages. Coverage limits and deductibles on the commercial policies have stayed relatively constant. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in past fiscal years.

Marion School District #54, Flathead County, Montana
Notes to the Financial Statements
June 30, 2014

13. **Commitments**

The District uses encumbrances to commit resources in budgeted funds based on approved purchase orders or construction contracts. At June 30, 2014, the District had encumbrances of \$41,391 in the General fund.

14. **Extraordinary Items**

During fiscal year 2014, the District repaired flood damage and was reimbursed by their property insurance. The repairs and the insurance reimbursement were both reported as extraordinary items of \$17,541, since both items were considered infrequent in occurrence and unusual in nature.

15. **Interfund Balances**

At June 30, 2014, the District had an Interfund Receivable in the Miscellaneous Programs fund of \$52,763 and an Interfund Payable in the General and Retirement funds of \$46,523 and \$6,240, respectively. These balances were the result of an audit adjustment to move expenditures from the Miscellaneous Programs fund to the General and Retirement funds to correct fund classification of salaries and benefits. These balances will be eliminated in fiscal year 2016, when cash will be transferred to reflect the prior year change in expenditure classification.

16. **Restatements**

During fiscal year 2014, the District restated beginning fund balance and net position by \$4,447 to reflect a correction to prior year expenditures for unpaid contractor withholding taxes in the Building Reserve fund.

17. **Subsequent Events**

Subsequent to June 30, 2014, the District passed a budget amendment to authorize spending \$17,500 on repairs to the District's septic system.

REQUIRED

SUPPLEMENTARY

INFORMATION

Marion School District #54, Flathead County, Montana
Schedule of Revenues, Expenditures, and Changes in Fund Balance-
Budget and Actual
General Fund
For the Year Ended June 30, 2014

	Original & Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget
REVENUES			
District Levies	\$ 386,358	\$ 391,092	\$ 4,734
Other District Sources	6,768	-	(6,768)
State Sources	447,623	447,622	(1)
Interest Earnings	220	2,041	1,821
Total Revenues	840,969	840,755	(214)
EXPENDITURES AND ENCUMBRANCES			
Current:			
Instruction - Regular	530,096	544,208	(14,112)
Instruction - Other Programs	80,176	81,515	(1,339)
Support Services - Students	-	49	(49)
Support Services - Instruction and Media	24,386	26,093	(1,707)
Administration - General	33,530	39,292	(5,762)
Administration - School	74,030	72,084	1,946
Administration - Business Services	46,907	48,770	(1,863)
Operation & Maintenance	50,073	55,221	(5,148)
Extracurricular	4,000	5,423	(1,423)
Food Service	6,000	6,000	-
Capital Outlay	-	5,959	(5,959)
Total Expenditures and Encumbrances	849,198	884,614	(35,416)
Excess (Deficiency) of Revenues Over Expenditures and Encumbrances	\$ (8,229)	(43,859)	\$ (35,630)
Change in Encumbrances		41,105	
Excess (Deficiency) of Revenues Over Expenditures		(2,754)	
Fund Balance, Beginning of Year		96,372	
Fund Balance, End of Year		\$ 93,618	

See accompanying notes

Marion School District #54, Flathead County, Montana
Schedule of Revenues, Expenditures, and Changes in Fund Balance-
Budget and Actual
Retirement Fund
For the Year Ended June 30, 2014

	Original & Final Budget	Actual Amounts Budgetary Basis	Variance with Final Budget
REVENUES			
County Sources	\$ 116,847	\$ 115,982	\$ (865)
Interest Earnings	-	184	184
Total Revenues	<u>116,847</u>	<u>116,166</u>	<u>(681)</u>
EXPENDITURES			
Current:			
Instruction - Regular	137,308	74,450	62,858
Instruction - Other Programs	-	12,216	(12,216)
Support Services - Instruction and Media	-	3,751	(3,751)
Administration - General	-	3,752	(3,752)
Administration - School	-	11,075	(11,075)
Administration - Business Services	-	5,427	(5,427)
Operation & Maintenance	-	2,063	(2,063)
Transportation	-	553	(553)
Extracurricular	-	279	(279)
Food Service	-	4,709	(4,709)
Total Expenditures	<u>137,308</u>	<u>118,275</u>	<u>19,033</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (20,461)</u>	(2,109)	<u>\$ 18,352</u>
Fund Balance, Beginning of Year		<u>47,923</u>	
Fund Balance, End of Year		<u>\$ 45,814</u>	

See accompanying notes

Marion School District #54, Flathead County, Montana
Notes to the Schedules of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual
June 30, 2014

1. **Basis of Presentation**

The accompanying Schedules of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual are presented on the budgetary basis of accounting. The District's budgetary basis of accounting differs from generally accepted accounting principles (GAAP) due to recording encumbrances as expenditures under the budgetary basis. Encumbrances are commitments related to unperformed, legally binding contracts for the purchase of goods or construction in progress. Encumbrances at year end are used to set aside spending authority for obligations in budgeted funds. The change in encumbrances is reported on the schedule to reconcile the budgetary basis to the GAAP basis of accounting.

