

SMITH VALLEY PUBLIC SCHOOL

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

**AUDIT REPORT**

**Denning, Downey & Associates, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

SMITH VALLEY PUBLIC SCHOOL

FLATHEAD COUNTY, MONTANA

Fiscal Year Ended June 30, 2014

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SMITH VALLEY PUBLIC SCHOOL

FLATHEAD COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2014

**BOARD OF TRUSTEES**

Richard F. Sutton	Chairperson
Jerry Snell	Vice Chairperson
Duane Drenfield	Trustee
Doni Bennett	Trustee
Sue Cameron	Trustee

**DISTRICT OFFICIALS**

Laili Komenda	District Principal
Serina Nelson	Business Manager
Marcia Sheffels	County Superintendent
Ed Corrigan	County Attorney

**Smith Valley School District #89**  
**Flathead County**

**Management's Discussion and Analysis**  
**For Fiscal Year 2013-2014**

The Principal and Business Manager/Clerk of the Smith Valley School District have provided this discussion and analysis to give the reader of these statements an overview of the financial position and activities of the school district for the year covered by this audit report. Certain comparative information between the current year and the prior is required to be presented in the MD&A.

***Financial Highlights***

The federal government awarded Stimulus Funds for the Title I Schoolwide program as well as Special Education in 2013-2014. There were still funds available for the 2014-2015 school year. These funds were spent on salaries and the remainder for additional technology and staff training. A budget amendment for school year 2013-2014 was accepted for unexpected enrollment increase. An additional budget amendment for 2013-2014 was accepted for unexpected expenses due to waterline breaking in the upper parking lot. Shelly Means received a grant from Soroptomis for library needs.

***Staffing Highlights***

In the 2013-2014 school year, Lacy Eccles resigned as the counselor. Mary Beth Burke was hired as the counselor. Kristi Dorcheus was hired as half time Special Education teacher and half time middle school teacher.

***Using This Financial Report***

The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). Components and purposes of the report are explained below.

***Reporting the School District as a Whole***

The report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting.

The **Statement of Net Position** (page 15) shows the assets (what is owned), liabilities (what is owed), and the net position (the resources that would remain if all obligations were settled) of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in fixed or capital assets, such as buildings, equipment and other long-lived property, and some assets are available to fund budgets of the following year.

The **Statement of Activities** (page 16) shows the amounts of program-specific and general school district revenues used to support the school district's various functions.

The Statement of Net Position and the Statement of Activities divide the activities of the school district into three categories, Governmental Activities, Proprietary (Business-Type Activities) and Component Units. Only Governmental Activities are in place at Smith Valley School District #89. The Governmental Activities relate to the school functions, including instruction, student services, administration, etc. Property taxes, state and federal revenues usually support most of these functions of the district.

### **Reporting the District's Most Significant Funds**

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school district. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant, or "major" funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

The Balance Sheet and Statement of Revenues, Expenditure, and Changes in Fund Balance are shown for governmental funds such as the general fund, special revenue funds for transportation and food service, and debt service and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the district's activities and programs.

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

### ***Reporting the District's Trust and Fiduciary Responsibilities***

The district is the trustee, or fiduciary, for endowments and the student extracurricular fund. This report includes the activities in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position (pages 21 and 22) because the district cannot use these assets to fund its operations. The district is responsible for ensuring these assets are used for their intended purpose.

## **The District as a Whole**

The information in the government-wide financial statements helps to determine if the District is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting. Over time net position may service as a useful indicator of a government's financial position. In the District, assets exceeded liabilities by \$594,501 as of June 30, 2014. A portion of the District's net position reflects an investment in capital assets (e.g. land, land improvements, buildings and improvements, machinery and equipment and construction in progress).

