

MELSTONE SCHOOL DISTRICT NO. 64J & H

**MUSSELSHELL COUNTY
MELSTONE, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

Melstone School District No. 64J & H
Musselshell County
Melstone, MT 59054

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Melstone School District No. 64J & H
Musselshell County
Melstone, MT 59054

ORGANIZATION

BOARD OF TRUSTEES

Clyde Brewer, III	Chair
William E. Bergin, Jr.	Vice Chair
Tim DeJaegher	Trustee
Mitch Roen	Trustee
Nate Roskelley	Trustee

OFFICIALS

Kelly Haaland	Superintendent
Patti Wilson	District Clerk
Kathy Pfiister	County Superintendent
Kent Sipe	County Attorney

**MELSTONE PUBLIC SCHOOLS
SCHOOL DISTRICTS 64J & 64H**

**Management Discussion and Analysis (MD&A)
For the Year Ended June 30, 2014**

The Superintendent and Business Manager of Melstone Public Schools have provided this management's discussion and analysis to give the reader of these statements an overview of the financial position and activities of the school district for the year covered by this audit report.

Financial Highlights:

The elementary district's adopted general fund budget for FY14 is \$468,330 an increase of \$28,744 from FY13's \$439,586.29 adopted budget. The district's current year ANB for FY14 is 61 (which is the actual ANB). District mills levied in the general fund for FY14 was 29.63 mills compared to 29.42 mills in FY13. As of June 30, 2014 the elementary district received \$316,306.01 in oil and natural gas revenues as compared to \$333,653.22 in FY13.

The high school district's adopted general fund budget for FY14 is \$471,649 an increase of \$22,340.62 from FY13's \$449,308.52 adopted budget. The district's current year ANB for FY14 is 28 (which is the actual ANB) and therefore the high school used the three (3) year average ANB of 30. District mills levied in the general fund for FY14 was 95.94 mills compared to 96.73 mills in FY13. As of June 30, 2014 the high school district received \$219,514.60 in oil and natural gas revenues as compared to \$221,395.62 in FY13.

Reporting the School Districts as a Whole

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

- A. **The Statement of Net Position** shows the assets, liabilities and the net position of the district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in fixed or capital assets, such as building, equipment and other long-lived property; and some assets are available to fund budgets of the following year.
- B. **The Statement of Activities** shows the amounts of program-specific and general school district revenues used to support the school districts various functions.

Reporting the Districts Most Significant Funds

The fund statements provide detailed information about the funds used by the school districts. State laws and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law requires school district to distribute monies in separate fund accounts such as transportation, bus depreciation and adult education.

The balance sheet report separates funds by major and lists the other funds of less significance under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district's operations, and the existence of legal budget requirements.

The statement of revenues, expenditures and changes in fund balance are shown for governmental funds, such as the general fund, special revenue funds for transportation and school food service, and debt service and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the district's activities and programs.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. Most significant differences result from the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the district-wide statements but not in the fund statements.

Reporting the District's Trust and Fiduciary Responsibilities

The district is the trustee, or fiduciary, for the student extracurricular fund. This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position because the district cannot use these assets to fund its operations.

The district is responsible for ensuring these assets are used for their intended purpose.

Budget-to-Actual Comparisons

The budgetary comparison schedules show how actual expenditures compared to the original and final budgeted expenditures for the general, bus depreciation and transportation funds. The districts did not experience any variances between the original and final expenditure budgets and the final budgets and actual expenditures.

The District as a Whole

The statements in this report include all assets and liabilities using the accrual basis of accounting including reporting depreciation on capital assets. This is similar to the basis of accounting used by most private-sector companies.

The change in net position over time is one indicator of whether the District's financial welfare is improving or deteriorating. Other non-financial factors that influence the District's fiscal welfare are enrollment changes, state funding, educational costs, changes in the economy and taxable valuations.

Analysis of Financial Information

The continued oil and gas tax monies has become a huge contributing factor in the district's budgets. The oil activity in Rosebud County has allowed both districts to be able to operate and maintain quite comfortably. However, Melstone Public Schools continues to struggle with the very low taxable valuations in Musselshell/Rosebud counties.

Melstone Public Schools main purpose continues to be the education of our children. The costs revolve around instruction and supporting the instruction of students, transporting children to and from school, providing breakfast and lunch to these students along with trying to maintain strong extra-curricular programs. Melstone Public Schools, at the conclusion of the 2013-2014 school year, finished their fifth year as a 4-day/week school.

The majority of Melstone Public Schools revenues come from property taxes, state aid and oil and gas monies. It was because of the oil and gas monies that the districts were able to build a Bus Barn. With the funding laws both districts were able to distribute oil and gas revenues in their Flexibility Funds and construct a new Bus Barn. Melstone Public Schools participates in many federal programs including all of the Elementary and Secondary Education Act programs which are funded based upon free and reduced lunch applications. The elementary district has been fortunate to once again be awarded the 21st Century Learning Grant in the amount of \$51,000.00. This program continues to help our school, students and community tremendously. The high school continues to receive funding through Carl Perkins and the State Vocational Education Grants.

