

RAU SCHOOL DISTRICT NO. 21

**RICHLAND COUNTY
SIDNEY, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

Rau School District No. 21
Richland County
Sidney, Montana 59270

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Rau School District No. 21
Richland County
Sidney, Montana 59270

ORGANIZATION

BOARD OF TRUSTEES

Ryan Bell

Chair

Stacy McNally

Vice Chair

Janelle Leintz

Trustee

OFFICIALS

Cindy M. Hecker

District Clerk

Gail Staffanson

County Superintendent

Mike Webber

County Attorney

Rau Elementary School District No. 21
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

July 01, 2013 - June 30, 2014

Introduction

This section of the Rau Elementary District Financial Statements presents the management's discussion and analysis of the district's financial performance during the fiscal year (FY) ending June 30, 2014. This narrative overview and analysis of the financial activities of the Rau District includes a comparison of prior year financial statements as per compliance with Governmental Accounting Standards Board Statement #34. Readers of the management's discussion and analysis are encouraged to consider the information presented in this section as well as other areas of the Financial Statements.

Financial Highlights

- ✦ The Rau School District assets exceeded the district liabilities at the close of FY 2014 by \$2,417,906.
- ✦ The overall revenues from all sources for the Rau School District for FY 2014 were \$1,228,970 which represented a 17.1% increase from FY 2013.
- ✦ The districts capital assets decreased 2.3% during FY 2014 mainly due to depreciation.
- ✦ The district had \$173,266 more in revenue than expenses in FY 2014.
- ✦ Revenue from property taxes increased 46.9% or \$36,345.
- ✦ Revenue from the State of Montana was up 16.2% or \$127,997.
- ✦ Total Rau School District revenue is 74.5% (75.1% in FY 2013) from state sources of revenue and 9.2% (7.3% in FY 2013) from property taxes in FY 2014.
- ✦ Instruction expenses were up 73.6% or \$250,043 from FY 2013 to FY 2014.
- ✦ The two largest expense areas were instruction at 56.3% (48% in FY 2013) and administration at 11.8% (14% in FY 2013) of district costs for FY 2014.
- ✦ The Rau School District expenses for FY 2014 were \$1,047,320 which represents a 46.8% increase from FY 2013.
- ✦ The Rau School District capital assets (buildings) are free of any related debt.
- ✦ The Rau School District net position increased by 7.7% in FY 2014.
- ✦ Expenses for instruction, administration, and operation and maintenance account for 76.6% (70.4% in FY 2013) of the district expenses in FY 2014.
- ✦ The district had a total governmental fund balance of \$881,416 at the end of FY 2014 which was a 31.5% increase from FY 2013.
- ✦ The Rau District financial position is very strong and continued to improve in FY 2014.

Rau Elementary School District No. 21
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

July 01, 2013 - June 30, 2014

Overview of the Rau School District Financial Statements

The management's discussion and analysis report is intended to serve as an introduction to the basic financial statements of the Rau Elementary School District. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. It also, contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Rau School District finances in a manner similar to a private-sector business. This broad overview will be accomplished using a *statement of net position* and a *statement of activities*. Each statement will distinguish between governmental and business type activities and between the total governmental and business type activities of the school district.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Rau School District principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Most services normally associated with school government fall into the governmental activity category including instruction, support services, general, school and business administrative services, operation and maintenance, student transportation, community services, and other expenditures. The Rau District does not operate any business-type activities.

Fund-based Financial Statements

Fund-based financial statements, consisting of a series of statements, provide information about government's major and non-major governmental funds. These governmental fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The governmental fund statements consist of the balance sheet and statement of revenues, expenditures, and change in fund balance.

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MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

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A *fund* is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The Rau District, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Rau District can be divided into three categories: governmental, proprietary, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term *inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the near-term financing decisions of the Board of Trustees of the Rau District. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Major governmental funds are reported separately and all other funds are combined for this report. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Building Reserve Fund, and the Miscellaneous Fund for FY 2014 as they were considered to be major funds. The other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Rau District adopts an annual appropriated budget for its general funds, select special revenue, debt service, and building reserve funds as required by state law. A budgetary comparison is provided for all budgeted funds later in this report.

Proprietary funds

Proprietary fund statements offer short-term and long-term financial information about the activities the district operates similar to business, such as food services and adult education. Enterprise funds account for activities for which a fee is charged to external users and internal service funds account for activities that provide goods or services to other funds. The Rau District does not operate any proprietary funds.

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MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
July 01, 2013 - June 30, 2014

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds may include pension and employee benefit trust funds where resources are held in trust for employee benefit plans. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the programs of the Rau School District. Student activity accounts and scholarship trusts are the most common fiduciary funds in school districts. The Rau School District currently does not have any fiduciary funds.

Notes to the Financial Statements

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

Other information

In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* concerning the official student enrollment and federal grant audit reports.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the financial position of the district. In the case of the Rau School District, assets exceeded liabilities by \$2,417,906 at the close of FY 2014. The net position at the end of FY 2014 showed a 7.7% increase from the close of FY 2013. The increase in net position was the result of more revenue than expenses. The increase in net position continued to add to the already strong financial position of the district.