**FY2013-2014:**

**Table 1 - Net Position**

	<b>Governmental Activities</b>		
	<b>FY14</b>	<b>FY13</b>	<b>Change Inc (Dec)</b>
	Current and other assets	\$ 297,786	\$ 326,614
Capital assets	1,475,853	1,499,524	(23,671)
Total assets	<u>\$ 1,773,639</u>	<u>\$ 1,826,138</u>	<u>\$ (52,499)</u>
Long-term debt outstanding	\$ 1,170,291	\$ 1,149,949	\$ 20,342
Invested in capital assets, net of debt	\$ 632,683	\$ 589,524	\$ 43,159
Restricted	154,417	164,638	(10,221)
Unrestricted (deficit)	(192,599)	(77,973)	(114,626)
Total net position	<u>\$ 594,501</u>	<u>\$ 676,189</u>	<u>\$ (81,688)</u>

**Table 2 - Changes in Net Position**

	<b>Governmental Activities</b>		
	<b>FY14</b>	<b>FY13</b>	<b>Change Inc (Dec)</b>
	<b>Revenues</b>		
<i>Program revenues (by major source):</i>			
Charges for services	\$ 12,406	\$ 28,613	\$ (16,207)
Operating grants and contributions	129,678	190,088	(60,410)
<i>General revenues (by major source):</i>			
Property taxes for general purposes	367,200	319,042	48,158
Grants and entitlements not restricted to specific programs	976,264	908,523	67,741
Investment earnings	1,463	1,272	191
Miscellaneous (other revenue)	3,955	-	3,955
State entitlement (block grants)	36,859	36,860	(1)
State technology	2,590	1,301	1,289
County retirement	171,156	130,810	40,346
Total revenues	<u>\$ 1,701,571</u>	<u>\$ 1,616,509</u>	<u>\$ 85,062</u>
<b>Program expenses</b>			
Instructional - regular	\$ 1,005,764	\$ 945,930	\$ 59,834
Instructional - special education	215,023	151,045	63,978
Supporting services - operations & maintenance	133,954	130,741	3,213
Supporting services - general	34,168	43,828	(9,660)
Supporting services - educational media services	51,962	51,493	469
Administration - general	148,670	137,159	11,511
Administration - business	72,661	52,492	20,169
Student transportation	18,404	18,862	(458)
Extracurricular	7,504	5,705	1,799
School food	2,690	18,309	(15,619)
Community services	8,074	5,733	2,341
Debt service expense - interest	37,265	39,156	(1,891)
Unallocated depreciation*	45,828	47,258	(1,430)
Total expenses	<u>\$ 1,781,967</u>	<u>\$ 1,647,711</u>	<u>\$ 134,256</u>
<b>Increase (decrease) in net position</b>	<u>\$ (80,396)</u>	<u>\$ (31,202)</u>	<u>\$ (49,194)</u>

## **Analysis of Financial Information**

In the 2013-2014 school year, the Fund Balance in the Food Service fund decreased due to the final bill of 2012-2013 from Kalispell Public Schools lunch program coming in late. The lunch money is now paid directly to Kalispell Public Schools and does not go into our Food Service fund. The Fund Balance in the Retirement Fund decreased due to the required payment to the Teachers' Retirement System. The Fund Balance in the General Fund decreased due to the unexpected expense of the waterline break using some of the reserves and other warrants payable outstanding at the end of 2014. The Fund Balance in the Miscellaneous Programs fund increased due to the after school program doing well. The Fund Balance in the Flexibility Fund decreased due to the purchase of 25 Chromebooks.

## **Capital Assets**

Additions to capital assets for the school year 2013-2014 were new flooring in the main office and gym for \$4,055 and Title I and science room for \$6,319 as construction in progress at the end of the year.

## **Debt Administration**

In October of 2005, Smith Valley School financed \$1,350,000 in general obligation bonds. As of June 2014, the District still owed \$815,000. These bonds are for a term of twenty years at approximately 4.117 % and will be repaid as debt service payments twice annually. The District's mill value is less than the statewide average, therefore the State of Montana will provide 51.78% of the repayment costs. This means that the property tax burden on the district's taxpayers will be reduced. At this time the district has paid nine years on the repayment of the general obligation bonds.

## **Economic Factors and the District's Future**

In the past, the most significant economic factor facing the future of the District continues to be planning for increased enrollment. Newly hired staff who are lower on the salary schedule replacing long-term staff resulted in less total salaries. Kindergarten enrollment continues to increase at a higher rate than those who are graduating. This results in an increase of approximately 10 additional students per year. Young families continue to move into the Smith Valley District resulting in new homes being built each year, which impacts the school by increased enrollment as well as an increase in the tax base.