2. **Basis of Presentation**

The Miscellaneous Programs fund is a major governmental special revenue fund that does not require a budget. Therefore, a Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual for this major special revenue fund is not presented.

3. **Expenditure in Excess of Appropriations**

In the General fund, expenditures and encumbrances exceeded appropriations by \$35,416 for the fiscal year ended June 30, 2014. This resulted from an audit adjustment to reclassify salaries which increased General fund expenditures by \$46,523.

SUPPLEMENTARY

INFORMATION

Marion School District #54, Flathead County, Montana
Schedule of Enrollment
For the Year Ended June 30, 2014

	District Records	Enrollment Report	Difference
<u>Fall Enrollment (10/13)</u>			
Kindergarten Full	13	13	-
Grades 1-6	70	70	-
Grades 7-8	18	18	-
Total	<u>101</u>	<u>101</u>	<u>-</u>
<u>Winter Enrollment (12/13)</u>			
Kindergarten Full	12	12	-
Grades 1-6	69	69	-
Grades 7-8	18	18	-
Total	<u>99</u>	<u>99</u>	<u>-</u>
<u>Spring Enrollment (2/14)</u>			
Kindergarten Full	11	12	(1)
Grades 1-6	69	69	-
Grades 7-8	19	19	-
Total	<u>99</u>	<u>100</u>	<u>(1)</u>

Marion School District #54, Flathead County, Montana
Schedule of Activities by Account
Extracurricular Fund
For the Year Ended June 30, 2014

<u>ACCOUNTS</u>	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Ending Balance</u>
Student Council	<u>\$ 1,815</u>	<u>\$ 2,537</u>	<u>\$ (2,988)</u>	<u>\$ 1,364</u>

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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***

Board of Trustees
Marion School District #54
Marion, Montana

I 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 Marion School District #54, Flathead County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Marion School District #54, Flathead County, Montana's basic financial statements and have issued my report thereon dated October 1, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Marion School District #54, Flathead County, Montana's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marion School District #54, Flathead County, Montana's internal control. Accordingly, I do not express an opinion on the effectiveness of Marion School District #54, Flathead County, Montana's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-2 through 2014-5 to be a material weaknesses.

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. I consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-1 and 2014-6 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion School District #54, Flathead County, Montana's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2014-7.

Marion School District #54, Flathead County, Montana's Response to Findings

Marion School District #54, Flathead County, Montana's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. Marion School District #54, Flathead County, Montana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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

Nicole M. Noonan, CPA, P.C.

Nicole M. Noonan, CPA, P.C.
St. Regis, Montana
October 1, 2015

Marion School District #54, Flathead County, Montana
Schedule of Findings and Responses
June 30, 2014

2014-1 Generally Accepted Accounting Principles

The District does not prepare the financial statements and disclosures in accordance with generally accepted auditing standards (GAAP) for the audit. The auditor assists in drafting these documents from the trial balance and management reviews, approves, and accepts responsibility for them. Although management is knowledgeable in the affairs of the District, management does not have adequate knowledge of GAAP to prepare financial statements and disclosures that meet these requirements without assistance. If the District did not receive assistance in the completion of these financial statements and disclosures the financial statements could be misstated if new or unusual transactions occurred or new pronouncements were issued that affect the District. It is likely not cost effective for the District to have staff with this knowledge, however, the District may want to consider hiring an outside consultant to prepare financial statements and notes in accordance with GAAP to correct this internal control deficiency.

District Response

The District has authorized and approved auditor assisted GAAP financial reporting information.

2014-2 Deferred Revenue

Revenue collected in advance of expenditures, where the funds will have to be returned if not spent appropriately, should be deferred until all grant requirements have been met. In a prior year, grant revenues were received and have not yet been expended. These revenues should be recorded as deferred revenues, but were recorded as revenues in a prior year. This was due to a misunderstanding of the requirement to defer this type of grant receipt. As a result fund balance was overstated and deferred revenue understated by \$17,852 in the Miscellaneous Programs fund. A correction was made for the audited financial statements to correct this error. In the future, review any remaining project cash balances in the Miscellaneous Programs fund and record deferred revenue as necessary.

District Response

Deferred revenues and any other grants will be coded more carefully. As of September, 2015, all miscellaneous programs have been gone through carefully and noted which is which.