Net Position of the Rau School District

Governmental Activities				
	FY 2014	FY 2013	Change	% Change
Current and Other Assets	\$882,837	\$672,257	\$210,580	31.3%
Capital Assets	\$1,542,746	\$1,579,705	(\$36,959)	-2.3%
Total Assets	\$2,425,583	\$2,251,962	\$173,621	7.7%
Long-term Liabilities	\$6,014	\$6,002	\$12	0.2%
Current Liabilities	\$1,663	\$1,320	\$343	26.0%
Total Liabilities	\$7,677	\$7,322	\$355	4.8%
Investment in Capital Assets Net of Related Debt	\$1,542,746	\$1,579,705	(\$36,959)	-2.3%
Restricted	\$550,624	\$380,939	\$169,685	44.5%
Unrestricted	\$324,536	\$283,996	\$40,540	14.3%
Net Position	\$2,417,906	\$2,244,640	\$173,266	7.7%

A portion of the net position of the Rau District at the close of FY 2014 (63.8% - was 70% in FY 2013) reflects the investment by the school district in capital assets such as buildings, machinery, and equipment. The capital assets of the Rau District have no related debt and decreased in value by 2.3% in FY 2014 mostly due to depreciation. The Rau School District uses these capital assets to provide educational and related services to students; and as a result, these assets are not available for future spending. A portion of the net position of the Rau District represents re-

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sources that are subject to external restrictions on how they may be used. These *restricted* assets represent 22.8% (17% in FY 2013) or \$550,624 of the district net position in FY 2014. The restricted assets increased 44.5% from FY 2013 to FY 2014. Another portion of the net position of the Rau District (13.4% in FY 2014 and 12.7% in FY 2013) represents *unrestricted assets* which may be used to meet the ongoing obligations of the school district to citizens and creditors. The unrestricted portion of the net position increased 14.3% from FY 2013 to FY 2014. Rau Elementary District was able to report a positive balance for the net position in both the government as a whole, as well as for governmental activities. The net position of the Rau District increased \$173,266 during FY 2014 after showing an increase of \$336,032 during FY 2013.

Governmental activities

Net position derived from governmental activities for the Rau School District increased by \$173,266 in FY 2014.

District Wide - Statement of Activities

	Governmental Activities			
Revenues	FY 2014	FY 2013	Change	% Change
Program revenues:				
Charges for Services	\$30,405	\$18,719	\$11,686	62.4%
Operating Grants & Contributions	\$91,058	\$80,788	\$10,270	12.7%
General revenues:				
Property taxes	\$113,909	\$77,564	\$36,345	46.9%
Interest	\$4,394	\$4,046	\$348	8.6%
State Equalization	\$205,252	\$175,913	\$29,339	16.7%
Other State Revenue	\$710,781	\$612,123	\$98,658	16.1%
County	\$36,923	\$28,279	\$8,644	30.6%
All other	\$36,248	\$51,831	(\$15,583)	-30.1%
Total Revenues	\$1,228,970	\$1,049,263	\$179,707	17.1%
Expenses:				
Instruction	\$589,688	\$339,645	\$250,043	73.6%
Administration	\$124,043	\$101,699	\$22,344	22.0%
Support Services	\$8,363	\$2,269	\$6,094	268.6%
Media	\$23,246	\$31,809	(\$8,563)	-26.9%
Operation and Maintenance	\$88,975	\$61,077	\$27,898	45.7%
Student Transportation	\$84,753	\$66,835	\$17,918	26.8%
School Food	\$75,110	\$56,756	\$18,354	32.3%
Unallocated Depreciation	\$53,142	\$53,142	\$0	0.0%
Total expenses	\$1,047,320	\$713,232	\$334,088	46.8%
Increase (Decrease) in net position	\$181,650	\$336,031	(\$154,381)	-45.9%
Beginning Net Position	\$2,244,639	\$1,908,608	\$336,031	17.6%
Prior Period Adjustments	(\$8,384)	\$0	(\$8,384)	
Ending Net Position	\$2,417,905	\$2,244,639	\$173,266	7.7%