## **Contact for Additional Information**

If you have questions about this report or need additional information, contact the District Clerk, Serina Nelson, at 2901 Highway 2 West, Kalispell, MT. 59901, 406-756-4535.

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

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**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Smith Valley Public School  
Flathead County  
Kalispell, Montana

**Report on the Financial Statements**

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

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Smith Valley Public School, Flathead County, Montana, as of and for the year ended 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.

## **Change in Accounting Principle**

As described in Note 1 to the financial statements, in 2014, the Smith Valley Public School, Flathead County, Montana adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding for other post employment benefits other than pensions on pages 2 through 11, 39 through 42, and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's 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 the District's basic financial statements. The schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenditures for the extracurricular fund and the schedule of enrollment are fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, on our consideration of the Smith Valley Public School, Flathead County, Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Smith Valley Public School, Flathead County, Montana's internal control over financial reporting and compliance.

*Derring, Downey and Associates, CPAs, P.C.*

June 26, 2015

**Smith Valley Public School, Flathead County, Montana**  
**Statement of Net Position**  
**June 30, 2014**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 260,965
Taxes and assessments receivable, net	29,803
Due from other governments	7,018
Total current assets	\$ 297,786
Noncurrent assets	
Capital assets - land	\$ 10,029
Capital assets - construction in progress	6,319
Capital assets - depreciable, net	1,459,505
Total noncurrent assets	\$ 1,475,853
Total assets	\$ 1,773,639
<b>LIABILITIES</b>	
Current liabilities	
Current portion of long-term capital liabilities	\$ 66,882
Current portion of compensated absences payable	5,712
Deferred inflows of resources	8,847
Total current liabilities	\$ 81,441
Noncurrent liabilities	
Noncurrent portion of long-term liabilities	\$ 314,696
Noncurrent portion of long-term capital liabilities	776,288
Noncurrent portion of compensated absences	6,713
Total noncurrent liabilities	\$ 1,097,697
Total liabilities	\$ 1,179,138
<b>NET POSITION</b>	
Net investment in capital assets	\$ 632,683
Restricted for debt service	66,750
Restricted for special projects	87,667
Unrestricted	(192,599)
Total net position	\$ 594,501

See accompanying Notes to the Financial Statements

**Smith Valley Public School, Flathead County, Montana**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position Primary Government</u>
<b>Primary government:</b>		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instructional - regular	\$ 1,005,764	\$ 12,315	\$ 85,096	\$ (908,353)
Instructional - special education	215,023	-	43,944	(171,079)
Supporting services - operations & maintenance	133,954	-	-	(133,954)
Supporting services - general	34,168	-	-	(34,168)
Supporting services - educational media services	51,962	-	-	(51,962)
Administration - general	148,670	-	-	(148,670)
Administration - business	72,661	-	-	(72,661)
Student transportation	18,404	-	638	(17,766)
Extracurricular	7,504	-	-	(7,504)
School food	2,690	91	-	(2,599)
Community services	8,074	-	-	(8,074)
Debt service expense - interest	37,265	-	-	(37,265)
Unallocated depreciation*	45,828	-	-	(45,828)
Total primary government	\$ 1,781,967	\$ 12,406	\$ 129,678	\$ (1,639,883)
General Revenues:				
Property taxes for general purposes			\$	367,200
Grants and entitlements not restricted to specific programs				976,264
Investment earnings				1,463
Miscellaneous (other revenue)				3,955
State entitlement (block grants)				36,859
State technology				2,590
County retirement				171,156
Total general revenues, special items and transfers			\$	1,559,487
Change in net position			\$	(80,396)
Net position - beginning			\$	676,189
Restatements				(1,292)
Net position - beginning - restated			\$	674,897
Net position - end			\$	594,501

\* This amount excludes the depreciation that is included in the direct expenses of the various programs  
See accompanying Notes to the Financial Statements