2014-3 Capital Assets

Amounts capitalized should include all engineering and administrative costs associated with the construction project. In addition, donations used to pay for construction costs should be reported as revenues and the related expenditures should be capitalized. During a previous audit it was noted that expenditures capitalized did not include all engineering and administrative costs associated with the construction project in the amount of \$19,453. In addition, donations were coded to expenditures, incorrectly reducing the amount of expenditures capitalized by \$11,700. These prior year audit corrections were not made by management, resulting in an understatement of building capital assets of \$31,153 at June 30, 2014. These prior year errors should be corrected by management in the supporting documentation and the Trustees Financial Summary (TFS) report for future years.

District Response

The District will include the adjustment in the June 30, 2015 capital asset report and amend the Trustees Financial Summary.

Marion School District #54, Flathead County, Montana
Schedule of Findings and Responses
June 30, 2014

2014-4 Accounts Payable

Accounts payable are expenses incurred prior to the end of a fiscal year, where payment is not made until after the end of the year. When expenses are incurred they should be recorded under generally accepted accounting principles (GAAP). During review of subsequent payments we noted an accounts payable of \$4,447 for unpaid contractor withholdings from a construction project in 2012. This error was considered material and adjusted for the financial statements as an accounts payable and a restatement of beginning fund balance in the Building Reserve fund. The District was unaware that the amount withheld from the contractor had to be paid to the state. The District should take extra care during construction projects to understand the contractor withholding payment process.

District Response

Neither the clerk or board were aware of this. Any future construction of any kind and this will be a question asked, just to be sure of.

2014-5 Miscellaneous Projects Fund

There were several errors noted during our review of the Miscellaneous Projects fund. These errors are detailed below:

- The projects reported on the Trustees Financial Summary (TFS) should agree to the general ledger. It was noted that the projects used in the general ledger were not carried forward to the TFS in many cases. This was due to corrections for project accounting being made on the TFS, but not in the general ledger. Therefore, ending balances by project in the general ledger were not correct.
- The project cash report in the general ledger should reconcile to the fund cash for the Miscellaneous Programs fund. The project cash report had a balance of \$34,420, while the fund had a balance of \$9,913. The differences are due to projects being closed that still have ending cash balances. When a project is closed it is no longer reported on the project cash report, so it no longer balances with fund cash. The District needs to determine which projects were closed with ending cash balances and reopen them in the system so they are properly reported. If a project is completed and has a remaining project balance that balance should be researched and corrected as needed. Reconciliation of the project cash report to the fund cash balance should be done monthly to ensure accuracy of the project cash report.
- Revenues reported in the general ledger should reconcile to the County Treasurer. Revenues reported in the general ledger were more than the revenue reported by the County Treasurer by \$4,723. The reason for this difference was unknown since a revenue reconciliation has not been completed. Differences between the general ledger and county treasurer should be reconciled on a monthly basis to ensure the accuracy of the revenues reported by the District.
- The same project code should be used for revenues and expenditures to ensure proper receipt and use of grant funds. During fiscal year 2014 one teacher's salary was incorrectly coded to the Miscellaneous Projects fund. There was no corresponding revenue to fund this expenditure, but the error was difficult to uncover since project coding has not been used properly in the fund for several years. The salary was reclassified to the General fund for \$46,523 and benefits to the Retirement fund for \$6,240. This will result in lower reserves in the General and Retirement funds than currently reported.

Marion School District #54, Flathead County, Montana
Schedule of Findings and Responses
June 30, 2014

District Response

There was a change in teaching duties, but overlooked changing fund numbers for pay.

2014-6 District Clerk Contract

The payment method for all employees should be understood by management. It is unclear to management if the District Clerk is paid hourly or salary. This is due to a lack of a contract outlining rate of pay, working hours, and benefits. To clarify this information a contract should be prepared for the District Clerk position, outlining job duties, rate of pay, hours to be worked, and benefits. We recommend that the clerk position be an hourly position and the principal approve the timecard prepared by the clerk.

District Response

The clerk has been on a salary since 2000-01, which was board approved. It was based on hourly wage, 12 month hours worked, holiday pay and vacation pay. This was all put together and then divided by 12 for the total pay.

2014-7 Expenditures in Excess of Appropriations

State statutes limit expenditures to appropriated amounts for budgeted funds. At June 30, 2014, the District had expenditures in excess of appropriations of \$35,416 in the General fund. This was due to an audit adjustment to reclassify salaries that were incorrectly coded to Miscellaneous Programs fund in the amount of \$46,523. The District was unaware of this error so they encumbered excess fund balance in the General fund at the end of fiscal year 2014. The subsequent correction of this error caused expenditures and encumbrances to exceed budgeted appropriations for fiscal year 2014. The proper use of project accounting in the Miscellaneous Programs fund would help identify the coding error so it can be corrected by the District in a timely manner.

District Response

This has been corrected. Marion School has gone back to the County accounting program. The clerk has been working with the county on getting everything straightened out and back on track. It is now all cleaned up and on track.

