

SAVAGE SCHOOL DISTRICT NO. 7J & 2

**RICHLAND COUNTY
SAVAGE, MONTANA**

FINANCIAL AND COMPLIANCE REPORT

Fiscal year Ended June 30, 2014

Strom & Associates, P. C.

**PO BOX 1980
Billings, Montana 59103**

Savage School District No. 7J & 2
Richland County
Savage, Montana 59262

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Savage School District No. 7J & 2
Richland County
Savage, Montana 59262

ORGANIZATION

BOARD OF TRUSTEES

Charlene Jonsson	Chair
Lance Mille	Vice Chair
Daren Reynolds	Trustee
John Stonehocker	Trustee
Michelle Smith	Trustee

OFFICIALS

Lynne Peterson	Superintendent
Diana Miller	District Clerk
Gail Staffanson	County Superintendent
Mike Webber	County Attorney

Savage K-12 Schools

Management's Discussion and Analysis

This section of the Savage School District Financial Statements present the management's discussion and analysis of the district's financial performance during the fiscal year (FY) ending June 30, 2014. This narrative overview and analysis of the financial activities of the Savage 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 FY 2014

- ✦ The Savage School District assets exceeded the district liabilities at the close of FY 2014 by \$5,430,710.
- ✦ The overall revenues from all sources for the Savage School District for FY 2014 were \$2,556,633 which represented a 33% increase from FY 2013.
- ✦ The district had \$271,388 more in revenue than expenses in FY 2014.
- ✦ Revenue from property taxes decreased by 8% or \$17,144 in FY 2014.
- ✦ Revenue from the State of Montana was up 49.8% or \$642,368 in FY 2014.
- ✦ Savage School District revenue collected from state sources is 75.6% (67.6% in FY 2013) of total revenue in FY 2014. While 7.7% (11.1% in FY 2013) of the district revenue is collected from property taxes at the local level in FY 2014.
- ✦ Instruction expenses were up 14.7% or \$169,209 from FY 2013 to FY 2014.
- ✦ The two largest expense areas were instruction at 57.7% (60.2% in FY 2013) and operation & maintenance at 11.9% (11.1% in FY 2013) of district costs for FY 2014.
- ✦ The Savage School District expenses for FY 2014 were \$2,285,245 which represents a 21.8% increase from FY 2013.
- ✦ The Savage School District capital assets are valued at \$4,886,055 after depreciation is subtracted and have \$551,693 of long term bonded debt after recent improvements to the facilities.
- ✦ The Savage School District net position decreased by 3.82% in FY 2014.
- ✦ Expenses for instruction, operation and maintenance, and administration account for 78% (82% in FY 2013) of the district expenses in FY 2014.
- ✦ The district had a total governmental fund balance of \$1,173,714 at the end of FY 2014 which was a 50% increase from FY 2013.
- ✦ The Savage School District financial position is excellent even with a slight decrease in FY 2014.

Overview of the Savage 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 Savage K-12 Schools. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. It also, contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Savage 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 Savage School District, with the difference between the two reported as *net position*. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the Savage 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 Savage 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 Savage 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.

A *fund* is a group of related accounts used to maintain control over resources segregated for specific activities or objectives. The Savage District, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Savage 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 Savage Schools. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Savage Elementary and High School districts are recognized by state law as separate entities, but for the purposes of this discussion are combined. 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, High School Transportation Fund, and the High School Building Reserve Fund as they were the major funds for FY 2014. 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 Savage 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 funds statements offer short-term and long-term financial information about the activities the district may operate similar to business. 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 Savage District does not operate any proprietary funds.

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 Savage School District. Student activity accounts and scholarship trusts are the most common fiduciary funds in school districts. The Savage School District has fiduciary funds in their Student Activity Account Fund and Private Purpose Trust Fund.

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 and can be found later in this report.

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 government. In the case of the Savage School District, assets exceeded liabilities by \$5,646,474 at the close of FY 2013 and \$5,430,710 at the close of FY 2014. Net position for the district at the end of FY 2014 showed a 3.82% decrease from the close of FY 2013. The current net position of the district increased 25.8% in FY 2014 while the capital assets decreased 12.1% from FY 2013. District liabilities decreased \$218,093 in FY 2014 mostly due to a decrease in current liabilities and a payment on the district long term bond. The chart on the following page presents information on the districts net position for budget years FY 2013 and FY 2014. The right hand column shows the percentage change in each category.

Overall Financial Position of the Districts for FY 2014

The overall financial position of the Savage School Districts during FY 2014 decreased 3.82% from FY 2013. The district's net position decreased in FY 2014 due to an increase in current and other assets of 25.8% (\$242,612) along with a 12.16% (\$676,469) decrease in capital assets. The increase in current assets was mostly due to more revenue than expenses in FY 2014. The decrease in capital assets was mostly due to deleting old equipment and machinery from the capital asset list (\$535,952). In addition, the district did have \$165,267 in depreciation expense. The district added \$99,960 of capital assets which was 2 manufactured mobile homes for district housing of staff. The district does have \$551,693 of long term capital debt (bonds) for a recent improvement of facilities which included a new addition that has locker rooms, weight room, concession area, public bathrooms, an elementary boy's bathroom, mechanical room, storage and a new heating/cooling system. In addition, the district has a long term obligation of \$47,762 for compensated absences of employees and \$39,658 for Other Post Employment Benefits of employees. The overall financial position of the district is excellent even with a slight decrease in FY 2014.

Net Position of the Savage School District

	Governmental Activities			
	FY 2014	FY 2013	Change	Percent Change
Current and Other Assets	\$1,183,768	\$941,156	\$242,612	25.78%
Capital Assets	\$4,886,055	\$5,562,524	(\$676,469)	-12.16%
Total Assets	\$6,069,823	\$6,503,680	(\$433,857)	-6.67%
Liabilities				
Current Liabilities	\$73,126	\$223,683	(\$150,557)	-67.31%
Long Term Liabilities	\$565,987	\$633,523	(\$67,536)	-10.66%
Total Liabilities	\$639,113	\$857,206	(\$218,093)	-25.44%
Net Position				
Investment in Capital Assets Net of Related Debt	\$4,334,362	\$4,947,207	(\$612,845)	-12.39%
Restricted	\$532,160	\$451,554	\$80,606	17.85%
Unrestricted	\$564,188	\$247,713	\$316,475	127.76%
Total net position	\$5,430,710	\$5,646,474	(\$215,764)	-3.82%

A large portion of the net position of the Savage District at the close of the FY 2014 (79.8%) reflects the investment by the school district in capital assets such as land, buildings, machinery, and equipment. The capital assets of the Savage District have related debt. The Savage 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. Another portion of the net position of the Savage School District represents *unrestricted assets* which may be used to meet the ongoing obligations of the school district to citizens and creditors. The unrestricted funds increased by 127% or \$316,475 from FY 2013 to FY 2014 and are now at \$564,188. The third portion of the net position of the district is *restricted assets*. The restricted assets are designated for a specific purpose and must be used accordingly. The restricted assets increased 17.85% from FY 2014 to FY 2014 and are now at \$532,160. The Savage School District was able to report a positive balance of net position for both the government as a whole, as well as for governmental activities. The Savage School District net position decreased \$215,764 or 3.82% during the FY 2014. The decrease in net position only slightly negatively influences the strong financial condition of the district.

Governmental activities

Net position derived from governmental activities for the Savage School District decreased by \$215,764 or 3.82% during the FY 2014.