**Smith Valley Public School, Flathead County, Montana**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	<u>General</u>	<u>Tuition</u>	<u>Retirement</u>	<u>Miscellaneous Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>							
Current assets:							
Cash and investments	\$ 115,271	\$ -	\$ 57,372	\$ 15,513	\$ 58,552	\$ 14,257	\$ 260,965
Taxes and assessments receivable, net	19,251	4,232	-	-	5,417	903	29,803
Due from other governments	-	-	-	7,018	-	-	7,018
Total assets	<u>\$ 134,522</u>	<u>\$ 4,232</u>	<u>\$ 57,372</u>	<u>\$ 22,531</u>	<u>\$ 63,969</u>	<u>\$ 15,160</u>	<u>\$ 297,786</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Deferred inflows of resources	\$ 19,251	\$ 4,232	\$ -	\$ 8,847	\$ 5,417	\$ 903	\$ 38,650
Total deferred inflows of resources	<u>\$ 19,251</u>	<u>\$ 4,232</u>	<u>\$ -</u>	<u>\$ 8,847</u>	<u>\$ 5,417</u>	<u>\$ 903</u>	<u>\$ 38,650</u>
<b>FUND BALANCES</b>							
Restricted	\$ -	\$ -	\$ 57,372	\$ 13,684	58,552	\$ 14,257	\$ 143,865
Assigned	29,230	-	-	-	-	-	29,230
Unassigned fund balance	86,041	-	-	-	-	-	86,041
Total fund balance	<u>\$ 115,271</u>	<u>\$ -</u>	<u>\$ 57,372</u>	<u>\$ 13,684</u>	<u>\$ 58,552</u>	<u>\$ 14,257</u>	<u>\$ 259,136</u>

See accompanying Notes to the Financial Statements

**Smith Valley Public School, Flathead County, Montana**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Position**  
**June 30, 2014**

<b>Total fund balances - governmental funds</b>	\$ 259,136
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,475,853
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	29,803
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(1,170,291)
<b>Total net position - governmental activities</b>	<b>\$ <u>594,501</u></b>

See accompanying Notes to the Financial Statements

**Smith Valley Public School, Flathead County, Montana**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Tuition</u>	<u>Retirement</u>	<u>Miscellaneous Programs</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>							
Local revenue	\$ 231,260	\$ 62,116	\$ 221	\$ 16,279	\$ 65,984	\$ 10,569	\$ 386,429
County revenue	-	-	171,156	-	-	425	171,581
State revenue	1,024,417	-	-	-	36,683	2,890	1,063,990
Federal revenue	-	-	-	80,975	-	-	80,975
Total revenues	<u>\$ 1,255,677</u>	<u>\$ 62,116</u>	<u>\$ 171,377</u>	<u>\$ 97,254</u>	<u>\$ 102,667</u>	<u>\$ 13,884</u>	<u>\$ 1,702,975</u>
<b>EXPENDITURES</b>							
Instructional - regular	\$ 715,436	\$ -	\$ 125,013	\$ 77,393	\$ -	\$ 750	\$ 918,592
Instructional - special education	133,596	61,419	20,008	-	-	-	215,023
Supporting services - operations & maintenance	126,180	-	7,774	-	-	-	133,954
Supporting services - general	30,288	-	3,615	265	-	-	34,168
Supporting services - educational media services	38,403	-	4,214	9,345	-	-	51,962
Administration - general	133,885	-	14,785	-	-	-	148,670
Administration - business	66,339	-	6,322	-	-	-	72,661
Student transportation	4,298	-	1,846	-	-	12,260	18,404
Extracurricular	6,517	-	987	-	-	-	7,504
School food	-	-	-	-	-	2,690	2,690
Community services	-	-	-	8,074	-	-	8,074
Debt service expense - principal	1,830	-	-	-	65,000	-	66,830
Debt service expense - interest	295	-	-	-	36,970	-	37,265
Capital outlay	23,449	-	-	-	-	-	23,449
Total expenditures	<u>\$ 1,280,516</u>	<u>\$ 61,419</u>	<u>\$ 184,564</u>	<u>\$ 95,077</u>	<u>\$ 101,970</u>	<u>\$ 15,700</u>	<u>\$ 1,739,246</u>
Net Change in Fund Balance	<u>\$ (24,839)</u>	<u>\$ 697</u>	<u>\$ (13,187)</u>	<u>\$ 2,177</u>	<u>\$ 697</u>	<u>\$ (1,816)</u>	<u>\$ (36,271)</u>
Fund balances - beginning	\$ 140,110	\$ (697)	\$ 70,559	\$ 11,507	\$ 57,855	\$ 16,073	\$ 295,407
Fund balance - ending	<u>\$ 115,271</u>	<u>\$ -</u>	<u>\$ 57,372</u>	<u>\$ 13,684</u>	<u>\$ 58,552</u>	<u>\$ 14,257</u>	<u>\$ 259,136</u>