The District's Future

Both districts are continuing to see somewhat constant ANB numbers as well as constant mills levied and with the continued oil and gas monies the districts are gradually trying to lessen the burden on the local tax payer. The Melstone community is very proud of their schools and will continue to support the needs of each student.

CONTACT FOR FURTHER INFORMATION page

Kelly R. Haaland - Superintendent of Schools, PO Box 97, Melstone, MT 59054 (406)358-2352
Patti Wilson-District Clerk/Business Manager, PO Box 97, Melstone, MT 59054 (406)358-2352

Melstone School District No. 64J & H
 Musselshell County
 Melstone, Montana 59054
 as of June 30, 2014

Management Discussion and Analysis Comparison Schedules

NET POSITION	Governmental Activities			
	2014	2013	CHANGE	% CHANGE
Current Assets	\$ 1,473,822	\$ 1,476,274	\$ (2,452)	-0.17%
Capital Assets, net	<u>448,328</u>	<u>335,749</u>	<u>112,579</u>	<u>33.53%</u>
Total Assets	1,922,150	1,812,023	110,127	6.08%
Current Liabilities	9,616	8,075	1,541	19.08%
Long Term Liabilities	<u>79,230</u>	<u>71,736</u>	<u>7,494</u>	<u>10.45%</u>
Total Liabilities	88,846	79,811	9,035	11.32%
Net Position:				
Net Investment in Capital Assets	448,328	335,749	112,579	33.53%
Restricted	747,487	750,688	(3,201)	-0.43%
Unrestricted	<u>637,489</u>	<u>645,775</u>	<u>(8,286)</u>	<u>-1.28%</u>
Total Net Position	1,833,304	1,732,212	101,092	5.84%

CHANGES IN NET POSITION	Governmental Activities			
	2014	2013	CHANGE	% CHANGE
Revenues				
Program Revenues:				
Charges for Services	14,204	14,589	(385)	-2.64%
Operating Grants	283,052	250,169	32,883	13.14%
General Revenues:				
District Levies	184,597	193,316	(8,719)	-4.51%
State Equalization	420,830	382,122	38,708	10.13%
Other State Revenues	728,937	724,830	4,107	0.57%
County	107,163	84,038	23,125	27.52%
Interest	4,587	6,121	(1,534)	-25.06%
Other	<u>12,511</u>	<u>9,090</u>	<u>3,421</u>	<u>37.63%</u>
Total Revenues	1,755,881	1,664,275	91,606	5.50%
Program Expenses				
Instructional Services	811,463	771,317	40,146	5.20%
Support Services	-	6,116	(6,116)	-100.00%
Educational Media Services	24,337	8,925	15,412	172.68%
General Administrative Services	227,652	236,986	(9,334)	-3.94%
Operation & Maintenance Services	256,258	156,400	99,858	63.85%
Transportation Services	173,834	184,373	(10,539)	-5.72%
School Food Services	92,484	74,715	17,769	23.78%
Extracurricular	67,011	63,169	3,842	6.08%
Total Expenses	<u>1,653,039</u>	<u>1,502,001</u>	<u>151,038</u>	<u>10.06%</u>
Gain (Loss) on sale of capital assets	(1,750)	(10,734)	8,984	-83.70%
Change in Net Position	101,092	151,540	(59,432)	

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Melstone School District No. 64J & H
Musselshell County
Melstone, MT 59054

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 Melstone School District No. 64J & H as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Melstone School District No. 64J & H as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 - 5) and the schedule of funding for other post-employment benefits other than pensions (pages 23) and budgetary comparison information (pages 24-28) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Melstone School District No. 64J & H's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 29) and schedule of reported enrollment (page 30) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of revenues, expenses and balances student activity funds and schedule of reported enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of revenues, expenses and balances student activity funds and schedule of reported enrollment are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2015 on our consideration of Melstone School District No. 64J & H internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Melstone School District No. 64J & H internal control over financial reporting and compliance.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
April 28, 2015

Melstone School District No. 64J & H
 Musselshell County
 Melstone, Montana 59054

STATEMENT OF NET POSITION
 as of June 30, 2014

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 1,416,822
Taxes Receivable	10,221
Due From Other Governments	<u>46,779</u>
Total Current Assets	<u>1,473,822</u>
Noncurrent Assets:	
Capital Assets:	
Construction in Progress	115,042
Net Depreciable Assets	<u>333,286</u>
Total Noncurrent Assets	<u>448,328</u>
Total Assets	<u>\$ 1,922,150</u>
LIABILITIES:	
Current Liabilities	
Current Portions Compensated Absences	\$ 9,616
Total Current Liabilities	<u>9,616</u>
Noncurrent Liabilities:	
Long-Term Obligations	35,375
Compensated Absences	<u>43,855</u>
Total Noncurrent Liabilities	<u>79,230</u>
Total Liabilities	<u>88,846</u>
NET POSITION:	
Net investment in capital assets	448,328
Restricted	747,487
Unrestricted (Deficit)	<u>637,489</u>
Total Net Position	<u>1,833,304</u>
Total Liabilities and Net Position	<u>\$ 1,922,150</u>