District Wide - Statement of Activities

	Governmental Activities			
	FY 2014	FY 2013	Change	% Change
Program revenues:				
Charges for services	\$51,553	\$40,557	\$10,996	27.11%
Operating Grants & Contributions	\$188,228	\$138,345	\$49,883	36.06%
General revenues			\$0	
Property taxes	\$196,252	\$213,396	(\$17,144)	-8.03%
Interest	\$5,718	\$6,354	(\$636)	-10.01%
State	\$1,932,380	\$1,290,012	\$642,368	49.80%
County	\$182,185	\$218,199	(\$36,014)	-16.51%
All other	\$317	\$15,897	(\$15,580)	-98.01%
Total Revenues	\$2,556,633	\$1,922,758	\$633,875	32.97%
Expenses:				
Instruction	\$1,318,962	\$1,149,753	\$169,209	14.72%
General Admin	\$191,500	\$201,116	(\$9,616)	-4.78%
Operation and Maintenance	\$272,722	\$208,670	\$64,052	30.70%
Student Transportation	\$103,454	\$89,775	\$13,679	15.24%
Food Services	\$107,941	\$110,230	(\$2,289)	-2.08%
Student Extracurricular	\$65,358	\$55,033	\$10,325	18.76%
Student Services	\$35,985	\$54,343	(\$18,358)	-33.78%
Educational Media	\$16,936	\$3,886	\$13,050	335.82%
Interest	\$7,120	\$2,752	\$4,368	158.72%
Depreciation	\$165,267	\$0	\$165,267	100.00%
Total expenses	\$2,285,245	\$1,875,558	\$409,687	21.84%
Increase (Decrease) in assets	\$271,388	\$47,200	\$224,188	474.97%
Prior Period Adjustment	(\$487,152)	\$324,405	(\$811,557)	-250.17%
Beginning Net Position	\$5,646,474	\$5,274,869	\$371,605	7.04%
Ending Net Position	\$5,430,710	\$5,646,474	(\$215,764)	-3.82%

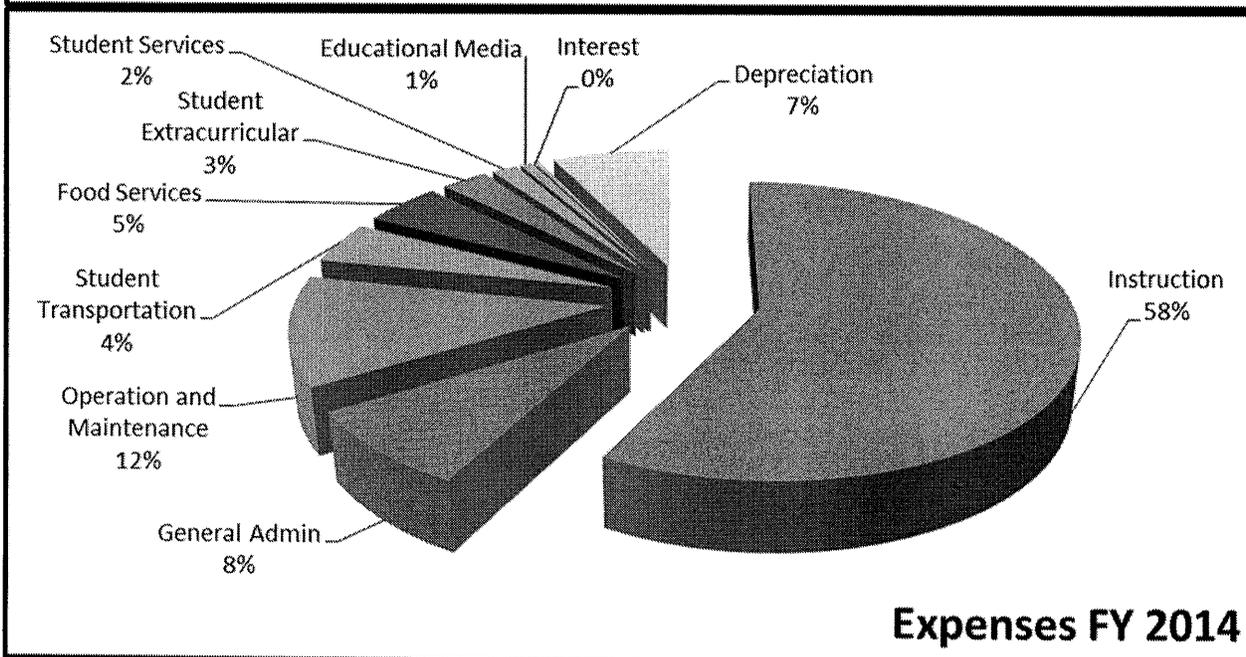
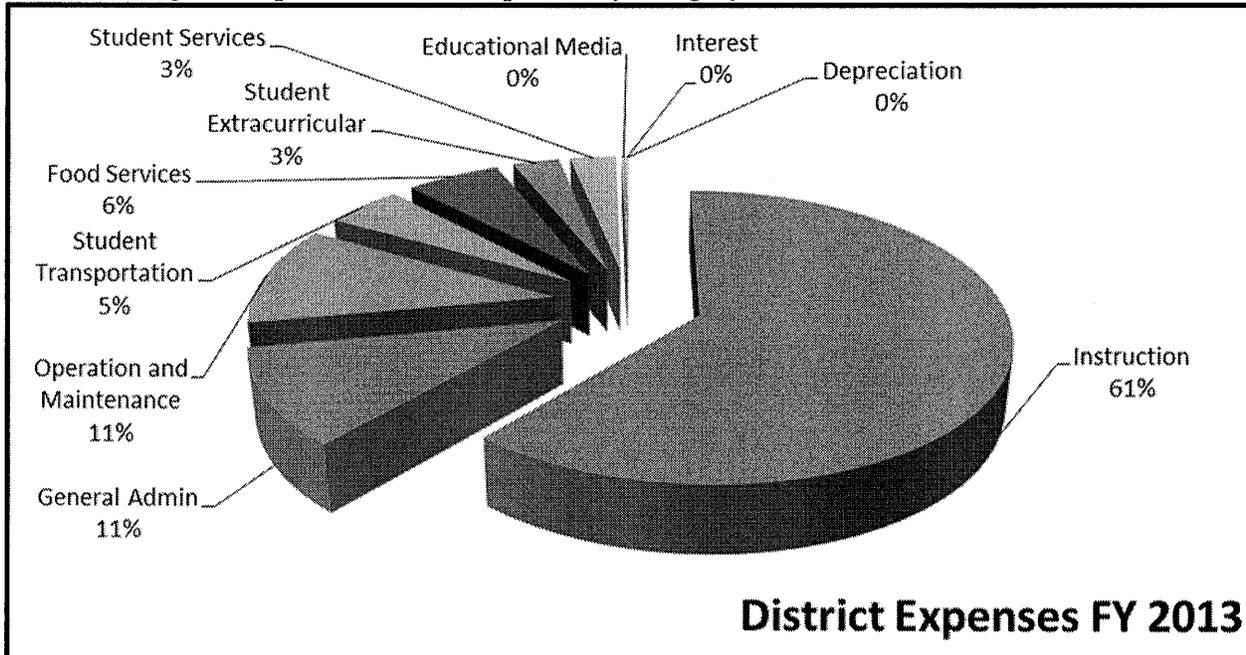
Changes in district wide governmental activities from FY 2013 to FY 2014 include:

- ✦ Total Revenues for the district were up 33% or \$633,875 in FY 2014.
- ✦ Total expenses for the district were up 21.8% or \$409,687.
- ✦ Revenue from property taxes decreased by 8% or \$17,144
- ✦ Revenue from charges for services increased 27.1% or \$10,996.
- ✦ State revenue was up 49.8% (\$642,368) and county revenue was down 16.5% (\$36,014).
- ✦ District instruction expenses were up 14.7% or \$169,209.
- ✦ Administration expenses were down \$9,616 or 4.8%.
- ✦ Student Transportation expenses increased by 15.2% or \$13,679.
- ✦ Student support expenses were down 33.8% or \$18,358.
- ✦ Operation and maintenance costs were up \$64,052 or 30.7%.
- ✦ Food services expenditures were down \$2,289 or 2.1%.
- ✦ Interest earnings decreased by 10% or \$636.
- ✦ Revenue from operating grants and contributions was up 36% or \$49,883.
- ✦ Student extracurricular expenses increased 18.8% or \$10,325.

- ✚ Educational media expenses increased 335% or \$13,050.
- ✚ Depreciation expenses increased 100% or \$165,267.
- ✚ Revenues minus expenses resulted in a positive \$271,388 for the district in FY 2014.