See accompanying Notes to the Financial Statements

**Smith Valley Public School, Flathead County, Montana**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

Amounts reported for *governmental activities* in the statement of activities are different because:

**Net change in fund balances - total governmental funds** \$ (36,271)

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

- Capital assets purchased	23,449
- Depreciation expense	(45,828)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

- Long-term receivables (deferred revenue)	(1,404)
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The change in compensated absences is shown as an expense in the Statement of Activities

(3,390)

Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:

- Long-term debt principal payments	66,830
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Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Post-employment benefits other than retirement liability	(83,782)
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**Change in net position - Statement of Activities** \$ (80,396)

See accompanying Notes to the Financial Statements

**Smith Valley Public School, Flathead County, Montana**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

		<u>Private Purpose Trust Funds</u>		<u>Agency Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$	<u>12,286</u>	\$	<u>95,473</u>
Total assets	\$	<u>12,286</u>	\$	<u>95,473</u>
<b>LIABILITIES</b>				
Warrants payable	\$	<u>-</u>	\$	<u>95,473</u>
Total liabilities	\$	<u>-</u>	\$	<u>95,473</u>
<b>NET POSITION</b>				
Assets held in trust	\$	<u>12,286</u>		

See accompanying Notes to the Financial Statements

**Smith Valley Public School, Flathead County, Montana**  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2014**

		<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>		
Contributions:		
Student activities	\$	<u>16,365</u>
Total additions	\$	<u>16,365</u>
 <b>DEDUCTIONS</b>		
Student activities	\$	<u>17,975</u>
Total deductions	\$	<u>17,975</u>
Change in net position	\$	<u>(1,610)</u>
Net Position - Beginning of the year	\$	13,896
Net Position - End of the year	\$	<u><u>12,286</u></u>

See accompanying Notes to the Financial Statements

SMITH VALLEY PUBLIC SCHOOL  
FLATHEAD COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard is effective for fiscal year ending June 30, 2014.

**Financial Reporting Entity**

In determining the financial reporting entity, the District complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, as amended by GASB statement No. 61, *The Financial Reporting Entity: Omnibus*, and includes all component units of which the District appointed a voting majority of the component units' board; the District is either able to impose its' will on the unit or a financial benefit or burden relationship exists. In addition, the Entity complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the Entity.

*Primary Government*

The District was established under Montana law to provide elementary educational services to residents of the District. The District provides education from kindergarten through the eighth grade.

The District is managed by a Board of Trustees, elected in district-wide elections, and by an administration appointed by and responsible to the Board. The financial statements include all of the operations of the District controlled by the Board of Trustees. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the District is a primary government as defined by GASB Cod. Sec. 2100 and has no component units.

SMITH VALLEY PUBLIC SCHOOL  
FLATHEAD COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**Basis of Presentation, Measurement Focus and Basis of Accounting.**

*Government-wide Financial Statements:*

*Basis of Presentation*

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. The District does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated.

*Measurement Focus and Basis of Accounting*

**Government-Wide Financial Statements**

On the government-wide Statement of Net Position and the Statement of Activities, the governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

SMITH VALLEY PUBLIC SCHOOL  
FLATHEAD COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

**Fund Financial Statements:**

*Basis of Presentation*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets combined with deferred outflows of resources, liabilities combined with deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

*Measurement Focus and Basis of Accounting*

***Governmental Funds***

**Modified Accrual**

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The District defined the length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

SMITH VALLEY PUBLIC SCHOOL  
FLATHEAD COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Property taxes, charges for current services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the District.