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

Melstone School District No. 64J & H
 Musselshell County
 Melstone, Montana 59054

STATEMENT OF ACTIVITIES
 For the year ended June 30, 2014

	Program Revenues			Net (Expenses) Revenues and
	Expenses	Charge for Services	Operating Grants and Contributions	Changes in Net Position Primary Government
GOVERNMENT OPERATIONS				
Instructional Services	\$ 811,463	\$ 1,000	\$ 192,320	\$ (618,143)
Educational Media Services	24,337	-	-	(24,337)
General Administrative Services	227,652	-	-	(227,652)
Operation & Maintenance Services	256,258	-	-	(256,258)
Transportation Services	173,834	-	67,776	(106,058)
School Food Services	92,484	13,204	22,956	(56,324)
Extracurricular	67,011	-	-	(67,011)
Total Governmental Activities	1,653,039	14,204	283,052	(1,355,783)
GENERAL REVENUES				
District Levies				184,597
State Equalization				420,830
Other State Revenues				728,937
County				107,163
Interest				4,587
Other				12,511
Gain (loss) on Sale of Assets				(1,750)
Total General Revenues				1,456,875
Change in Net Position				101,092
Net Position				
Beginning of the Year				1,732,212
End of the Year				\$ 1,833,304

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

Melstone School District No. 64J & H
Musselshell County
Melstone, Montana 59054

BALANCE SHEET
GOVERNMENTAL FUNDS
as of June 30, 2014

	MAJOR			Other Governmental Funds	Total Governmental Funds
	General	Bus Depreciation (Elem.)	Transportation (HS)		
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 724,579	\$ 332,951	\$ 49,875	\$ 309,417	\$ 1,416,822
Taxes Receivable	6,241	624	1,101	2,255	10,221
Due From Other Governments	-	-	1,945	44,834	46,779
Total Assets	\$ 730,820	\$ 333,575	\$ 52,922	\$ 356,506	\$ 1,473,822
LIABILITIES:					
Total Liabilities	-	-	-	-	-
DEFERRED INFLOWS OF RESOURCES					
Unavailable Property Taxes Receivable	6,241	624	1,101	2,255	10,221
Total Deferred Inflows of resources	6,241	624	1,101	2,255	10,221
FUND BALANCE:					
Fund Balances:					
Restricted	-	332,951	51,820	354,251	739,022
Unassigned:	724,579	-	-	-	724,579
Total Fund Balance	724,579	332,951	51,820	354,251	1,463,601
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 730,820	\$ 333,575	\$ 52,922	\$ 356,506	\$ 1,473,822

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 1,463,601
Governmental Capital Assets	448,328
Long-term Liabilities	
Long-Term Obligations	(35,375)
Compensated Absences	(53,471)
Unavailable Property Taxes Receivable	10,221
Net Position of Governmental Activities	\$ 1,833,304

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

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

	MAJOR			Other Governmental Funds	Total Governmental Funds
	General	Bus Depreciation (Elem.)	Transportation (HS)		
REVENUES:					
District Levies	\$ 115,512	\$ 231	\$ 23,317	\$ 52,477	\$ 191,537
Interest	2,859	667	121	895	4,542
Charges for Services	-	-	-	14,204	14,204
Other	11,396	-	69	1,310	12,775
County	-	-	15,973	125,078	141,051
State	1,084,447	-	67,925	93,181	1,245,553
Federal	-	-	-	153,159	153,159
Total Revenues	<u>1,214,214</u>	<u>898</u>	<u>107,405</u>	<u>440,304</u>	<u>1,762,821</u>
EXPENDITURES:					
Current					
Instructional Services	567,711	-	-	224,989	792,700
Educational Media Services	1,620	-	-	22,717	24,337
General Administrative Services	114,737	-	45,308	67,607	227,652
Operation & Maintenance Services	244,484	-	-	10,474	254,958
Transportation Services	25,856	28,746	39,562	24,168	118,332
School Food Services	48,411	-	-	44,073	92,484
Extracurricular	61,824	-	-	5,187	67,011
Capital Outlay	123,400	-	-	57,459	180,859
Total Expenditures	<u>1,188,043</u>	<u>28,746</u>	<u>84,870</u>	<u>456,674</u>	<u>1,758,333</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>26,171</u>	<u>(27,848)</u>	<u>22,535</u>	<u>(16,370)</u>	<u>4,488</u>
OTHER FINANCING SOURCES/USES					
Fund Transfers In	-	-	-	10,016	10,016
Fund Transfers (Out)	(10,016)	-	-	-	(10,016)
Total Other financial Sources/Uses	<u>(10,016)</u>	<u>-</u>	<u>-</u>	<u>10,016</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	16,155	(27,848)	22,535	(6,354)	4,488
FUND BALANCE:					
Beginning of the Year	708,424	360,799	29,286	360,604	1,459,113
End of the Year	<u>\$ 724,579</u>	<u>\$ 332,951</u>	<u>\$ 51,820</u>	<u>\$ 354,251</u>	<u>\$ 1,463,601</u>