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Trustees
Marion School District #54
Marion, Montana

The prior audit report contained three recommendations. The action taken on these recommendations is as follows:

<u>Number</u>	<u>Recommendation</u>	<u>Action Taken</u>
2013-1	Generally Accepted Accounting Principles	Repeated
2013-2	Deferred Revenue	Repeated
2013-3	Capital Assets	Repeated

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St. Regis, Montana
October 1, 2015

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October 1, 2015

Board of Trustees
Marion School District #54
Marion, Montana

In planning and performing my audit of the financial statements of Marion School District #54 for the year ended June 30, 2014, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control. This letter does not affect my report on those financial statements dated October 1, 2015.

However, I noted certain matters involving internal control and its operation that I consider opportunities for improvement. These and other matters are summarized below.

Revenue Reconciliation

Revenues reported by the County Treasurer should agree to the District general ledger, with any differences reconciled. The General fund had a difference of \$1,905 between the County Treasurer reports and the District records. Each month revenues recorded by the District should be reconciled to the revenues recorded by the County Treasurer. Then any differences can be corrected in a timely manner.

District Response

There were no material differences between the County Treasurer Reports and the District's financial records. Refunds, rebates, tax voids and refunds cause immaterial differences. The District will continue to make efforts to reconcile reports monthly. Corrected as of 6/30/15.

Cash Reconciliation

Cash should be reconciled each month between the County Treasurer and the District. During the audit it was noted that the payroll and claims clearing funds cash balance did not agree to the County Treasurer reports by \$2,573, indicating that cash reconciliations were not being performed. Cash for all funds should be reconciled monthly and any differences researched and corrected in a timely manner.

District Response

Corrections to the payroll and claims funds were made as of October 31, 2014 via a Treasurer Journal Voucher.

Deficit Cash Balances

According to generally accepted accounting principles, deficit cash balances at year end should be eliminated with short-term interfund loans if the deficit balance will be eliminated shortly after year end. At June 30, 2014, the District had the Food Services and Tuition funds with cash deficits of \$1,817 and \$435, respectively. The deficits in these funds will be eliminated after year end with a due from other governments for the Food Services fund and the collection of delinquent taxes for the Tuition fund. In the future, cash deficits at year end should be eliminated with interfund loans.

District Response

The District will monitor more closely cash balances, however cash flow and unplanned expenditures occur from time to time which prevent the District from maintaining positive cash balances at the end of the year.

General Ledger Budget

The budget amount in the general ledger should agree to the original budget document. For fiscal year 2014 the budget in the general ledger for the Debt Service and Building Reserve funds did not agree with the original budget. Although no overspending occurred as a result, the budget to actual reports were not accurate during the year. After the budget is entered into the general ledger it should be reviewed to ensure it is accurate.

District Response

The District is still getting acquainted with the Black Mountain accounting software system and now understands more fully the routing to enter account balances for budget monitoring purposes.

Encumbered Capital Assets

Encumbrances at year end are budgetary in nature and do not represent goods or services actually received. Therefore encumbrances for capital items should not be capitalized until they are actually received. During fiscal year 2014 the District capitalized an encumbrance of \$5,959 for an electric range. In the future, assets should only be capitalized in the year they are received.

District Response

Corrected and added to next fiscal year.

Extracurricular Invoices

All expenses made by the District should be supported by an invoice. There was one extracurricular expense out of three tested that did not have a supporting invoice. This expense was for hotel reservations for a fieldtrip that were made over the phone so an invoice from the vendor was not received. It is recommended that in the future, invoices are requested for all disbursements made by the District.

District Response

Invoices are always asked for, but not received.

Enrollment

Three times per year the District reports enrollment counts to the Office of Public Instruction. During the spring count the District incorrectly counted one kindergarten student in error. This student had stopped coming to school, but the count was not updated. As a result of the error, the District's funding may be decreased since the error was an overstatement of students enrolled. The district will need to contact the Office of Public Instruction to determine the affect of the error on funding. In the future, the District should take care to report students in accordance with the requirements.

District Response

The secretary is being more careful about updating and keeping track of days gone.

Findings from the June 30, 2013 management letter are shown below with their status as of June 30, 2014.

<u>Finding</u>	<u>Status</u>
Revenue Reconciliation	Repeated
Board Approved Warrant Listing	Implemented
Miscellaneous Programs Project Coding	Repeated in Audit Report
Long-Term Debt Schedule	Implemented
Cash Reconciliation	Repeated
Cancelled Encumbrances	Implemented
Deficit Cash Balances	Repeated
Credit Card Charges	Implemented
Payroll Reports	Implemented
General Ledger Budgets	Repeated
Early Retirement Incentive	Implemented

This letter is intended solely for the information and use of management, the Board of Trustees, others within the entity, and the State of Montana and is not intended to be and should not be used by anyone other than these specified parties.

Nicole M. Noonan, CPA, P.C.

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