*Major Funds:*

The District reports the following major governmental funds:

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

*Tuition Fund* – Authorized by Section 23-3-523 and 324. MCA, to finance tuition costs for elementary and high school district pupils attending schools or detention centers outside their district.

*Retirement Fund* – Authorized by Section 20-9-501, MCA, for the purpose of financing the employer's contribution to the Teacher's Retirement System (TRS, the Public Employees' Retirement System (PERS), Unemployment Compensation and Social Security which is funded by a countywide levy for retirement.

*Debt Service Fund*– Authorized by Section 20-9-438, MCA, for the purpose of paying interest and principle on outstanding bonds and special improvement district assessments.

*Miscellaneous Fund* – Authorized by Section 20-9-507, MCA, for the purpose of accounting for local, state or federal grants and reimbursements. Donations and expendable trusts for scholarships or other purposes that support district programs are deposited in this fund.

***Fiduciary Funds***

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net assets. The fiduciary funds are:

*Agency Funds* – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consist of assets held by the District as an agent for individuals, private organizations, other local governmental entities and the District's claims and payroll clearing funds

SMITH VALLEY PUBLIC SCHOOL  
FLATHEAD COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

*Student Extracurricular Activities Fund* – The Student Extracurricular Activities Fund is authorized by Section 20-9-504, MCA, to account for various student activities, such as athletics, clubs, classes, student government organizations, student publications and other such activities. Separate fund accounts within the Extracurricular Fund are maintained to account for these various activities. Unlike other district funds, the money for these activities may be maintained in bank accounts outside the control of the County Treasurer. The fund is administered by school district administrators, faculty members, and student organizations under the guidelines and policies established by the Board of Trustees and in accordance with the “Student Activity Fund Accounting” guidelines. Required guidelines are available from the Montana Association of School Business Officials (MASBO) or from OPI.

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Cash Composition**

The District’s cash, except for the Student Extracurricular Fund (an expendable trust) is held by the County Treasurer and pooled with other County cash. School district cash which is not necessary for short-term obligations, the District participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County’s investment portfolio as of June 30, 2014, consisted of time deposits, certificates of deposit, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Association, Federal Agriculture Mortgage Association, Federal Home Mortgage Association, U.S. Government Securities.

The School District does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values for Flathead County deposits and investments is available from Flathead County Treasurer’s office, 800 South Main St., Kalispell, MT 59901. Fair value approximates carrying value for investments as of June 30, 2012 and 2013. The Flathead County investment pool is not rated.

Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorizes investments in U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

**Deposits**

The District’s deposit balance and bank balance at year end was \$12,286. The district bank balance was fully insured by FDIC.

SMITH VALLEY PUBLIC SCHOOL  
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June 30, 2014

**NOTE 3. RECEIVABLES**

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

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

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

**NOTE 4. INVENTORIES**

The costs of inventories are recorded as an expenditure when purchased.

**NOTE 5. CAPITAL ASSETS**

The District's assets are capitalized at historical cost or estimated historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	50 years
Improvements	7 – 50 years
Equipment	3 – 5 years
Infrastructure	20 – 30 years

SMITH VALLEY PUBLIC SCHOOL  
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In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the District has no infrastructure to include in the 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets was as follows:

Governmental activities:

	Balance July 1, 2013	Additions	Deletions	Adjustments	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 10,029	\$ -	\$ -	\$ -	\$ 10,029
Construction in progress	-	6,319	-	-	6,319
Total capital assets not being depreciated	<u>\$ 10,029</u>	<u>\$ 6,319</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,348</u>
Other capital assets:					
Buildings	\$ 1,775,151	\$ 4,055	\$ -	\$ -	\$ 1,779,206
Improvements other than buildings	117,533	-	-	-	117,533
Machinery and equipment	72,453	13,075	(24,599)	-	60,929
Total other capital assets at historical cost	<u>\$ 1,965,137</u>	<u>\$ 17,130</u>	<u>\$ (24,599)</u>	<u>\$ -</u>	<u>\$ 1,957,668</u>
Less: accumulated depreciation	<u>\$ (475,642)</u>	<u>\$ (45,828)</u>	<u>\$ 24,599</u>	<u>\$ (1,292)</u>	<u>\$ (498,163)</u>
Total	<u><u>\$ 1,499,524</u></u>	<u><u>\$ (22,379)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,292)</u></u>	<u><u>\$ 1,475,853</u></u>