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

Melstone School District No. 64J & H
Musselshell County
Melstone, Montana 59054

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

Net Changes in Fund Balance	\$	4,488	
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			(6,940)
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(66,530)		
(Increase) decrease in Other Post Employment Benefits	(7,075)		
(Increase) decrease in compensated absence liability	<u>(1,960)</u>	(75,565)	
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Capital outlays	180,859		
Gain (loss) on sale of assets	<u>(1,750)</u>	<u>179,109</u>	
Change in net position reported on the Statement of Activity	\$	<u>101,092</u>	

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

Melstone School District No. 64J & H
 Musselshell County
 Melstone, Montana 59054

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 as of June 30, 2014

	Private Purpose	
	Trust Funds	Agency Funds
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 24,629	\$ 144,282
Total Assets	<u>24,629</u>	<u>144,282</u>
LIABILITIES:		
Current Liabilities		
Warrants Payable	-	144,282
Total Liabilities	<u>-</u>	<u>144,282</u>
NET POSITION:		
Restricted for Student Activities	<u>24,629</u>	
Total Net Position	<u>\$ 24,629</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET
 FIDUCIARY FUNDS
 For the year ended June 30, 2014

	Private Purpose
	Trust Funds
ADDITIONS:	
Revenues from Student Activities	\$ 84,557
Total Additions	<u>84,557</u>
DEDUCTIONS:	
Expenses of Student Activities	83,570
Total Deductions	<u>83,570</u>
CHANGE IN NET POSITION	987
NET POSITION:	
Beginning of the Year	<u>23,642</u>
End of the Year	<u>\$ 24,629</u>

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

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. a. REPORTING ENTITY

The basic financial statements of Melstone School District No. 64J & H (School District) have been prepared on a prescribed basis of accounting that demonstrates compliance with the accounting and budget laws of the State of Montana, which conforms to generally accepted accounting principles (GAAP). The School District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2014 the School District adopted the following:

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

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

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

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

The Melstone School District No. 64J & H was incorporated under the laws of the State of Montana and as required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Melstone School District No. 64J & H (the primary government) and any component units. The criteria for including organizations as component units within the School District's reporting entity is set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) "Codification of Government Accounting and Financial Reporting Standards." The basic criteria include appointing a voting majority of an organization's governing body, as well as the School District's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the School District. Based on those criteria the School District has no component units.

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

1. b. BASIS OF PRESENTATION AND ACCOUNTING

1. b. 1 GOVERNMENT-WIDE STATEMENTS

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

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

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

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

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

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

1. b. 2 FUND ACCOUNTING

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

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

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

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

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

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

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

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

The School District reports the following major governmental funds:

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

1. b. 3 OTHER FUND TYPES

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

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

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

1. c. 1 CASH AND INVESTMENTS

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

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

1. c. 2 TAXES

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

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

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

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

1. c. 3 INVENTORIES

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

1. c. 4 CAPITAL ASSETS

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	50 years
Machinery and Equipment	5 – 8 years

1. c. 5 DEFERRED INFLOWS OF RESOURCES

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

1. c. 6 VACATION AND SICK LEAVE

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

Certified employees are limited to an accumulation of 65 days of sick leave. Certified employees are paid at \$65 per day, any accumulation above 65 days is paid at year end.

Liabilities incurred because of unused vacation and sick leave accumulated by employees are reflected in the financial statements. Expenditures for unused leave are recorded when paid in governmental funds and when accrued on the statement of activities. The amount expected to be paid within one year is \$9,616 and it is generally paid out of the general fund.

1. c. 7 NET POSITION AND FUND BALANCE

Statement of Net Position include the following:

- Net Investment in Capital Assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvement of these capital assets.
- Restricted – The component of net position that is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The difference between the assets and liabilities that is not reported in the other element of net position.

Governmental fund financial statements include the following fund balances:

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

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

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

<u>Purpose</u>	<u>Restricted</u>
Instructional - Regular	\$ 24,060
Student Transportation	228,411
School Food	1,026
Third Party Grantor Restrictions	88,044
Employer Retirement Benefits	30,285
Future Technology	26,136
Future Capital Costs	<u>341,060</u>
Total	<u>\$ 739,022</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first.