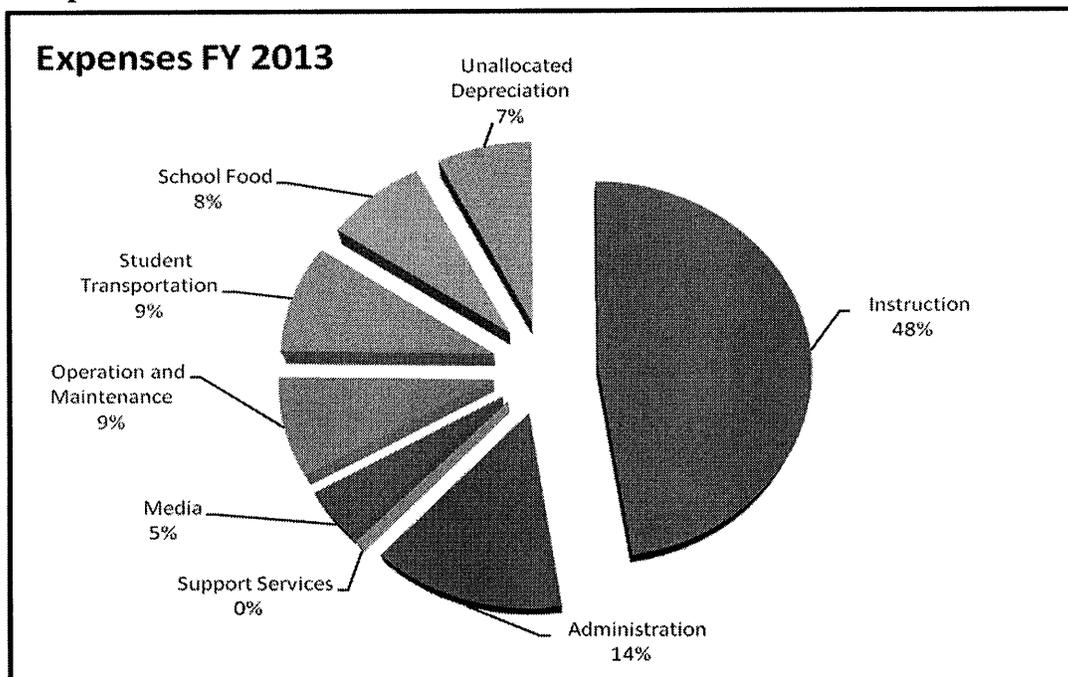
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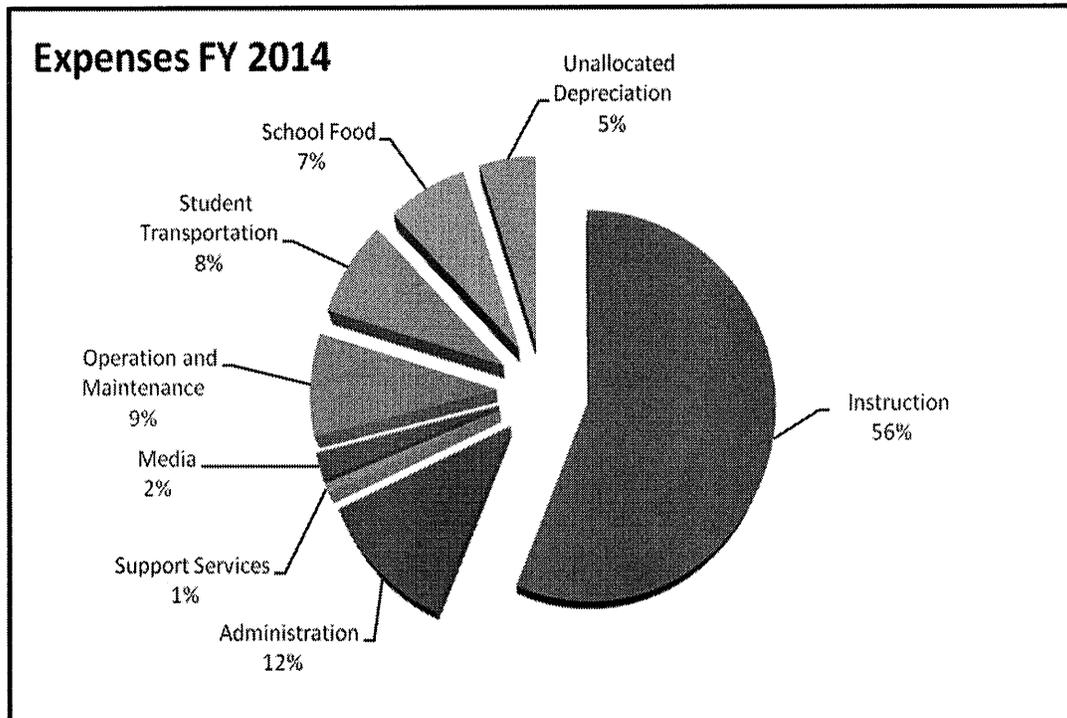
Changes in district wide activities from FY 2013 to FY 2014 include:

- ✚ Total revenues for the district were up 17.1% or \$179,707.
- ✚ Total expenses for the district were up 46.8% or \$334,088.
- ✚ Net position for the district was up 7.7% or \$173,266.
- ✚ Operation and maintenance costs were up 45.7% or \$27,898.
- ✚ Revenue from property taxes increased by 46.9% or \$36,345.
- ✚ Charges for services revenue was up 62.4% or \$11,686.
- ✚ County revenue was up 30.6% or \$8,644.
- ✚ Administration expenses were up 22% or \$22,344.
- ✚ School food service expenses were up 32.3% or \$18,354.
- ✚ Revenue from operating grants and contributions was up 12.7% or \$10,270.
- ✚ State equalization revenue increased by 16.7% or \$29,339.
- ✚ Other state revenue (majority Oil/Gas tax revenue) increased 16.1% or \$98,658.
- ✚ Media (library) expenses were down 26.9% or \$8,563 in FY 2014.
- ✚ Interest earnings increased 8.6% or \$348.
- ✚ District instruction expenses were up 73.6% or \$250,043.
- ✚ Student transportation expenses were up 26.8% or \$17,918.

District Expenses



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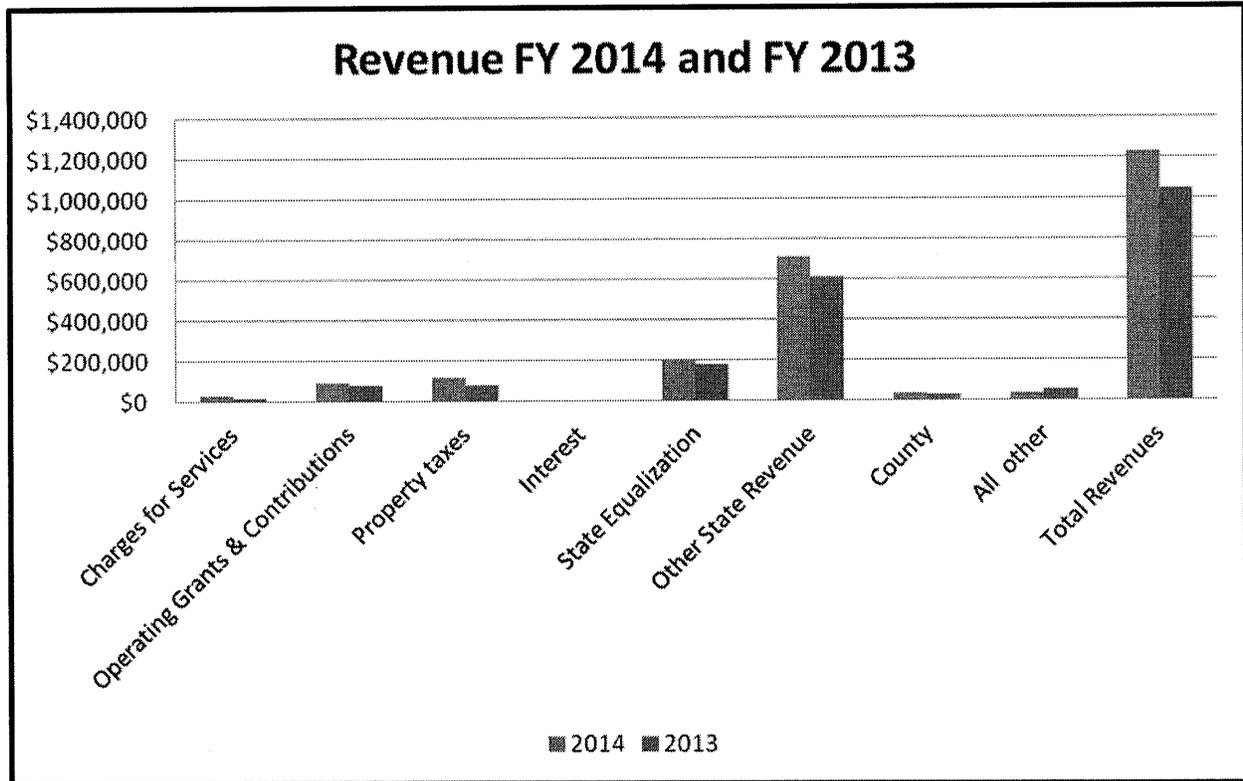