Governmental capital assets depreciation expense was charged to functions as follows:

Governmental Activities:	
Unallocated	\$ <u>45,828</u>

**NOTE 6. LONG TERM DEBT OBLIGATIONS**

In the governmental-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums are expensed at the date of sale.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

SMITH VALLEY PUBLIC SCHOOL  
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Changes in Long-Term Debt Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>	Due Within <u>One Year</u>
General obligation bonds	\$ 880,000	\$ -	\$ (65,000)	\$ 815,000	\$ 65,000
Compensated absences	9,035	3,390	-	12,425	5,712
Intercap loans	30,000	-	(1,830)	28,170	1,882
Other post-employment benefits*	230,914	83,782	-	314,696	-
Total	<u>\$ 1,149,949</u>	<u>\$ 87,172</u>	<u>\$ (66,830)</u>	<u>\$ 1,170,291</u>	<u>\$ 72,594</u>

\*See Note 7

In prior years the general fund and the compensated absences fund was used to liquidate compensated absences and claims and judgments.

General Obligation Bonds - The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance June 30, 2014</u>
2004 Bonds	10/15/04	3.5-5.0%	20 yrs	7/1/24	\$ <u>1,350,000</u>	Varies	\$ <u>815,000</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 65,000	\$ 34,265
2016	70,000	31,762
2017	70,000	28,963
2018	75,000	26,127
2019	80,000	23,052
2020	85,000	19,733
2021	85,000	16,162
2022	90,000	12,550
2023	95,000	8,680
2024	100,000	4,500
Total	<u>\$ 815,000</u>	<u>\$ 205,794</u>

SMITH VALLEY PUBLIC SCHOOL  
 FLATHEAD COUNTY, MONTANA  
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 June 30, 2014

**Intercap Loans**

Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16<sup>th</sup> 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.

Intercap loans outstanding as of June 30, 2014 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance June 30, 2014</u>
School Building Improvements	11/23/12	Varies	15 yrs	2/15/28	\$ 30,000	\$ <u>28,170</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,882	\$ 277
2016	1,877	258
2017	1,900	239
2018	1,924	220
2019	1,948	200
2020	1,972	180
2021	1,997	161
2022	2,023	141
2023	2,047	120
2024	2,073	100
2025	2,100	79
2026	2,126	58
2027	2,152	37
2028	2,149	16
Total	<u>\$ 28,170</u>	<u>\$ 2,086</u>

**Compensated Absences**

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. Non-teaching District employees earn vacation leave ranging from fifteen to twenty-four days per year depending on the employee's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. Sick leave is earned at a rate of one day per month for non-teaching employees. Upon retirement or termination, employees are paid for 100% of unused vacation leave and 25% of unused sick leave. Upon termination, all payments are made at the employee's current rate of pay.

The liability associated with governmental fund-type employees is reported in the governmental-type activities.

SMITH VALLEY PUBLIC SCHOOL  
 FLATHEAD COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 June 30, 2014

**NOTE 7. POSTEMPLOYMENT HEALTHCARE PLAN**

*Plan Description.* The District offers five different plans to its members. Summary of the plans is as follows:

		<u>Annual Premiums:</u>			
		<u>Employee Only</u>	<u>Employee &amp; Children</u>	<u>Employee &amp; Spouse</u>	<u>Family</u>
RM500 – Revised Major Medical \$500 deductible	\$	4,668	\$ 8,868	\$ 9,336	\$ 11,676
CM1000-Comprehensive Major Medical \$1,000 deductible	\$	7,740	\$ 7,872	\$ 8,280	\$ 10,356
HSA1200 – High Deductible Plan \$1,200 Basic Plan - \$2,000 deductible	\$	3,816	\$ 7,248	\$ 7,632	\$ 9,540
	\$	2,892	\$ 5,496	\$ 5,784	\$ 7,236