1. d. OTHER

1. d. 1 USE OF ESTIMATES

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

1.d. 2 COUNTY PROVIDED SERVICES

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

<u>Account Type</u>	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents	<u>\$ 1,416,822</u>	<u>\$ 168,911</u>	<u>\$ 1,585,733</u>

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

	<u>Amount</u>
Demand Accounts	\$ 24,629
County Investment Pool	<u>1,561,104</u>
Total	<u>\$ 1,585,733</u>

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

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

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

NOTE 3. TAXES RECEIVABLE

The School District is permitted by State statutes to levy taxes up to certain fixed limits for various purposes. The assessed value of the roll as of January 1, 2013, upon which the levy for the 2014 fiscal year was based, was \$1,826,105 for the Elementary School District and \$651,583 for the High School District. The tax rates assessed for the year ended June 30, 2014 to finance School District operations and applicable taxes receivable for the elementary and high schools follows:

	<u>Mill Levies</u>	<u>Taxes Receivable</u>
<u>Elementary Fund</u>		
General*	29.63	\$ 1,756
Transportation	19.09	741
Bus Depreciation*	0.00	624
Adult Education	0.00	25
Technology	4.93	182
<u>High School Fund</u>		
General*	95.94	4,485
Transportation*	35.87	1,101
Bus Depreciation	0.00	965
Adult Education	0.00	22
Technology	13.79	320
Total	<u>199.25</u>	<u>\$ 10,221</u>

* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
Transportation	\$ 1,222	Rosebud County	County transportation payment
Retirement	4,048	Rosebud County	County retirement payment
Miscellaneous	9,855	U.S. Department of Education	Reimbursable grant payment
<u>High School Fund</u>			
Transportation*	1,945	Rosebud County	County transportation payment
Retirement	7,173	Rosebud County	County retirement payment
Miscellaneous	21,953	U.S. Department of Education	Reimbursable grant payment
Traffic Education	583	State of Montana	Reimbursable grant payment
Total	<u>\$ 46,779</u>		

* Denotes Major Funds

NOTE 5. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
<u>Non-depreciable:</u>				
Construction In Progress	\$ 0	\$ 115,042	\$ 0	\$ 115,042
Total Non-depreciable	<u>\$ 0</u>	<u>\$ 115,042</u>	<u>\$ 0</u>	<u>\$ 115,042</u>
<u>Depreciable:</u>				
Buildings	\$ 415,000	\$ 0	\$ 0	\$ 415,000
Machinery and equipment	510,164	104,317	(89,295)	525,186
Total Depreciable	<u>\$ 925,164</u>	<u>\$ 104,317</u>	<u>\$ (89,295)</u>	<u>\$ 940,186</u>
<u>Accumulated Depreciation:</u>				
Buildings	\$ (338,400)	\$ (8,300)	\$ 0	\$ (346,700)
Machinery and equipment	(251,015)	(58,230)	49,045	(260,200)
Total Depreciation	<u>\$ (589,415)</u>	<u>\$ (66,530)</u>	<u>\$ 49,045</u>	<u>\$ (606,900)</u>
Net Depreciable Assets	<u>335,749</u>	<u>37,787</u>	<u>(40,250)</u>	<u>333,286</u>
Net General Capital Assets	<u>\$ 335,749</u>	<u>\$ 152,829</u>	<u>\$ (40,250)</u>	<u>\$ 448,328</u>

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

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

<u>Function</u>	<u>Amount</u>
Instructional	\$ 9,728
Operation & Maintenance	1,300
Transportation	55,502
Total Depreciation Expense	<u>\$ 66,530</u>

NOTE 6. CHANGES IN LONG-TERM DEBT

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

<u>Governmental Activities</u>	<u>Balance</u> July 1, 2013	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Balance</u> June 30, 2014	<u>Due within</u> <u>One Year</u>
<u>Other Liabilities:</u>				
Compensated Absences	\$ 51,511	\$ 1,960	\$ 53,471	\$ 9,616
Other Post-Employment Benefits (OPEB)	28,300	7,075	35,375	0
Total Governmental Activities - Long-Term Debt:	<u>\$ 79,811</u>	<u>\$ 9,035</u>	<u>\$ 88,846</u>	<u>\$ 9,616</u>

NOTE 7. DEFERRED INFLOWS OF RESOURCES

PROPERTY TAXES

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 1,756	Taxes Receivable
Transportation	741	Taxes Receivable
Bus Depreciation*	624	Taxes Receivable
Adult Education	25	Taxes Receivable
Technology	182	Taxes Receivable
<u>High School Fund</u>		
General*	4,485	Taxes Receivable
Transportation*	1,101	Taxes Receivable
Bus Depreciation	965	Taxes Receivable
Adult Education	22	Taxes Receivable
Technology	320	Taxes Receivable
Total	<u>\$ 10,221</u>	

* Denotes Major Funds

NOTE 8. TRANSFERS

<u>Elementary Fund - From</u>	<u>Amount</u>	<u>Elementary Fund - To</u>
General*	\$ 5,939	Compensated Absences
General*	2,046	Interlocal agreement
<u>High School Fund - From</u>		<u>High School Fund - To</u>
General*	2,031	Compensated Absences
Total	<u>\$ 10,016</u>	

* Denotes Major Funds

NOTE 9. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The implicit subsidy is \$7,200 per member. The School District had fewer than 100 plan participants and thus qualified to use an Alternative Measurement Method instead of an actuarial valuation to determine the OPEB liability. Valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future and estimated amounts are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the current plan. The School District estimated its participation rate at 25% of plan participants would elect to continue coverage after retirement.