District Expenses

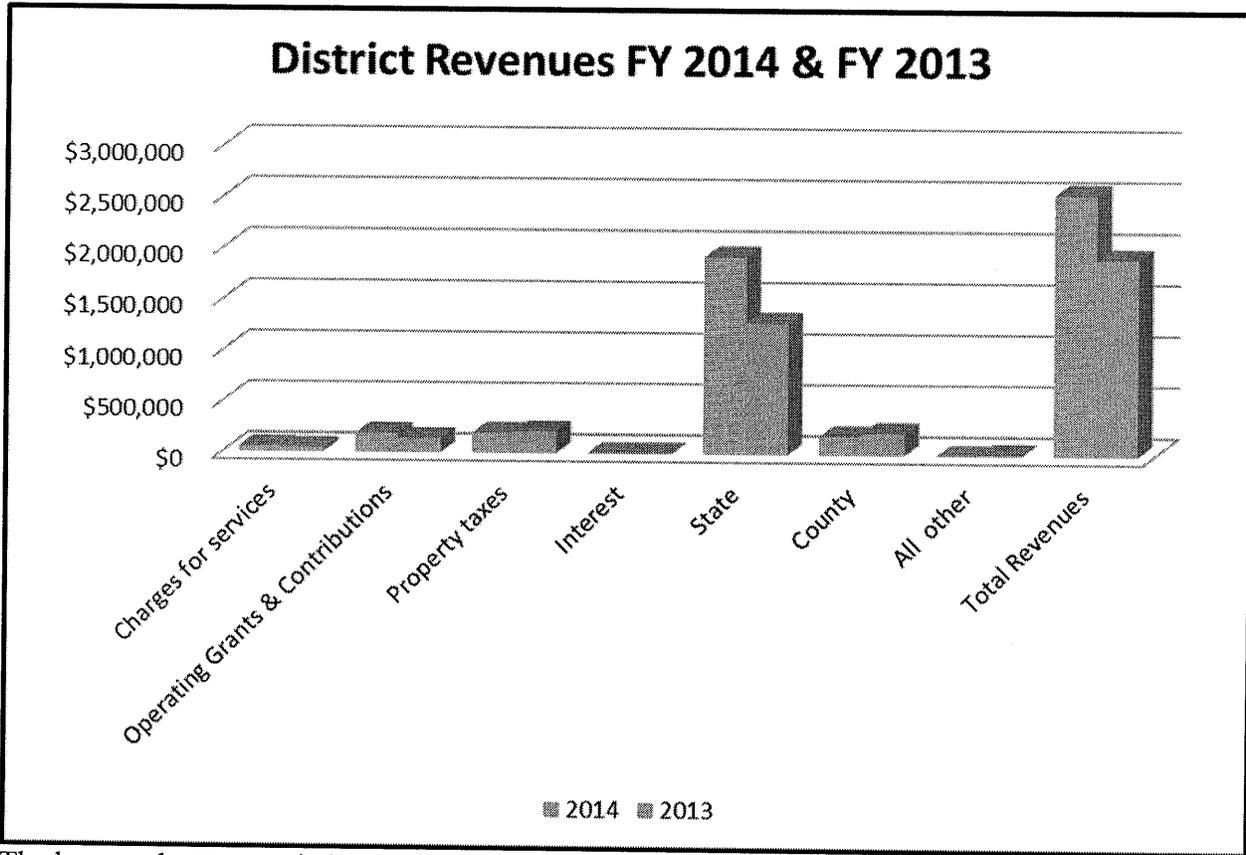
The following charts present district expenses by category for FY 2013 and FY 2014.



The pie graphs for district expenses show the allocation of resources for specific purposes in the Savage Schools during FY 2013 and FY 2014. The graphs illustrates the major expenditure areas, with instruction costs accounting for 61% & 58% of the district expenses in FY 2013 and FY 2014, operation & maintenance accounting for 11% and 12% of the district expenses, and general administration accounting for 11% and 8%. Instruction and administrative costs decreased

by 3% of the total expenses in FY 2014 along with a 1% increase in operation and maintenance proportion of the total costs. Depreciation increased 7% of the total expenses in FY 2014. Instruction (58%) is the district's highest expense followed by operation and maintenance at 12%. General administration is the third highest expenses at 8%.

Revenue by Source – Governmental Activities



The bar graph presented above shows that state sources of revenue were the largest source for the Savage District in FY 2014 and FY 2013. The major changes from FY 2013 to FY 2014 were an increase in state revenue, charges for services, operating grants and contributions, and total revenue. Property tax, county revenue, and other revenue decreased in FY 2014. State revenue sources were the largest source of revenue for the district followed by property tax revenue and operating grants and contribution revenue. Generally, since state law requires levied fund budgets to be "balanced," the changes in expenditures matched the changes in the revenues of these funds.

Financial Analysis of the Government's Funds

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

Governmental funds

The focus of the *governmental funds* of the Savage 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 the FY 2013 the governmental funds of the school district reported a combined ending fund balance of \$782,536 and at the end of FY 2014 the combined fund balance was \$1,173,714 which represents a 50% increase. The unassigned ending fund balance for FY 2014 was \$650,037 which represents 55.4% of the total governmental funds. The unassigned ending fund balance of \$650,037 is available for spending at the discretion of the Board of Trustees.

The general fund is the main operating fund of the Savage School District. At the end of the FY 2013 the general fund had a balance of \$333,379 and at the end of FY 2014 the balance was \$651,239. The general fund unassigned balance for FY 2014 was \$650,037. The total fund balances in the district increased \$391,178 or 50% from the end of FY 2013 to the end of the FY 2014.

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 are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The governmental funds balance sheet for the FY 2014 is comprised of major funds and all other funds. The General Fund, High School Transportation Fund, and the High School Building Reserve 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 Savage School District is in excellent financial condition. The District has considerable amounts of cash and investments in the major funds which makes up 68.1% (76.1% in FY 2013) of the total fund balances in FY 2014. The District liabilities are equal to approximately 54.4% of the total governmental funds balance at the end of FY 2014. The Savage 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 in FY 2014 were the General Fund, High School Transportation Fund, and the High School Building Reserve Fund. The other funds category includes all the remaining governmental funds that the district is utilizing. State sources of revenue are 93.8% (87.3% in FY 2013) of the total general fund revenue in FY 2014 followed by district levies at 6%. The major expenditure in the general fund is instruction. Instruction expenditures made up 61.7% (56.1% in FY 2013) of the general fund total cost for FY 2014. Operation and maintenance ranked second with 9.5% of the general fund expenditures in FY 2014 followed by general administrative services at 9%. The total fund balances in the district increased 50% in FY 2014.

General Fund Highlights

The general fund highlights from FY 2014 show that actual revenue for the fund was \$1,886,275 with state sources (93.8%) producing the most revenue followed by district levies at 6%. Actual expenditures in the general fund for FY 2014 were \$1,667,622 with instructional costs accounting for 61.7% of the total expenditures followed by operation and maintenance at 9.5%. Revenue exceeded expenditures in the general fund for FY 2014 by \$218,653. The net result of more revenue than expenditures for the general fund along with a prior adjustment was an increase of \$317,860 in the fund at the end of the FY 2014.

Capital Asset and Debt Administration

Capital assets

The investment by the Savage School District in capital assets for governmental activities as of June 30, 2013, was \$5,562,524 after depreciation was subtracted. The district capital asset value was \$4,886,055 on June 30, 2014 which was a decrease of 12.1%. This investment in capital assets included land, building improvements, buildings, furniture, and equipment. The decrease in capital assets was mostly due to deleting old equipment and machinery from the capital asset list (\$535,952). In addition, the district did have \$165,267 in depreciation expense. The district added \$99,960 of capital assets which was 2 manufactured mobile homes for district housing of staff. The district does have \$551,693 of long term capital debt (bonds) for a recent improvement of facilities which included a new addition that has locker rooms, weight room, concession area, public bathrooms, an elementary boy's bathroom, mechanical room, storage and a new heating/cooling system.

Long-term debt

At the end of FY 2014 the Savage School District had \$551,693 in bonded debt outstanding for the recent improvement of facilities. The district had long-term liabilities of \$47,762 for compensated absences of employees and Other Post Employment Benefit liabilities of \$39,658.