The pie graphs (shown above) for district expenses show the allocation of resources for specific purposes in the Rau District during FY 2013 and FY 2014. The graphs illustrates the major expenditure areas, with instruction costs accounting for 48% & 56% of the district expenses, transportation expenses accounting for 9% & 8%, operation & maintenance accounting for 9% both years, school food services were at 8% and 7%, media was 5% and 2%, depreciation was 7% & 5%, and administration at 14% & 12% of district expenses. The major changes in the overall expenses were an 8% increase in instruction costs along with a 2% decrease in depreciation, media, and administration expenses.

Revenue by Source – Governmental Activities

The bar graph below shows that other state revenue was by far the largest source of revenue for the Rau District followed by state equalization in FY 2014. Total revenues were up in the district as were state revenues, operating grants & contributions, charges for services revenue, county revenue, and property tax revenue. All other revenue was down in FY 2014. Generally, since state law requires levied fund budgets to be “balanced,” the changes in expenditures matched the changes in the revenues of these funds.

Rau Elementary School District No. 21
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
July 01, 2013 - June 30, 2014



Financial Analysis of the Government’s Funds

Fund accounting is mandated by Montana State law and is used by the Rau School District to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the *governmental funds* of the Rau School District is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the financial requirements of the school district. In particular, *unassigned fund balance* may serve as a useful measure of the net resources available for spending at the end of the year.

At the end of FY 2013, the governmental funds of the school district reported a combined ending fund balance of \$670,221 and at the end of FY 2014 the fund balance was \$881,427 which represents a 31.5% increase. The district had 37.6% in FY 2014 (10% in FY 2013) of the total fund balances as *unassigned fund balance*, which is available for spending at the discretion of the Board of Trustees.

The general fund is the main operating fund of the Rau School District. At the end of FY 2013 the General Fund had a balance of \$290,541 and at the close of FY 2014 the balance was \$331,661. The General Fund unassigned balance in FY 2014 was \$331,661. The total fund balances in the district increased \$211,207 from the end of FY 2013 to the end of FY 2014.

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Governmental Fund Financial Statements

Fund-based financial statements, consisting of a series of statements, provide information about the government's major and non-major funds. Governmental fund financial statements were prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The governmental funds balance sheet for FY 2014 is comprised of major funds and all other funds. The General Fund, Building Reserve Fund, and Miscellaneous Program Fund were the major funds in FY 2014. The Other Funds category includes the remainder of the governmental district funds. The governmental balance sheet for FY 2014 demonstrates that the Rau School District is in very good financial condition and increased the fund balances this past fiscal year. The district has considerable amounts of cash and investments in the general, building reserve, and miscellaneous funds which make up 90% of the total fund balances. The district has a minimal amount of liability attached to these same funds. The Rau District fund balances would seem to be strong enough to resolve any reasonable financial situation that might occur.

Statement of Revenues, Expenditures, and Changes in Fund Balances

The statement of revenues, expenditures, and changes in fund balances presents revenue and expenditures in each of the major fund categories. The major fund categories included for analysis are General Fund, Building Reserve Fund, and Miscellaneous Program Fund in FY 2014. The other funds category includes all the remaining governmental funds that the district is utilizing. State sources of revenue (91.7% in FY 2014 – was 85.9% in FY 2013) are the major revenue source for the district general fund category followed by district levies revenue (5.5% in FY 2014). The major expenditure in the general fund is instruction. Instruction expenditures make up 62.7% (57% in FY 2013) of the general fund total costs for FY 2014. General administrative services were number 2 in expenditures followed by operation and maintenance services and school food services. The total fund balances for the district increased 31.5% in FY 2014.

General Fund Budgetary Highlights

During FY 2014 the Rau School District received \$4,735 more in actual revenue than was anticipated in the original and final budgets. District levies brought in slightly more revenue than was expected (\$716) with other revenue \$4,064 more than was expected. Actual expenses were nearly the same as was budgeted in the final budget coming in \$58 less than was expected for FY 2014. District expenses were more than district revenue in the general fund by \$25,439 in FY 2014.

Capital Asset and Debt Administration

Capital assets

The investment by the Rau School District in capital assets for governmental activities as of June 30, 2014, was \$1,542,746. This investment in capital assets included land, buildings, machinery, and equipment. The value of the capital assets for the Rau District showed a 2.3% decrease from the FY 2013 to FY 2014. This decrease was mainly due to depreciation. The district did have a small amount of construction on school buildings in progress in FY 2014 (\$16,183). The district capital assets have no related debt.