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

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

Funding status and progress as of July 1, 2013 was as follows:

Actuarial Accrued Liability (AAL)	\$	38,856
Actuarial value of plan assets		<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)		<u>38,856</u>
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	720,594
UAAL as a percentage of covered payroll		5%

Annual OPEB Cost and Net OPEB Obligations - The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the government's net OPEB obligation for the valuation performed at July 1, 2013.

Annual Required Contribution (ARC)	\$	7,075
Interest on net OPEB obligation		0
Adjustment to ARC		<u>0</u>
Annual OPEB cost (expense)		7,075
Contribution made		<u>0</u>
Increase in net OPEB obligation		7,075
Net OPEB obligation - beginning of year		<u>28,300</u>
Net OPEB obligation - end of year	\$	<u>35,375</u>

Actuarial Methods and Assumptions - The following actuarial methods and assumptions were used:

Actuarial Cost Method		Unit Credit Cost Method
Average age of retirement (based on historical data)		65
Discount rate (average anticipated rate)		5.5%
Average Salary Increase		3.00%
Health care cost rate trend		
Year	% Increase	
2015 and after	3.0%	

NOTE 10. RISK MANAGEMENT

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

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

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

NOTE 11. EMPLOYEE RETIREMENT SYSTEM

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

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

Teachers Retirement System	Public Employees Retirement System
P.O. Box 200139	P.O. Box 200131
1500 Sixth Avenue	1712 Ninth Avenue
Helena, MT 59620-0139	Helena, MT 59620-0131
Phone: 406-444-3134	Phone: 406-444-3154
www.trs.doa.state.mt.us	www.state.mt.us/doa/perb/prb.htm

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
TRS	\$ 83,153	\$ 86,789	\$ 98,210
PERS	<u>15,613</u>	<u>17,654</u>	<u>25,547</u>
Total	<u>\$ 98,766</u>	<u>\$ 104,443</u>	<u>\$ 123,757</u>

NOTE 12. COOPERATIVE

SPECIAL EDUCATION

The Melstone School District No. 64J & H is a member of the Central Montana Learning Resource Center Cooperative, a Special Education Cooperative. The financial records of the Cooperative are prepared and maintained by the Cooperative Clerk. The financial records of the Cooperative are separate from those of Melstone School District No. 64J & H, and the financial statements of the Cooperative are not included in the School Districts' financial statements. The Cooperative's financial statements are audited separately from those of the School District. All revenue received, including Federal, State, or other types of grant payments, and the financial support provided by each of the Cooperative's members are deposited into the Cooperative's funds, which are maintained in the custody of the Fergus County Treasurer. The Superintendent of Public Instruction may directly deposit to the Cooperative the State and Federal portion of any participating member School District's budgeted costs for contracted special education services. All capital assets of the Cooperative are included in the Cooperative's financial statements.

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

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a) / c]</u>
7/1/2013	\$ -	\$ 38,856	\$ 38,856	0%	\$ 720,594	5%

This schedule is based on the actuarial values as of July 1, 2013. Information for prior years is not available.

Melstone School District No. 64J & H
Musselshell County
Melstone, Montana 59054

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

	General (Elem)			Flexibility Fund (Elem.)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District Levies	\$ 54,110	\$ 54,110	\$ 52,988	\$ -	\$ -	\$ -
Interest	769	769	1,148	-	-	-
Other	2,667	2,667	3,407	-	-	3,000
County	-	-	-	-	-	-
State	-	-	-	-	-	-
	<u>336,236</u>	<u>336,236</u>	<u>415,123</u>	<u>-</u>	<u>-</u>	<u>99,233</u>
Total Revenues	<u>393,782</u>	<u>393,782</u>	<u>472,666</u>	<u>-</u>	<u>-</u>	<u>102,233</u>
EXPENDITURES:						
Current						
Instructional Services			283,782			26,873
Educational Media Services			545			265
General Administrative Services			57,321			374
Operation & Maintenance Services			77,054			38,534
Transportation Services			7,714			176
School Food Services			24,128			622
Extracurricular			9,665			7,600
Capital Outlay			-			61,910
Total Expenditures	<u>468,330</u>	<u>468,330</u>	<u>460,209</u>	<u>167,181</u>	<u>167,181</u>	<u>136,354</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(74,548)</u>	<u>(74,548)</u>	<u>12,457</u>	<u>(167,181)</u>	<u>(167,181)</u>	<u>(34,121)</u>
OTHER FINANCING SOURCES/USES						
Fund Transfers (Out)			(7,985)			-
Total Other financial Sources/Uses	<u>-</u>	<u>-</u>	<u>(7,985)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>(74,548)</u>	<u>(74,548)</u>	<u>4,472</u>	<u>(167,181)</u>	<u>(167,181)</u>	<u>(34,121)</u>
FUND BALANCE:						
Beginning of the Year			122,079			317,180
End of the Year			<u>\$ 126,551</u>			<u>\$ 283,059</u>