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 FY 2013 to FY 2014: Grade K-6 enrollment increased 6 students, grade 7-8 enrollment decreased by 1 student, and high school enrollment increased by 2 students for a net change of 7 more students in the district.
- ✦ 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 Savage 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 Savage 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 Savage administration and business office located in Savage, Montana.

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Savage School District No. 7J & 2
Richland County
Savage, Montana 59262

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 Savage School District No. 7J & 2 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.

Basis for qualified Opinion on the Aggregate Remaining Fund Information and High School Transportation Fund

The financial statements as presented in the payroll and warrant agency fund clearing accounts, one of the funds included in the aggregate remaining fund information, do not agree to the county by \$16,530, resulting in assets being overstated. The outstanding warrants in the clearing accounts do not agree to the subsidiary ledger and are understated by \$27,098, resulting in warrants outstanding being overstated.

In addition, the school district transferred \$125,010 of excess cash in the clearing funds to other funds. This transfer affected the high school flexibility fund by \$99,207, the elementary transportation fund by \$13,303 and the high school transportation fund by \$11,500. This results in assets being overstated in the fund statements and assets in the clearing accounts being understated.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for qualified Opinion on the Aggregate Remaining Fund Information and High School Transportation Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the high school transportation fund and aggregate remaining fund information of Savage School District No. 7J & 2, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the building reserve fund of Savage School District No. 7J & 2 as of June 30, 2014, and the respective changes in financial position 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 the schedule of funding for other post-employment benefits other than pensions (pages 32) and budgetary comparison information (pages 33 - 37) 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 Savage School District No. 7J & 2's basic financial statements. The accompanying schedule of revenues, expenses and balances student activity funds (page 38) and schedule of reported enrollment (page 39) 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 May 22, 2015 on our consideration of Savage School District No. 7J & 2 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 Savage School District No. 7J & 2 internal control over financial reporting and compliance.

Strom & Associates, P.C.

STROM & ASSOCIATES, PC
Billings, Montana
May 22, 2015

STATEMENT OF NET POSITION
 as of June 30, 2014

	<u>Governmental</u> <u>Activities</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 1,173,714
Taxes Receivable	<u>10,054</u>
Total Current Assets	<u>1,183,768</u>
Noncurrent Assets:	
Capital Assets:	
Land	224,973
Net Depreciable Assets	<u>4,661,082</u>
Total Noncurrent Assets	<u>4,886,055</u>
Total Assets	<u>\$ 6,069,823</u>
LIABILITIES:	
Current Liabilities	
Current Portions Compensated Absences	8,463
Current Portion Long-Term Capital Obligations	<u>64,663</u>
Total Current Liabilities	<u>73,126</u>
Noncurrent Liabilities:	
Long-Term Obligations	39,658
Compensated Absences	39,299
Long-Term Capital Obligations	<u>487,030</u>
Total Noncurrent Liabilities	<u>565,987</u>
Total Liabilities	<u>639,113</u>
NET POSITION:	
Net investment in capital assets	4,334,362
Restricted	532,160
Unrestricted (Deficit)	<u>564,188</u>
Total Net Position	<u>5,430,710</u>
Total Liabilities and Net Position	<u>\$ 6,069,823</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
	Expenses	Charge for Services	Operating Grants and Contributions	Primary Governmen Governmental Activities
GOVERNMENT OPERATIONS				
Instructional Services	\$ 1,318,962	\$ 1,200	\$ 126,080	\$ (1,191,682)
Support Services	35,985	-	-	(35,985)
Educational Media Services	16,936	-	-	(16,936)
General Administrative Services	191,500	-	-	(191,500)
Operation & Maintenance Services	272,722	25,529	-	(247,193)
Transportation Services	103,454	-	38,791	(64,663)
School Food Services	107,941	24,824	23,357	(59,760)
Extracurricular	65,358	-	-	(65,358)
Debt Service				
Interest and other charges	7,120	-	-	(7,120)
Unallocated Depreciation Expense *	165,267	-	-	(165,267)
Total Governmental Activities	<u>2,285,245</u>	<u>51,553</u>	<u>188,228</u>	<u>(2,045,464)</u>
GENERAL REVENUES				
District Levies				196,252
State Equalization				482,414
Other State Revenues				1,449,966
County				182,185
Interest				5,718
Other				317
Total General Revenues				<u>2,316,852</u>
Change in Net Position				271,388
Net Position				
Beginning of the Year				5,646,474
Prior Period Adjustments				(487,152)
End of the Year				<u>\$ 5,430,710</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
 as of June 30, 2014

	MAJOR				Total Governmental Funds
	General	Transportation (HS)	Building Reserve (HS)	Other Governmental Funds	
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 651,239	\$ 17,961	\$ 129,801	\$ 374,713	\$ 1,173,714
Taxes Receivable	369	9,174	-	511	10,054
Total Assets	<u>651,608</u>	<u>27,135</u>	<u>129,801</u>	<u>375,224</u>	<u>1,183,768</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Property Taxes Receivable	369	9,174	-	511	10,054
Total Deferred Inflows of resources	<u>369</u>	<u>9,174</u>	<u>-</u>	<u>511</u>	<u>10,054</u>
FUND BALANCE:					
Fund Balances:					
Restricted	-	17,961	129,801	374,713	522,475
Assigned	1,202	-	-	-	1,202
Unassigned:	650,037	-	-	-	650,037
Total Fund Balance	<u>651,239</u>	<u>17,961</u>	<u>129,801</u>	<u>374,713</u>	<u>1,173,714</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 651,608</u>	<u>\$ 27,135</u>	<u>\$ 129,801</u>	<u>\$ 375,224</u>	<u>\$ 1,183,768</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance reported above	\$ 1,173,714
Governmental Capital Assets	4,886,055
Long-term Liabilities	
Long-Term Obligations	(39,658)
Compensated Absences	(47,762)
Long-Term Capital Obligations	(551,693)
Unavailable Property Taxes Receivable	10,054
Net Position of Governmental Activities	<u>\$ 5,430,710</u>

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				
	General	Transportation (HS)	Building Reserve (HS)	Other Governmental Funds	Total Governmental Funds
REVENUES:					
District Levies	\$ 113,459	\$ 36,320	\$ 7,103	\$ 31,883	\$ 188,765
Interest	3,638	13	634	1,433	5,718
Charges for Services	-	-	-	51,553	51,553
Other	97	-	-	220	317
County	-	6,050	-	195,666	201,716
State	1,769,081	6,782	94,315	155,918	2,026,096
Federal	-	-	-	74,981	74,981
Total Revenues	<u>1,886,275</u>	<u>49,166</u>	<u>102,051</u>	<u>511,654</u>	<u>2,549,146</u>
EXPENDITURES:					
Current					
Instructional Services	1,029,493	-	-	290,138	1,319,631
Support Services	31,246	-	-	4,739	35,985
Educational Media Services	14,693	-	-	2,243	16,936
General Administrative Services	149,983	8,776	-	28,114	186,873
Operation & Maintenance Services	159,024	-	68,883	48,502	276,409
Transportation Services	5,441	40,933	-	57,080	103,454
School Food Services	49,534	-	-	57,094	106,628
Extracurricular	62,531	-	-	2,827	65,358
Debt Service	-	-	-	-	-
Principal	59,867	-	-	-	63,624
Interest and other charges	5,850	-	-	-	7,120
Capital Outlay	99,960	-	250	(250)	99,960
Total Expenditures	<u>1,667,622</u>	<u>49,709</u>	<u>69,133</u>	<u>490,487</u>	<u>2,281,978</u>
NET CHANGES IN FUND BALANCES	218,653	10,958	32,918	21,167	267,168
FUND BALANCE:					
Beginning of the Year	333,379	7,004	96,882	345,271	782,536
Prior Period Adjustments	99,207	-	-	24,803	124,010
End of the Year	<u>\$ 651,239</u>	<u>\$ 17,961</u>	<u>\$ 129,801</u>	<u>\$ 374,713</u>	<u>\$ 1,173,714</u>