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Capital Assets of the Rau School District

	June 30, 2013	Additions	Deletions	June 30, 2014	Percent Change
Land	\$10,000			\$10,000	0.0%
Buildings	\$2,088,580	\$16,183		\$2,104,763	0.8%
Equipment	\$108,161			\$108,161	0.0%
Totals	\$2,206,741	\$16,183		\$2,222,924	0.7%
Total Depreciation	(\$627,036)	(\$53,142)		(\$680,178)	8.5%
Net Capital Assets	\$1,579,705	(\$36,959)	0	\$1,542,746	-2.3%

Long-term debt

At the end of FY 2014, Rau School District had no bonded debt outstanding. The district did have long-term liabilities of \$7,677 for compensation of absences for employees.

Economic Factors and Fiscal Year Budgets for FY 2014

- ✚ The population of Richland County increased by 18.8% or about 1,830 residents from April 1, 2010 to July 1, 2014. This compares to the Montana average of a 3.5% increase.
- ✚ Residents of Richland County under the age of 18 in 2013 made up 24.1% of the population compared to Montana's 22.1%.
- ✚ Student enrollment numbers are converted to "Average Number (of students) Belonging" and are used to fund the district. Enrollment numbers varied from 2013-14 to 2014-15 by 1 student in grades K-6. Grade K-6 enrollment increased 1 student from 77 to 78.
- ✚ The unemployment rate for Richland County was 2.5% in June 2014 while Montana was at 4.7%.
- ✚ The poverty rate (2009-2013) for Richland County was 14.2%, when Montana was at 15.2%.
- ✚ The median household income for 2009-2013 in Richland County was \$58,112 while Montana was at \$46,230.
- ✚ State funding for Montana schools increased for FY 2014.

All of these and other factors were considered in preparing the FY 2014 budget for the Rau Elementary School District.

Requests for Information

The information and data included in this management's discussion and analysis report is designed to provide a general overview of the finances of Rau School District for all those with an interest in the government's finances. Questions concerning any of the information contained in this report should be addressed to the Rau Elementary School District located near Sidney, Montana.

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rau School District No. 21
Richland County
Sidney, Montana 59270

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 Rau School District No. 21 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 Rau School District No. 21 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 - 12) and budgetary comparison information (pages 29 - 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 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 Rau School District No. 21's basic financial statements. The accompanying schedule of reported enrollment (page 33) 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 June 30, 2015 on our consideration of Rau School District No. 21 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 Rau School District No. 21 internal control over financial reporting and compliance.



STROM & ASSOCIATES, PC
Billings, Montana
June 30, 2015

STATEMENT OF NET POSITION
 June 30, 2014

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 871,983
Taxes Receivable	1,409
Due From Other Governments	<u>9,444</u>
Total Current Assets	<u>882,836</u>
Capital Assets:	
Land	10,000
Construction in Progress	16,183
Net Depreciable Assets	<u>1,516,563</u>
Total Noncurrent Assets	<u>1,542,746</u>
Total Assets	<u>\$ 2,425,582</u>
LIABILITIES:	
Current Liabilities	
Current Portions Compensated Absences	<u>\$ 1,663</u>
Total Current Liabilities	<u>1,663</u>
Noncurrent Liabilities:	
Compensated Absences	<u>6,014</u>
Total Noncurrent Liabilities	<u>6,014</u>
Total Liabilities	<u>7,677</u>
NET POSITION:	
Net investment in capital assets	1,542,746
Restricted	550,623
Unrestricted (Deficit)	<u>324,536</u>
Total Net Position	<u>2,417,905</u>
Total Liabilities and Net Position	<u>\$ 2,425,582</u>

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

STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
				Primary Government
	Expenses	Charge for Services	Operating Grants and Contributions	Governmental Activities
GOVERNMENT OPERATIONS				
Instructional Services	\$ 589,688	\$ -	\$ 63,051	\$ (526,637)
Support Services	8,364	-	-	(8,364)
Educational Media Services	23,246	-	-	(23,246)
General Administrative Services	124,042	-	-	(124,042)
Operation & Maintenance Services	88,975	-	-	(88,975)
Transportation Services	84,753	13,500	12,018	(59,235)
School Food Services	75,111	16,905	15,989	(42,217)
Unallocated Depreciation Expense *	53,142	-	-	(53,142)
Total Governmental Activities	<u>1,047,321</u>	<u>30,405</u>	<u>91,058</u>	<u>(925,858)</u>
Total Primary Government	\$ <u>1,047,321</u>	\$ <u>30,405</u>	\$ <u>91,058</u>	\$ <u>(925,858)</u>
GENERAL REVENUES				
District Levies				113,909
State Equalization				205,252
Other State Revenues				710,780
County				36,923
Interest				4,395
Other				36,248
Total General Revenues				<u>1,107,507</u>
Change in Net Position				181,649
Net Position				
Beginning of the Year				2,244,640
Prior Period Adjustments				(8,384)
End of the Year				<u>\$ 2,417,905</u>

* Excludes depreciation included in direct expenses of the various functions

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

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2014

	MAJOR				Other Governmental Funds	Total Governmental Funds
	General	Transportation	Miscellaneous Programs	Building Reserve		
ASSETS:						
Current Assets:						
Cash and Cash Equivalents	\$ 331,661	\$ 67,929	\$ 81,535	\$ 370,371	\$ 20,487	\$ 871,983
Taxes Receivable	552	762	-	-	95	1,409
Due From Other Governments	-	-	9,444	-	-	9,444
Total Assets	\$ 332,213	\$ 68,691	\$ 90,979	\$ 370,371	\$ 20,582	\$ 882,836
DEFERRED INFLOWS OF RESOURCES						
Unavailable Property Taxes Receivable	552	762	-	-	95	1,409
Total Deferred Inflows of resources	552	762	-	-	95	1,409
FUND BALANCE:						
Fund Balances:						
Restricted	-	67,929	90,979	370,371	20,487	549,766
Unassigned:	331,661	-	-	-	-	331,661
Total Fund Balance	331,661	67,929	90,979	370,371	20,487	881,427
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 332,213	\$ 68,691	\$ 90,979	\$ 370,371	\$ 20,582	\$ 882,836