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

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

	General (HS)			Flexibility Fund (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District Levies	\$ 62,498	\$ 62,498	\$ 62,524	\$ -	\$ -	\$ -
Interest	1,196	1,196	1,711	-	-	-
Other	922	922	1,989	-	-	3,000
County	-	-	-	-	-	-
State	407,033	407,033	477,476	-	-	92,615
Total Revenues	471,649	471,649	543,700	-	-	95,615
EXPENDITURES:						
Current						
Instructional Services			251,234			5,822
Educational Media Services			545			265
General Administrative Services			56,668			374
Operation & Maintenance Services			82,447			33,441
Transportation Services			17,966			-
School Food Services			23,661			-
Extracurricular			36,959			7,600
Capital Outlay			-			61,490
Total Expenditures	471,649	471,649	469,480	108,992	108,992	108,992
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	74,220	(108,992)	(108,992)	(13,377)
OTHER FINANCING SOURCES/USES						
Fund Transfers (Out)			(2,031)			-
Total Other financial Sources/Uses	-	-	(2,031)	-	-	-
NET CHANGES IN FUND BALANCES	-	-	72,189	(108,992)	(108,992)	(13,377)
FUND BALANCE:						
Beginning of the Year			47,165			208,992
End of the Year			\$ 119,354			\$ 195,615

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

Melstone School District No. 64J & H
Musselshell County
Melstone, Montana 59054

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

	Bus Depreciation (Elem.)			Transportation (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District Levies	\$ -	\$ -	\$ 231	\$ 23,373	\$ 23,373	\$ 23,317
Interest	-	-	667	-	-	121
Other	-	-	-	-	-	69
County	-	-	-	15,973	15,973	15,973
State	-	-	-	22,968	22,968	67,925
Total Revenues	-	-	898	62,314	62,314	107,405
EXPENDITURES:						
Current						
Instructional Services			-			-
Educational Media Services			-			-
General Administrative Services			-			45,309
Operation & Maintenance Services			-			-
Transportation Services			33			39,562
School Food Services			-			-
Extracurricular			-			-
Capital Outlay			28,713			-
Total Expenditures	360,799	360,799	28,746	90,000	90,000	84,871
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(360,799)	(360,799)	(27,848)	(27,686)	(27,686)	22,534
OTHER FINANCING SOURCES/USES						
Fund Transfers (Out)			-			-
Total Other financial Sources/Uses	-	-	-	-	-	-
NET CHANGES IN FUND BALANCES	(360,799)	(360,799)	(27,848)	(27,686)	(27,686)	22,534
FUND BALANCE:						
Beginning of the Year			360,799			29,286
End of the Year			\$ 332,951			\$ 51,820

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

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

NOTE 1. BUDGETS

1. a. BUDGETS

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

1. a. 1 GENERAL BUDGET POLICIES:

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

1. a. 2 BUDGET OPERATION:

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

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

NOTE 2. BUDGET AMENDMENT

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

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

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

	<u>Sub-fund General Fund (Elem)</u>	<u>Sub-fund General Fund (HS)</u>	<u>Sub-fund Flexibility Fund (Elem)</u>	<u>Sub-fund Flexibility Fund (HS)</u>	<u>Total General Fund</u>
REVENUES:					
District Levies	\$ 52,988	\$ 62,524	\$ 0	\$ 0	\$ 115,512
Interest Earnings	1,148	1,711	0	0	2,859
Other	3,407	1,989	3,000	3,000	11,396
State Sources	<u>415,123</u>	<u>477,476</u>	<u>99,233</u>	<u>92,615</u>	<u>1,084,447</u>
Total Revenues	<u>\$ 472,666</u>	<u>\$ 543,700</u>	<u>\$ 102,233</u>	<u>\$ 95,615</u>	<u>\$ 1,214,214</u>
EXPENDITURES:					
Instructional Services	283,782	251,234	26,873	5,822	567,711
Educational Media	545	545	265	265	1,620
General Administrative	57,321	56,668	374	374	114,737
Operation & Maintenance	77,054	82,447	49,628	35,355	244,484
Transportation	7,714	17,966	176	0	25,856
School Food	24,128	23,661	622	0	48,411
Extracurricular	9,665	36,959	7,600	7,600	61,824
Capital Outlay	<u>0</u>	<u>0</u>	<u>61,910</u>	<u>61,490</u>	<u>123,400</u>
Total Expenditures	<u>\$ 460,209</u>	<u>\$ 469,480</u>	<u>\$ 147,448</u>	<u>\$ 110,906</u>	<u>\$ 1,188,043</u>
Excess Revenues over Expenditures	12,457	74,220	(45,215)	(15,291)	26,171
Other financing uses – Transfers (out)	(7,985)	(2,031)	0	0	(10,016)
Net Changes In Fund Balance	4,472	72,189	(45,215)	(15,291)	16,155
FUND BALANCE:					
Beginning of the Year	<u>122,079</u>	<u>47,165</u>	<u>328,274</u>	<u>210,906</u>	<u>708,424</u>
Ending of the Year	<u>126,551</u>	<u>119,354</u>	<u>283,059</u>	<u>195,615</u>	<u>724,579</u>