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

Savage School District No. 7J & 2
Richland County
Savage, Montana 59262

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		\$	267,168
Revenues on the Statement of Activity not included in governmental funds statement:			
Increase (decrease) in taxes receivable			7,487
Expenses on the Statement of Activity not included in the governmental funds statement:			
Depreciation Expense	(165,267)		
(Increase) decrease in Other Post Employment Benefits	(19,829)		
(Increase) decrease in compensated absence liability	<u>18,245</u>	(166,851)	
Expenditures reported in the governmental funds statement not included in the Statement of Activity			
Capital outlays	99,960		
Principal payments on bonds	<u>63,624</u>	<u>163,584</u>	
Change in net position reported on the Statement of Activity		\$	<u>271,388</u>

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

Savage School District No. 7J & 2
 Richland County
 Savage, Montana 59262

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	\$ 76,733	\$ 132,334
Total Assets	76,733	132,334
LIABILITIES:		
Current Liabilities		
Warrants Payable	-	132,334
Total Liabilities	-	132,334
NET POSITION:		
Restricted for Student Activities	76,733	
Total Net Position	\$ 76,733	

STATEMENT OF CHANGES IN FIDUCIARY NET
 FIDUCIARY FUNDS
 For the Year Ended June 30, 2014

	Private Purpose
	Trust Funds
ADDITIONS:	
Revenues from Student Activities	\$ 136,166
Total Additions	136,166
DEDUCTIONS:	
Expenses of Student Activities	128,796
Total Deductions	128,796
CHANGE IN NET POSITION	7,370
NET POSITION:	
Beginning of the Year	69,363
End of the Year	\$ 76,733

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

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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 Savage School District No. 7J & 2 (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 Savage School District No. 7J & 2 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 Savage School District No. 7J & 2 (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.

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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, facility rental fees and driver's education 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 funds 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 principal and interest on general long-term debt and compensated absence payments which are recognized when due. Capital assets are functional expenditures in governmental funds are reported as other financing sources.

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.

The School District reports the following major governmental funds:

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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

- 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 elementary and high school flexibility funds and the elementary Interlocal agreement fund since the restrictions on those funds are similar to the general fund.
- 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.
- High School 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

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 organizations.

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 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.

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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

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:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings	10 – 50 years
Improvements other than buildings	30 years
Machinery and Equipment	5 – 15 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 School District employees shall accrue 12 days of sick leave for each year of service in the employ of the school district. Unused sick leave will be accruable up to a maximum of eighty (80) days. Certified staff shall accrue two (2) days each year for personal leave and any unused balance will be reimbursed at the end of the year at the substitute teacher 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 \$8,463 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.

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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

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.
- Assigned – the executing a purchase order for a specific purpose such as an encumbrance.
- 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>	<u>Assigned</u>
Instructional - Regular	\$ 9,059	\$ 1,202
Operations and Maintenance	20,178	0
Student Transportation	36,166	0
School Food	827	0
Third Party Grantor Restrictions	82,331	0
Employer Retirement Benefits	79,677	0
Future Technology	71,087	0
Future Capital Costs	223,150	0
Total	<u>\$ 522,475</u>	<u>\$ 1,202</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. When an expenditure is incurred and assigned or unassigned fund balances are available, the School District considers amounts to have been spent first out of then assigned and then unassigned funds as needed, unless the board of trustees has provided otherwise.

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. 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>1,173,714</u>	\$ <u>209,067</u>	\$ <u>1,382,781</u>

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

	<u>Amount</u>
Demand Accounts	\$ 76,733
County Investment Pool	1,289,518
Unreconciled	16,530
Total	<u>\$ 1,382,781</u>

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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

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 demand deposits, savings accounts, certificate of deposits, STIP and 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.

Custodial credit risk-deposits: The cash of the extracurricular funds is held separately by the School District, not at Richland 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.

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 \$6,361,788 for the Elementary School District and \$8,528,700 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</u> <u>Levies</u>	<u>Taxes</u> <u>Receivable</u>
<u>Elementary Fund</u>		
General*	10.08	\$ 369
Transportation	9.12	315
Adult Education	0.27	10
<u>High School Fund</u>		
Transportation*	9.88	9,174
Adult Education	0.20	186
Total	<u>29.55</u>	<u>\$ 10,054</u>

* Denotes Major Funds

NOTE 4. CAPITAL ASSETS, DEPRECIATION AND NET CAPITAL ASSETS

4. 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>Adjustments</u>	<u>Transfers</u>	<u>June 30, 2014</u>
<u>Non-depreciable:</u>					
Land	\$ 37,973	\$ 0	\$ 0	\$ 187,000	\$ 224,973
Construction In Progress	4,149,648	0	0	(4,149,648)	0
Total Non-depreciable	<u>\$ 4,187,621</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (3,962,648)</u>	<u>\$ 224,973</u>
<u>Depreciable:</u>	<u>Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Transfers</u>	<u>Balance</u>
	<u>July 1, 2013</u>				<u>June 30, 2014</u>
Buildings	\$ 2,167,797	\$ 99,960	\$ (479,355)	\$ 3,936,751	\$ 5,725,153
Improvements other than buildings	0	0	0	25,897	25,897
Machinery and equipment	576,087	0	(228,474)	0	347,613
Total Depreciable	<u>\$ 2,743,884</u>	<u>\$ 99,960</u>	<u>\$ (707,829)</u>	<u>\$ 3,962,648</u>	<u>\$ 6,098,663</u>
<u>Accumulated Depreciation:</u>					
Buildings	\$ (949,915)	\$ (134,032)	\$ (61,285)	\$ 4,319	\$ (1,140,913)
Improvements other than buildings	0	(863)	0	(4,319)	(5,182)
Machinery and equipment	(419,066)	(29,372)	156,952	0	(291,486)
Total Depreciation	<u>\$ (1,368,981)</u>	<u>\$ (164,267)</u>	<u>\$ 95,667</u>	<u>\$ 0</u>	<u>\$ (1,437,581)</u>
Net Depreciable Assets	<u>1,374,903</u>	<u>(64,307)</u>	<u>(612,162)</u>	<u>3,962,648</u>	<u>4,661,082</u>
Net General Capital Assets	<u>\$ 5,562,524</u>	<u>\$ (64,307)</u>	<u>\$ (612,162)</u>	<u>\$ 0</u>	<u>\$ 4,886,055</u>

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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

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

Function	Amount
Instructional	\$ 87,497
School Administration	2,296
Operation & Maintenance	14,015
Transportation	8,267
School Food	428
Extracurricular	5,276
Unallocated	46,488
Total Depreciation Expense	\$ 164,267

NOTE 5. CHANGES IN LONG-TERM DEBT

5. 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>Bonds and Notes Payable:</u>					
Capital Lease	\$ 15,317	\$ 0	\$ (3,757)	\$ 11,560	\$ 4,045
Intercap Loans	600,000	0	(59,867)	540,133	60,618
Total Bonds and Notes Payable	\$ 617,317	\$ 0	\$ (63,624)	\$ 551,693	\$ 64,663
<u>Other Liabilities:</u>					
Compensated Absences	\$ 66,007	\$ 0	\$ (18,245)	\$ 47,762	\$ 8,463
Other Post-Employment Benefits (OPEB)	19,829	19,829	0	39,658	0
Total Other Liabilities	\$ 85,836	\$ 19,829	\$ (18,245)	\$ 87,420	\$ 8,463
Total Governmental Activities - Long-Term Debt:	\$ 701,153	\$ 19,829	\$ (81,869)	\$ 639,113	\$ 73,126

5. c. INTERCAP LOAN

The School District entered into an intercap loan in prior years with the Montana Board of Investments for the purpose of re-working the districts heating and cooling system. Total payments made in fiscal year 2014 were \$65,717 which included \$5,850 of interest. The loan was issued for the terms and payment schedule indicated below.