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 881,427
Governmental Capital Assets	1,542,746
Long-term Liabilities Compensated Absences	(7,677)
Unavailable Property Taxes Receivable	1,409
Net Position of Governmental Activities	\$ 2,417,905

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					Total Governmental Funds
	General	Transportation	Miscellaneous Programs	Building Reserve	Other Governmental Funds	
REVENUES:						
District Levies	\$ 44,901	\$ 61,859	\$ -	\$ -	\$ 7,776	\$ 114,536
Interest	2,080	270	404	1,455	186	4,395
Charges for Services	-	13,500	-	-	16,905	30,405
Other	20,873	-	6,565	-	8,810	36,248
County	-	6,009	-	-	36,923	42,932
State	752,441	8,836	9,444	174,614	1,115	946,450
Federal	-	-	38,781	-	15,850	54,631
Total Revenues	820,295	90,474	55,194	176,069	87,565	1,229,597
EXPENDITURES:						
Current						
Instructional Services	483,065	-	44,539	-	61,607	589,211
Support Services	7,918	-	-	-	446	8,364
Educational Media Services	23,246	-	-	-	-	23,246
General Administrative Services	118,857	-	-	-	5,074	123,931
Operation & Maintenance Services	82,842	-	-	4,380	1,753	88,975
Transportation Services	-	84,547	-	-	206	84,753
School Food Services	38,681	-	-	-	36,663	75,344
Capital Outlay	16,183	-	-	-	-	16,183
Total Expenditures	770,792	84,547	44,539	4,380	105,749	1,010,007
NET CHANGES IN FUND BALANCES	49,503	5,927	10,655	171,689	(18,184)	219,590
FUND BALANCE:						
Beginning of the Year	290,542	62,002	80,324	198,682	38,671	670,221
Prior Period Adjustments	(8,384)	\$ -	\$ -	\$ -	-	(8,384)
End of the Year	\$ 331,661	\$ 67,929	\$ 90,979	\$ 370,371	\$ 20,487	\$ 881,427

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

Rau School District No. 21
Richland County
Sidney, Montana 59270

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		\$	219,590
Revenues on the Statement of Activities not included in governmental funds statement:			
Increase (decrease) in taxes receivable			(627)
Expenses on the Statement of Activities not included in the governmental funds statement:			
Depreciation Expense	(53,142)		
(Increase) decrease in compensated absence liability	<u>(355)</u>		(53,497)
Expenditures reported in the governmental funds statement not included in the Statement of Activities			
Capital outlays			<u>16,183</u>
Change in net position reported on the Statement of Activities		\$	<u>181,649</u>

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

Rau School District No. 21
Richland County
Sidney, Montana 59270

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	<u>Agency Funds</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ <u>128,370</u>
Total Assets	<u>128,370</u>
LIABILITIES:	
Current Liabilities	
Warrants Payable	<u>128,370</u>
Total Liabilities	<u>\$ 128,370</u>

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

RAU SCHOOL DISTRICT NO. 21

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 Rau School District No. 21 (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 Non-exchange Financial Guarantees. The statement is applicable for fiscal year 2014. This Statement requires a government that extends a non-exchange 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 one legal entity, an elementary district which provides education for kindergarten through eighth grade. 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.

The Rau School District No. 21 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 Rau School District No. 21 (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.

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 (primary government). Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

RAU SCHOOL DISTRICT NO. 21

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

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 and facility rental 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 and endowment 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.

Agency fund financial statements report using the economic resources measurement focus and are reported using the accrual basis of accounting.

GASB Statement No. 34 requires the general fund be reported as a 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.

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 fund since the restrictions on those funds are similar to the general fund.

RAU SCHOOL DISTRICT NO. 21

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

- Miscellaneous Fund – This fund is used to account for local, state or federal grants and reimbursements. Donations that allow the expenditure of both principal and interest for support of School District programs are deposited in this fund.
- Building Reserve Fund – This fund is used to account for financing voter approved building or construction projects funded with School District mill levies. This includes raising money for the future construction, equipping, or enlarging of school buildings and for the purpose of purchasing land needed for school purposes in the School District.

1. b. 3 OTHER FUND TYPES

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. This fund primarily consists of revenues collected by the County on behalf of other governments.

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 Richland County 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 at auction. In the case of personal property, the property may be seized and sold after the taxes become delinquent.

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:

RAU SCHOOL DISTRICT NO. 21

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	10 – 50 years
Machinery and Equipment	3 – 20 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.

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 \$1,663 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.

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	\$ 11,006
Student Transportation	67,929
School Food	907
Third Party Grantor Restrictions	90,979
Employer Retirement Benefits	6,645
Future Technology	1,929
Future Capital Costs	370,371
Total	<u>\$ 549,766</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.

RAU SCHOOL DISTRICT NO. 21

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

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 Richland 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 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 Richland County Treasurer. No service charges have been recorded by the School District or the Richland 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>871,983</u>	\$ <u>128,370</u>	\$ <u>1,000,353</u>

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

	<u>Amount</u>
County Investment Pool	\$ <u>1,000,353</u>

Cash resources of the School District are held and managed by the Richland County Treasurer pursuant to State Law. They are combined with cash resources of other governmental entities within Richland County to form a pool of cash and cash equivalents. Investments of pooled cash consist primarily of repurchase agreements and U.S. government securities 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 Richland County government. Because of the custodial involvement of the Richland County government, and the commingling of cash in County deposits in the name of the Richland County Treasurer, full risk classifications according to GASB 40 are available in the Richland County's annual report. There is no known maturity and credit rating of the Richland County Investment Pool.