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

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

Melstone SD No. 64J & H
Schedule of Revenues, Expenses and Balances
Student Activity Funds
Fiscal Year-Ended June 30, 2014

Activity Account Name	Beginning				Ending Balance
	Balance	Revenues	Expenses	Transfers	
	<u>7/1/2013</u>				<u>6/30/2014</u>
GENERAL	318	809	1,047	-	80
ATHLETICS	5,208	17,003	20,828	237	1,620
M-CLUB	-	-	-	-	-
PEP CLUB	514	1,074	1,022	(38)	528
CLASS OF 2018	1,068	344	63	-	1,349
STUDENT COUNCIL	456	2,778	1,133	(646)	1,455
FFA	1,108	19,655	19,286	2,258	3,735
DRAMA	585	296	198	-	683
MUSIC	1,022	1,239	912	137	1,486
ANNUAL	427	1,852	1,984	-	295
BPA	803	18,104	20,147	2,443	1,203
CLASS OF 2013	555	-	6	-	549
CLASS OF 2016	2,246	2,334	30	(500)	4,050
CONCESSIONS	12	15,624	10,977	(4,582)	77
EL FIELD TRIP MONEY	494	-	-	-	494
MBI PROJECT	185	-	-	(18)	167
STW - COFFEE SHOP	249	1,522	1,516	56	311
CLASS OF 2019	-	344	-	-	344
SCIENCE CLUB	283	-	-	-	283
HONOR ROLL	28	-	-	-	28
STW - MDRN EXPECTATIONS	394	53	533	500	414
CLASS OF 2014	2,485	1	2,167	-	319
DRILL TEAM	330	578	956	153	105
CLASS OF 2015	3,094	369	585	-	2,878
CLASS OF 2017	1,318	444	140	-	1,622
LEARNING LINKS	460	134	40	-	554
Total	\$ 23,642	\$ 84,557	\$ 83,570	\$ -	\$ 24,629

MELSTONE SCHOOL DISTRICT NO. 64J & H

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

FALL ENROLLMENT - OCTOBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	7	7	0
Grade 1 - 6	35	35	0
Grade 7 - 8	18	18	0
Total	<u>60</u>	<u>60</u>	<u>0</u>

High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>19</u>	<u>19</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

WINTER ENROLLMENT - DECEMBER, 2013

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	7	7	0
Grade 1 - 6	33	33	0
Grade 7 - 8	17	17	0
Total	<u>57</u>	<u>57</u>	<u>0</u>

High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>19</u>	<u>19</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

SPRING ENROLLMENT - FEBRUARY, 2014

Elementary			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Kindergarten Full	7	7	0
Grade 1 - 6	33	33	0
Grade 7 - 8	17	17	0
Total	<u>57</u>	<u>57</u>	<u>0</u>

High School			
	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>19</u>	<u>19</u>	<u>0</u>
Part-time Students			
Less than 181 hours	0	0	0
Less than 359 hours	0	0	0
Less than 539 hours	0	0	0
Less than 719 hours	<u>0</u>	<u>0</u>	<u>0</u>
Total Part-time	<u>0</u>	<u>0</u>	<u>0</u>
19 year olds	<u>0</u>	<u>0</u>	<u>0</u>

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Melstone School District No. 64J & H
Musselshell County
Melstone, MT 59054

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Melstone School District No. 64J & H as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Melstone School District No. 64J & H's basic financial statements and have issued our report thereon dated April 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Melstone School District No. 64J & H's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

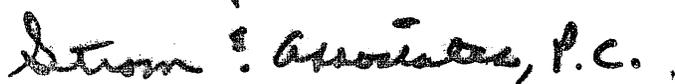
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Melstone School District No. 64J & H's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



STROM & ASSOCIATES, PC
Billings, Montana
April 28, 2015

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

SCHEDULE OF FINDINGS AND RESPONSES

There were no findings or recommendations in the prior audit report and none for the fiscal year ended June 30, 2014.