<u>Description</u>	<u>Issue Date</u>	<u>Interest</u> <u>Rate*</u>	<u>Length</u> <u>of Loan</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Outstanding</u> <u>June 30,</u> <u>2014</u>
Heating & Cooling System	11/2/2012	1.00% - 1.25%	10 Years	6/15/2022	\$ 600,000	\$ 540,133

Debt service requirements to maturity for principal and interest for all Intercap long term obligations are as follows:

For the year ended 6/30:	Principal	Interest*
2015	\$ 60,618	\$ 5,401
2016	61,378	4,795
2017	62,147	4,181
2018	62,927	3,560
2019	63,716	2,931
2020-2023	229,347	5,270
Totals	\$ 540,133	\$ 26,138

*Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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

5. d. CAPITAL LEASES

A lease purchase agreement was entered into between Advance Acceptance All-Lines Leasing and Savage School District No. 7J & 2 on December 2012. This lease-purchase agreement provided a method of financing a floor scrubber for the District. The amount due on this lease purchase is reflected as a liability on the financial statements of the District in the Statement of Net Position. The amount shown in the Statement of Net Position for capitalized machinery and equipment is \$17,230.

The principal amount paid as of June 30, 2014 was \$3,757. Liability is paid by the elementary flexibility fund. The principal balance as of June 30, 2013 was \$11,560.

For the year ended 6/30:	Future Minimum Lease Payments	
2015	\$	5,027
2016		5,027
2017		3,721
Less Interest		<u>(2,215)</u>
2020-2024	\$	<u>11,560</u>

NOTE 6. DEFERRED INFLOWS OF RESOURCES

6. a. PROPERTY TAXES

<u>Elementary Fund</u>	<u>Amount</u>	<u>Reason</u>
General*	\$ 369	Taxes Receivable
Transportation	315	Taxes Receivable
Adult Education	10	Taxes Receivable
<u>High School Fund</u>		Taxes Receivable
Transportation*	9,174	Taxes Receivable
Adult Education	<u>186</u>	Taxes Receivable
Total	\$ <u>10,054</u>	

* Denotes Major Funds

NOTE 7. PRIOR PERIOD ADJUSTMENTS

<u>Elementary Fund</u>	<u>Amount</u>	<u>REASON</u>
Transportation	\$ 13,303	Excess monies in the payroll and claims clearing funds.
<u>High School Fund</u>		
Transportation*	11,500	Excess monies in the payroll and claims clearing funds.
Flexibility*	<u>99,207</u>	Excess monies in the payroll and claims clearing funds.
Total	\$ <u>124,010</u>	

* Denotes Major Funds

Governmental Type Activities	<u>(611,162)</u>	Cleanup capital assets to agree to assets owned and applicable accumulated depreciation.
Total	\$ <u>(487,152)</u>	

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

Plan Description - The School District provides the same health care plan to all of its members. The implicit subsidy is \$11,592 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.

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, 2012 was as follows:

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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

Actuarial Accrued Liability (AAL)	\$ 326,390
Actuarial value of plan assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>326,390</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 963,225
UAAL as a percentage of covered payroll	34%

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, 2012.

Annual Required Contribution (ARC)	\$ 19,829
Interest on net OPEB obligation	0
Adjustment to ARC	<u>0</u>
Annual OPEB cost (expense)	19,829
Contribution made	<u>0</u>
Increase in net OPEB obligation	19,829
Net OPEB obligation - beginning of year	<u>19,829</u>
Net OPEB obligation - end of year	<u>\$ 39,658</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)	59
Discount rate (average anticipated rate)	1.0%
Average Salary Increase	3.0%
Health care cost rate trend	
Year	% Increase
2014 and after	4.0%

NOTE 9. OTHER COMMITMENTS

9. a. 1 ENCUMBRANCES

The School District's encumbrance policy is for fiscal year end encumbrances exceeding \$1,000 to be considered significant encumbrances. All encumbrances are classified as assigned or restricted in the funds noted below:

<u>Elementary Fund</u>	<u>Amount</u>
General*	\$ 601
Lease Rental	5,420
Flexibility	3,370
<u>High School Fund</u>	
General*	601
Lease Rental	1,200
Flexibility	<u>72,567</u>
Total	<u>\$ 83,759</u>

* Denotes Major Funds

NOTE 10. 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.

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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

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.

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	\$ 103,887	\$ 125,177	\$ 123,136
PERS	<u>21,668</u>	<u>19,047</u>	<u>25,353</u>
Total	<u>\$ 125,555</u>	<u>\$ 144,224</u>	<u>\$ 148,489</u>

NOTE 11. 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.

NOTE 12. COOPERATIVE

12. a. SPECIAL EDUCATION

The Savage School District No. 7J & 2 is a member of the Prairie View 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 Savage School District No. 7J & 2, 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.

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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

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 KT Inc. Bus service for its student transportation needs. KT Inc's 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 \$97,874.

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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>
7/1/2012	\$ -	\$ 326,390	\$ 326,390	0%	\$ 963,225	34%

This schedule is based on the actuarial values as of July 1, 2012. Information for prior years is not available.

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	\$ 114,151	\$ 114,151	\$ 72,210	\$ -	\$ -	\$ -
Interest	312	312	199	-	-	164
Other	-	-	-	-	-	-
County	-	-	-	-	-	-
State	520,071	520,071	593,734	100,000	100,000	119,003
Total Revenues	<u>634,534</u>	<u>634,534</u>	<u>666,143</u>	<u>100,000</u>	<u>100,000</u>	<u>119,167</u>
EXPENDITURES:						
Current						
Instructional Services			438,040			42,792
Support Services			12,768			-
Educational Media Services			5,645			622
General Administrative Services			67,686			688
Operation & Maintenance Services			56,144			10,987
Transportation Services			582			-
School Food Services			24,443			544
Extracurricular			11,769			1,080
Capital Outlay			-			-
Total Expenditures	<u>634,534</u>	<u>634,534</u>	<u>617,077</u>	<u>101,058</u>	<u>101,058</u>	<u>56,713</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	-	-	49,066	(1,058)	(1,058)	62,454
FUND BALANCE:						
Beginning of the Year			690			1,058
Restatement			-			-
End of the Year			<u>\$ 49,756</u>			<u>\$ 63,512</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)			Transportation (HS)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES:						
District Levies	\$ 45,100	\$ 45,100	\$ 41,249	\$ 88,268	\$ 88,268	\$ 36,321
Interest	1,481	1,481	892	-	-	13
Other	-	-	-	-	-	-
County	-	-	-	6,050	6,050	6,050
State	572,949	572,949	572,949	6,782	6,782	6,782
Total Revenues	<u>619,530</u>	<u>619,530</u>	<u>615,090</u>	<u>101,100</u>	<u>101,100</u>	<u>49,166</u>
EXPENDITURES:						
Current						
Instructional Services			379,063			-
Support Services			12,788			-
Educational Media Services			5,347			-
General Administrative Services			72,740			8,776
Operation & Maintenance Services			65,106			-
Transportation Services			4,859			40,933
School Food Services			24,547			-
Extracurricular			36,597			-
Capital Outlay			-			-
Total Expenditures	<u>619,530</u>	<u>619,530</u>	<u>601,047</u>	<u>101,100</u>	<u>101,100</u>	<u>49,709</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	-	-	14,043	-	-	(543)
FUND BALANCE:						
Beginning of the Year			65,065			7,004
Restatement			-			11,500
End of the Year			<u>\$ 79,108</u>			<u>\$ 17,961</u>

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

Savage School District No. 7J & 2
 Richland County
 Savage, Montana 59262

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

	Flexibility Fund (HS)		
	Original Budget	Final Budget	Actual
REVENUES:			
District Levies	\$ -	\$ -	\$ -
Interest	-	-	1,926
Other	-	-	97
County	-	-	-
State	200,000	200,000	403,395
Total Revenues	<u>200,000</u>	<u>200,000</u>	<u>405,418</u>
EXPENDITURES:			
Current			
Instructional Services			170,800
Support Services			5,690
Educational Media Services			3,079
General Administrative Services			7,592
Operation & Maintenance Services			26,787
Transportation Services			-
School Food Services			-
Extracurricular			13,085
Capital Outlay			99,960
Total Expenditures	<u>200,000</u>	<u>505,808</u>	<u>326,993</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(305,808)	78,425
FUND BALANCE:			
Beginning of the Year			143,984
Restatement			99,207
End of the Year			<u>\$ 321,616</u>

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

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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 special revenue 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. FUND BALANCE RECONCILIATION

The fund balances of the general fund displayed on the Statement of Revenue, Expenditures, and Changes in Fund Balances (GAAP Basis) is differently displayed on the Schedule of Revenues, Expenditures, and Changes in Fund Balance (Budget and Actual) by \$1,202. This is due to the reserve for encumbrances. Encumbrances are not included as expenditures on the GAAP basis statement as they do not meet the GAAP definition of expenditures. The District reports encumbrances at year end as budgeted expenditures and displays these amounts as assigned or reserve for fund balances, as applicable.