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 \$2,599,305. The tax rates assessed for the year ended June 30, 2014 to finance School District operations and applicable taxes receivable are as follows:

<u>Elementary Fund</u>	<u>Mill Levies</u>	<u>Taxes Receivable</u>
General*	17.00	\$ 552
Transportation*	23.53	762
Tuition	<u>2.81</u>	<u>95</u>
Total	<u>43.34</u>	\$ <u>1,409</u>

* Denotes Major Funds

NOTE 4. DUE FROM OTHER GOVERNMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>Due From</u>	<u>Reason</u>
Miscellaneous *	\$ <u>9,444</u>	State of MT	Students with significant needs grant

* Denotes Major Funds

RAU SCHOOL DISTRICT NO. 21

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

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>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Non-depreciable:</u>				
Land	\$ 10,000	\$ 0	\$ 0	\$ 10,000
Construction In Progress	0	16,183	0	16,183
Total Non-depreciable	<u>\$ 10,000</u>	<u>\$ 16,183</u>	<u>\$ 0</u>	<u>\$ 26,183</u>
<u>Depreciable:</u>				
Buildings	\$ 2,088,580	\$ 0	\$ 0	\$ 2,088,580
Machinery and equipment	108,161	0	0	108,161
Total Depreciable	<u>\$ 2,196,741</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,196,741</u>
<u>Accumulated Depreciation:</u>				
Buildings	\$ (557,151)	\$ (48,032)	\$ 0	\$ (605,183)
Machinery and equipment	(69,885)	(5,110)	0	(74,995)
Total Depreciation	<u>\$ (627,036)</u>	<u>\$ (53,142)</u>	<u>\$ 0</u>	<u>\$ (680,178)</u>
Net Depreciable Assets	<u>1,569,705</u>	<u>(53,142)</u>	<u>0</u>	<u>1,516,563</u>
Net General Capital Assets	<u>\$ 1,579,705</u>	<u>\$ (36,959)</u>	<u>\$ 0</u>	<u>\$ 1,542,746</u>

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

<u>Function</u>	<u>Amount</u>
Unallocated	<u>\$ 53,142</u>

NOTE 6. CHANGES IN LONG-TERM DEBT

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

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>New Debt</u> <u>and Other</u> <u>Additions</u>	<u>Principal</u> <u>Payments</u> <u>and Other</u> <u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One Year</u>
<u>Other Liabilities:</u>					
Compensated Absences	\$ 7,322	\$ 355	\$ 0	\$ 7,677	\$ 1,663
Total Other Liabilities	<u>\$ 7,322</u>	<u>\$ 355</u>	<u>\$ 0</u>	<u>\$ 7,677</u>	<u>\$ 1,663</u>
Total Governmental Activities - Long-Term Debt:	<u>\$ 7,322</u>	<u>\$ 355</u>	<u>\$ 0</u>	<u>\$ 7,677</u>	<u>\$ 1,663</u>

NOTE 7. DEFERRED INFLOWS OF RESOURCES

7. a. PROPERTY TAXES

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 552	Taxes Receivable
Transportation*	762	Taxes Receivable
Tuition	95	Taxes Receivable
Total	<u>\$ 1,409</u>	

* Denotes Major Funds

RAU SCHOOL DISTRICT NO. 21

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

NOTE 8. PRIOR PERIOD ADJUSTMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>REASON</u>
General*	\$ (37,118)	Payroll Clearing fund adjustment done in flexibility fund
Flexibility*	<u>28,734</u>	Payroll Clearing fund adjustment done in flexibility fund
Total	<u>\$ (8,384)</u>	

* Denotes Major Funds

NOTE 9. OTHER POST EMPLOYMENT BENEFITS

The School District allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. The School District uses a single premium for both active and retired employees resulting in an implicit rate subsidy (the older retiree benefits from the School District's blended premium). The School District has not recorded a liability for the implicit rate subsidy as based on an analysis of the cost it is not material to the School District's financial statements. At June 30, 2014 the School District had no retired employees on the group insurance plan.

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 assessed. 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.

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
P.O. Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
Phone: 406-444-3134
www.trs.doa.state.mt.us

Public Employees Retirement System
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
Phone: 406-444-3154
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.

RAU SCHOOL DISTRICT NO. 21

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

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	\$ <u>42,280</u>	\$ <u>30,909</u>	\$ <u>42,650</u>

NOTE 12. COOPERATIVE

12. a. SPECIAL EDUCATION

The Rau School District No. 21 is a member of the Prairie View Special Education 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 Rau School District No. 21, 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 Dawson 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.

NOTE 13. CONTINGENCIES

The government participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

NOTE 14. TRANSPORTATION

The School District entered into an operating lease with K-T Inc. for its student transportation needs. K-T Inc. provides buses, drivers, and maintenance of the buses for all student transportation needs of the School District. The contract is renewed annually with adjustments for fuel and mileage. Transportation fees paid in fiscal year 2014 were \$ 70,924.