NOTE 3. BUDGET AMENDMENT

The District approved a budget amendment for the purpose of funding a new heating system for the VO/AG building, updating and repairing the high school bathrooms, increased operations and maintenance costs, supplies, teacher housing, and salaries and benefits for additional employees under the provisions of 20-9-161(1), MCA for the high flexibility fund. The budget amendment was for \$305,808 and the school district funded the amendment with unanticipated oil and gas moneys.

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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

	Sub-fund General (Elem)	Sub-fund General (HS)	Sub-fund Flexibility Fund (Elem.)	Sub-fund Flexibility Fund (HS)	Sub-fund Interlocal Agreement (Elem.)	Total General
REVENUES:						
District Levies	\$ 72,210	\$ 41,249	\$ -	\$ -	\$ -	\$ 113,459
Interest	199	892	164	1,926	457	3,638
Other	-	-	-	97	-	97
State	593,734	572,949	119,003	403,395	80,000	1,769,081
Total Revenues	<u>666,143</u>	<u>615,090</u>	<u>119,167</u>	<u>405,418</u>	<u>80,457</u>	<u>1,886,275</u>
EXPENDITURES:						
Current						
Instructional Services	437,439	378,462	42,792	170,800	-	1,029,493
Support Services	12,768	12,788	-	5,690	-	31,246
Educational Media Services	5,645	5,347	622	3,079	-	14,693
General Administrative Services	67,686	72,740	688	7,592	1,277	149,983
Operation & Maintenance Services	56,144	65,106	10,987	26,787	-	159,024
Transportation Services	582	4,859	-	-	-	5,441
School Food Services	24,443	24,547	544	-	-	49,534
Extracurricular	11,769	36,597	1,080	13,085	-	62,531
Debt Service						
Principal	-	-	-	-	59,867	59,867
Interest and other charges	-	-	-	-	5,850	5,850
Capital Outlay	-	-	-	99,960	-	99,960
Total Expenditures	<u>616,476</u>	<u>600,446</u>	<u>56,713</u>	<u>326,993</u>	<u>66,994</u>	<u>1,667,622</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	<u>49,667</u>	<u>14,644</u>	<u>62,454</u>	<u>78,425</u>	<u>13,463</u>	<u>218,653</u>
FUND BALANCE:						
Beginning of the Year	690	65,065	1,058	143,984	122,582	333,379
Prior Period Adjustments	-	-	-	99,207	-	99,207
End of the Year	<u>\$ 50,357</u>	<u>\$ 79,709</u>	<u>\$ 63,512</u>	<u>\$ 321,616</u>	<u>\$ 136,045</u>	<u>\$ 651,239</u>

In the reconciliation the general funds, flexibility funds and interlocal agreement 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 funds and interlocal agreement 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.

SAVAGE SCHOOL DISTRICT NO. 7J & 2

SCHEDULE OF REVENUES, EXPENSES AND BALANCES EXPENDABLE TRUST – STUDENT ACTIVITY FUNDS
Fiscal Year-Ended June 30, 2014

<u>Activity Account Name</u>	<u>Beginning Balance 7/1/2013</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Transfers</u>	<u>Ending Balance 6/30/2014</u>
Annual	\$ 6,367	\$ 3,602	\$ 3,201	\$ -	\$ 6,768
Athletic	1,652	41,020	44,004	3,500	2,168
Band	2,308	933	1,630	-	1,611
Cheerleaders	158	-	1	-	157
Class of 2013	1,578	-	1,578	-	-
Class of 2014	5,283	9,073	14,331	-	25
Class of 2015	5,099	17,888	11,525	-	11,462
Class of 2016	2,767	3,060	2,722	-	3,105
Class of 2017	1,937	1,815	656	1,000	4,096
Class of 2018	920	-	7	1,000	1,913
Concessions	6,185	22,654	15,209	(2,000)	11,630
Donna Buxbaum Scholarship	8,411	1	32	-	8,380
Elementary through 6th	2,899	2,735	2,933	-	2,701
FFA	11,804	10,070	5,272	(3,500)	13,102
John McNeil Scholarship	3,719	3,489	4,551	-	2,657
Library	509	2,248	2,211	-	546
PE Account	150	-	1	-	149
School to Work	2,474	2	10	-	2,466
Science Club	1,521	5,001	5,006	-	1,516
Shop	2,628	101	558	-	2,171
Student Council	994	12,474	13,358	-	110
Total	\$ 69,363	\$ 136,166	\$ 128,796	\$ -	\$ 76,733

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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	14	14	0
Grade 1 - 6	47	47	0
Grade 7 - 8	18	18	0
Total	<u>79</u>	<u>79</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>33</u>	<u>33</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	11	11	0
Grade 1 - 6	47	47	0
Grade 7 - 8	18	18	0
Total	<u>76</u>	<u>76</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>32</u>	<u>32</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	11	11	0
Grade 1 - 6	49	49	0
Grade 7 - 8	18	18	0
Total	<u>78</u>	<u>78</u>	<u>0</u>

High School

	<u>Reported</u>	<u>Audited</u>	<u>Variance</u>
Grade 9 - 12	<u>30</u>	<u>30</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>

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
Savage School District No. 7J & 2
Richland County
Savage, Montana 59262

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 Savage School District No. 7J & 2 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Savage School District No. 7J & 2's basic financial statements and have issued our report thereon dated May 22, 2015. Our opinion on the financial statements was qualified due to the reporting differences in the payroll and claims agency funds and excess cash balances moved from the clearing accounts into other governmental funds.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Savage School District No. 7J & 2'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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses as items 2014-001, 2014-002, 2014-003, 2014-004, 2014-006, 2014-007 and 2014-008.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies as items 2014-005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Savage School District No. 7J & 2'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*.

Savage School District No. 7J & 2'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, PC
Billings, Montana
May 22, 2015

SAVAGE SCHOOL DISTRICT NO. 7J & 2

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.

2013-006 Student Activities

This finding was not reported in fiscal year 2014

2014-001 Debt Service Expenditure Reporting

Criteria: The OPI school accounting manual (SAM) provides a financial reporting chart of accounts to be used by school districts to assist in compliance with Generally accepted accounting principles (GAAP) financial reporting.

Condition: Debt payments reported on the TFS were not correctly reported as required by the SAM.

Effect: Debt payments were coded as a 3xx object for purchases services rather than 840 for principal payments and 850 for interest payments. The audit report has been corrected at the request of the client.

Context: In the elementary Interlocal agreement fund, the accounting records reported the debt principal and interest payments of \$65,717 under expenditure code (function-object) 2500-840 while the TFS reported the debt service payments under expenditure code (function-object) 23xx-3xx. The debt principal payment of \$59,867 should have been coded to expenditure object 840 and the interest payment of \$5,850 should have been coded to expenditure object 850.

Cause: Not following the SAM chart of accounts and not ensuring the TFS was derived from the school district's accounting records.

Recommendation: We recommend the school district correctly use the object codes for expenditures as specified in the SAM. We further recommend expenditure function coding as reported in the accounting records agree to the coding when preparing the TFS.

2014-002 Cash Reconciliation (Repeated and updated from 2013-003)

Criteria: One of the elements of internal controls to prevent and detect fraud is to reconcile the accounting cash accounts to depository accounts on a monthly basis (cash on hand, bank accounts, investments, etc.). The benefit of reconciling the cash per the accounting books to the external financial institutes is to demonstrate the cash reported by the entity is consistent with the cash reported in external financial institutes. In addition, ARM 10-10-601, 615, 612 requires monthly reconciliations to cash to the county.