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			Flexibility Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District Levies	\$ 44,185	\$ 44,185	\$ 44,901	\$ -	\$ -	\$ -
Interest	949	949	904	-	-	1,176
Charges for service	-	-	-	-	-	-
Other	-	-	4,064	-	-	16,809
County	-	-	-	-	-	-
State	431,810	431,810	431,810	1,373	1,373	320,631
Total Revenues	476,944	476,944	481,679	1,373	1,373	338,616
EXPENDITURES:						
Current						
Instructional Services			317,148	142,992	142,992	165,917
Support Services			7,639	279	279	279
Educational Media Services			9,925	13,321	13,321	13,321
General Administrative Services			78,977	39,880	39,880	39,880
Operation & Maintenance Services			68,853	13,989	13,989	13,989
Transportation			-	-	-	-
Extracurricular			-	-	-	16,183
School Food Services			24,576	14,105	14,105	14,105
Total Expenditures	507,175	507,175	507,118	224,566	224,566	263,674
NET CHANGES IN FUND BALANCES	(30,231)	(30,231)	(25,439)	(223,193)	(223,193)	74,942
FUND BALANCE:						
Beginning of the Year			67,349			223,193
Prior Period Adjustments			(37,118)			28,734
End of the Year			\$ 4,792			\$ 326,869

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 (continued)
 For the Year Ended June 30, 2014

	Transportation		
	Original Budget	Final Budget	Actual
REVENUES:			
District Levies	\$ 61,153	\$ 61,153	\$ 61,859
Interest	-	-	270
Charges for service	-	-	13,500
Other	-	-	-
County	6,008	6,008	6,009
State	8,836	8,836	8,836
Total Revenues	<u>75,997</u>	<u>75,997</u>	<u>90,474</u>
EXPENDITURES:			
Current			
Instructional Services			-
Support Services			-
Educational Media Services			-
General Administrative Services			-
Operation & Maintenance Services			-
Transportation			84,547
Extracurricular			-
School Food Services			-
Total Expenditures	<u>115,000</u>	<u>115,000</u>	<u>84,547</u>
NET CHANGES IN FUND BALANCES	(39,003)	(39,003)	5,927
FUND BALANCE:			
Beginning of the Year			62,002
Prior Period Adjustments			-
End of the Year			<u>\$ 67,929</u>

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

RAU SCHOOL DISTRICT NO. 21

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, budgeted special revenue funds including (Transportation, Tuition, Retirement, Adult Education, Technology, Flexibility), and budgeted capital project funds (Building Reserve). 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. The major fund building reserve is not included in the schedule because it is not a special revenue fund and the miscellaneous fund is a non-budgeted fund.

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.

NOTE 3. EXCESS EXPENDITURES OVER APPROPRIATIONS

<u>Elementary Fund</u>	<u>Amount</u>	<u>REASON</u>
Retirement	\$ (12,261)	Excess reserves payment was not budgeted.
Flexibility	<u>(39,108)</u>	Excess gas & oil money not budgeted.
Total	<u>\$ (51,369)</u>	

RAU SCHOOL DISTRICT NO. 21

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

NOTE 4. COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL SUB-FUNDS OF THE GENERAL FUND

	<u>Sub-fund General Fund</u>	<u>Sub-fund Flexibility Fund</u>	<u>Total General Fund</u>
REVENUES:			
District Levies	\$ 44,901	\$ 0	\$ 44,901
Interest Earnings	904	1,176	2,080
Other	4,064	16,809	20,873
State Sources	<u>431,810</u>	<u>320,631</u>	<u>752,441</u>
Total Revenues	<u>\$ 481,679</u>	<u>\$ 338,616</u>	<u>\$ 820,295</u>
EXPENDITURES:			
Instructional Services	317,148	165,917	483,065
Support Services	7,639	279	7,918
Educational Media	9,925	13,321	23,246
General Administrative	78,977	39,880	118,857
Operation & Maintenance	68,853	13,989	82,842
School Food	24,576	14,105	38,681
Extracurricular	<u>0</u>	<u>16,183</u>	<u>16,183</u>
Total Expenditures	<u>\$ 507,118</u>	<u>\$ 263,674</u>	<u>\$ 770,792</u>
Net Changes In Fund Balance	(25,439)	74,942	49,503
FUND BALANCE:			
Beginning of the Year	67,349	223,193	290,542
Prior Period Adjustment	<u>(37,118)</u>	<u>28,734</u>	<u>(8,384)</u>
Ending of the Year	<u>4,792</u>	<u>326,869</u>	<u>331,661</u>

In the reconciliation the general fund and flexibility fund 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 fund 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 fund and flexibility fund because they are reported as major funds and have legally adopted budgets.

RAU SCHOOL DISTRICT NO. 21

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	8	8	0
Grade 1 - 6	<u>68</u>	<u>68</u>	<u>0</u>
Total	<u>76</u>	<u>76</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	9	9	0
Grade 1 - 6	<u>68</u>	<u>68</u>	<u>0</u>
Total	<u>77</u>	<u>77</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	8	8	0
Grade 1 - 6	<u>68</u>	<u>68</u>	<u>0</u>
Total	<u>76</u>	<u>76</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
Rau School District No. 21
Richland County
Sidney, Montana 59270

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 Rau School District No. 21 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Rau School District No. 21's basic financial statements and have issued our report thereon dated June 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rau School District No. 21'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 Rau School District No. 21'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 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 2014-001.

Rau School District No. 21's Response to Findings

The District did not provide a response to the findings identified in our audit are described in the schedule of findings and responses. State law provides if a response is not included in the report the audited entity has thirty-days to provide a response to the State.

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, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
June 30, 2015

RAU SCHOOL DISTRICT NO. 21

SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year-Ended June 30, 2014

The following is the status of prior year findings and updated for the fiscal year ended June 30, 2014.

Prior year findings

2013-001 – Expenditures: This finding was not repeated in fiscal year 2014

2013-002 – Reconciliations: This finding was not repeated in fiscal year 2014

Current year finding

2014-001 Budgets:

Criteria: MCA 20-9-133(2) requires school district's not over spend their approved budgets.

Condition: The retirement and flexibility fund over spent their approved budgets.

Effect: The effect is noncompliance with state code.

Context: The retirement and flexibility funds were over budget by \$12,261 and \$39,108 respectively.

Cause: The retirement fund was over budget due to year-end bonuses. The flexibility fund was over budget due to more oil & gas revenue being spent and a budget amendment no being adopted.

Recommendation: We recommend the district adopt budget amendments for funds that exceed their original adopted budget.