Condition: As noted in the prior year, cash as reported by the school district does not reconcile to the county treasurer's cash balances.

Effect: Cash balances reported by the school district do not reconcile.

Context: Cash per the TFS in the claims clearing account is \$129,801 while the county is reporting \$113,271 for a difference of \$16,530.

Cause: Not reconciling cash on a regular basis.

Recommendation: We recommend the school district reconcile cash monthly and differences be identified in a timely manner.

2014-003 Financial Reporting

Criteria: Internal controls indicate the annual financial report should be derived from the accounting records and that subsidiary ledgers reconcile to the amounts reported in the financial statements.

Condition: During our review of the TFS, the accounting records and corresponding subsidiary ledgers we noted the following:

1. Outstanding warrant reported on the TFS in the clearing accounts do not agree to the amounts reported in the subsidiary ledgers and cash balances and other liability reported in the accounting records do not agree to the TFS.
2. Oil and gas tax collections in the Interlocal agreement fund are reported as a restatement on the TFS but a revenue source in the accounting records.

Effect:

1. The payroll and claims clearing funds as reported in the TFS are not reporting financial activity as reported in the accounting records or reconcile to the subsidiary ledgers.
2. Revenues reported in the accounting records for the Interlocal agreement fund do not agree to amounts reported in the accounting system or county. The audit report has been corrected at the request of the client to correctly report state revenues.

Context:

1. The TFS is reporting \$129,801 of claims outstanding on the TFS, however, the subsidiary ledgers of all unredeemed warrants is reporting \$111,962 for a difference of \$17,839. This \$111,962 of outstanding warrants reported in the claims clearing fund in the accounting system is correctly reported.

The TFS is reporting \$2,533 of payroll claims outstanding on the TFS, however, the subsidiary ledgers of all unredeemed warrants is reporting \$11,792 for a difference of \$9,259. This \$111,962 of outstanding warrants.

The payroll clearing fund cash reported in the accounting system is \$222,505 which is offset by 16 different liability accounts containing both positive and negative balances. The two largest balances are outstanding warrants of \$12,158 (which does not agree to above) and \$216,428 due to must.

2. The county and the accounting system report oil and gas tax collections from the state as revenue code 3460, however, the TFS reports the \$80,000 collection as a prior period adjustment.

Cause: Not ensuring the accounting records and the TFS reconcile.

Recommendation:

1. We recommend the school district review its payroll clearing account and clean up the erroneous postings as applicable. We further recommend balances reported in the clearing account be reported on the TFS. In addition, we recommend the clearing accounts balances agree to the corresponding subsidiary ledgers.
2. We recommend all information displayed in the TFS be derived from the accounting records. Any differences, should be resolved prior to submitting the TFS.

2014-004 Internal Control over Financial Reporting (Repeat finding form 2012 – 2013-001)

Criteria: Auditing Standards (SAS 115) require that entities have internal control procedures over the preparation of their financial statements in accordance with US GAAP

Condition: The District does not have the ability to prepare financial statements in accordance with requirements.

Effect: A material weakness in internal control over reporting.

Context: The District financial statements are prepared by the external auditor.

Cause: The scale of the District's operations and legally required frequency of its audits make this requirement impractical to implement.

Recommendation: We recommend the District's management take this matter under consideration.

2014-005 Segregation of Duties (Repeat finding from 2012 – 2013-002)

Criteria: Segregation of duties is essential for internal control.

Condition: The District does not have ideal segregation of duties.

Effect: Internal control is not optimal.

Context: The District has one employee assigned to the accounting function.

Cause: The small staff of the District does not allow for ideal segregation of duties.

Recommendation: We recommend the Board take an active role so that compensating controls exist and that they monitor the District's activities.

2014-006 Revenues/Receivables (Repeat and updated form 2013-004)

Criteria: Generally accepted accounting principles (GAAP) indicates for expenditure driven grants the recipient should recognize a receivable and revenue when the recipient has incurred allowable costs under the applicable grant program. (GASB Codification N.118)

Condition: As noted in prior years, due from other governments and revenues are not correctly displayed when the school district has incurred allowable costs under grant programs.

Effect: Grant revenues are being reported during the wrong accounting period.

Context: Total federal costs incurred on the Title I, Part A grant in the miscellaneous fund were \$22,282, however, only \$18,934 of grant revenues were recognized in the accounting records. The net amount of unreported due from other governments and grant revenues in the miscellaneous fund were \$3,348.

Cause: Not following GAAP guidance for proper revenue recognition.

Recommendation: We recommend the school district determine grant funds are properly reported in the accounting system. This includes ensuring expenditure driven grants display costs when incurred and revenue recognition equaling the costs incurred.

2014-007 Capital Assets (repeat finding – 2013-005 and updated)

Criteria:

- *Capital assets should be depreciated over their estimated useful lives.
- *Depreciation should be reported in the government-wide statement of activities and changes in fund net position.
- *Capital assets should be reported at historical cost and donated capital assets should be reported at their estimated fair value at the time of acquisition.
- *Capital assets that are being or have been depreciated should be reported net of accumulated depreciation in the statement of net position and depreciation expense should be reported in the statement of activities.
(GASB Codification 1400)

Internal controls indicate for capital assets reporting the capital costs must be properly reported including the depreciation comments to ensure the financial statements will be accurate with respect to capital asset accounting. In addition, an annual physical inventory of capital assets should be taken by someone who does not have custodial responsibility for record keeping.

Condition: The value of capital assets reported on the elementary and high school Trustee's Financial Summary (FTS) are the same amounts, however, the subsidiary ledger indicate the assets are not equally allocated between the two school districts. In addition, the amounts reported on the subsidiary ledger do not agree to amounts reported in the TFS. Further, per the TFS the capital assets are not being depreciated. After the TFS was remitted the school district updated its capital asset schedule to include identifiable assets.

Effect: Capital assets reported on the TFS are not supported by amounts reported in the subsidiary ledger. At the request of the school district the audit report has been updated to agree to the revised capital assets schedule.

Context: The elementary and high school districts both report total capital assets of \$4,405,575 for an aggregate total of \$8,811,149. Total assets reported on the subsidiary ledger before the schedule being updated was \$5,433,150. The determination for depreciation expense and accumulated depreciations is almost impossible to determine from the schedule. The school district after submission of the TFS established a capital asset schedule that would also calculated accumulated depreciation.

Cause: Using old forms and not updating the schedule on a regular basis.

Recommendation: We recommend the school district update it capital assets schedule annually and calculated depreciation expense. We further, recommend a capital asset inventory be done annually. Differences between records and physical counts should be investigated. Records should be adjusted with the proper approval.

In addition, we recommend the capital assets reported on the TFS be supported by the capital assets subsidiary ledger.

2014-008 Clearing Fund Transfers

Criteria: MCA 20-9-220, A clearing account may be used by a school district for bookkeeping purposes if:...(c) the balance in the account is no greater than the amount necessary to cover outstanding warrants written against the account.

ARM 10.10.208, If a warrant is subsequently voided, the warrant must be deleted from the payroll or claims accounts' outstanding warrant list and the cash returned to the fund(s) which had originally transferred the money.

Condition: The school district transferred excess monies in the payroll and claims clearing fund to the elementary and high school transportation funds and the high school flexibility fund.

Effect: Excess cash amounts were not identified by fund and those amounts returned to the applicable fund.

Context: The school district determine they had \$92,189 of excess cash in the payroll clearing fund and \$32,821 in the claims clearing fund. A decision was made these excess funds should be transferred out of the clearing funds and placed in school district operating funds. The high school flexibility fund received \$99,207, the elementary transportation fund received \$13,303 and the high school transportation fund received \$11,500.

Cause: It appears the school district did not identified the transactions that moved the money to the clearing fund so the money could be moved back to the fund that transferred the money to the clearing funds.

Recommendation: We recommend no transfers be done out the clearing accounts unless the source of the funding is identified and that applicable fund is reimbursed. We further recommend the school district make sure the funds that received this money was the correct funds.