The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government’s health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the “Alternative Measurement Method” for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

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

*Funding Status and funding Progress.* The funded status of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$ 568,764
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 568,764</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 605,385
UAAL as a percentage of covered payroll	94%

SMITH VALLEY PUBLIC SCHOOL  
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*Annual OPEB Cost and Net OPEB Obligation.* 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (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 changes in the government's net OPEB obligation.

Annual Required Contribution (ARC)	\$	83,782
Interest on net OPEB obligation		-
Adjustment to ARC		-
Annual OPEB cost (expense)	\$	83,782
Contributions made		-
Increase in net OPEB obligation	\$	83,782
Net OPEB obligation - beginning of year		230,914
Net OPEB obligation - end of year	\$	314,696

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)	62
Discount rate (average anticipated rate)	0.34%
Average salary increase (Consumer Price Index)	2.80%
<u>Health care cost rate trend (Federal Office of the Actuary)</u>	
<u>Year</u>	<u>% Increase</u>
2014	7.80%
2015	6.40%
2016	6.20%
2017	6.00%
2018	6.40%
2019	6.80%
2020	6.90%
2021	6.70%
2022 and after	6.90%

SMITH VALLEY PUBLIC SCHOOL  
 FLATHEAD COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 8. STATE-WIDE RETIREMENT PLANS**

The District participates in two cost-sharing, multiple-employer defined benefit pension plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries with amounts determined by the State. Teaching employees (including principals and superintendents) are covered by Montana Teachers Retirement Plan (TRS), and substantially all other District employees are covered by the Montana Public Employees Retirement System (PERS). The plans are established by Montana law and administered by the State of Montana. The plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State. However, PERS members may have chosen the defined contribution retirement plan. Under this plan it puts the employee in control of investments options and their retirement is based upon the cash in their investment account.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2014, were:

	<u>PERS**</u>	<u>TRS</u>
Employer	7.80%	8.47%
Employee	7.90%*	8.15%
State	0.37%	2.49%

\* For PERS members hired prior 7/1/2011 that rate is 6.90%

\*\* For the defined contribution plan all rates are the same except only 4.19% of the employer amount is added to the individuals account

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the District's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.
2. Teachers' Retirement System, P.O. Box 200319, Helena, Montana 59620-0139 Phone: 1-406-444-3134.

SMITH VALLEY PUBLIC SCHOOL  
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The District's contributions for the years ended June 30, 2012, 2013, and 2014, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>	<u>TRS</u>
2012	\$ 6,608	\$ 63,021
2013	\$ 6,295	\$ 64,302
2014	\$ 10,010	\$ 74,604

**NOTE 9. LOCAL RETIREMENT PLANS**

**Deferred Compensation Plan**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all District employees permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**NOTE 10. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES**

For committed fund balance the government's highest level of decision-making authority is and the formal action that is required to be taken to establish, modify or rescind a fund balance commitment is Board of Trustees.

For assigned fund balance the body or official authorized to assign amounts to a specific purpose is District Clerk and Principal and the policy established by the governing body pursuant to which that authorization is given is Board Policy.

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Restricted Fund Balance**

<u>Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
Retirement	\$ 57,372	Employer Cost of Benefits
Debt Service	58,552	Debt Service
Miscellaneous	13,684	Third party grantor requirements
All other Aggregate:	3,158	Instructional – Regular
	7,110	Student Transportation
	3	Operations and Maintenance
	2,781	Debt Service
	<u>1,205</u>	School Food Services
	<u>\$ 130,181</u>	

SMITH VALLEY PUBLIC SCHOOL  
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 June 30, 2014

**Other Significant Commitments**

<u>Fund</u>	<u>Amount</u>	
General	\$ <u>29,230</u>	Encumbrances

**NOTE 11. RESTATEMENTS**

During the current fiscal year, the following adjustments relating to prior years' transactions were made to net position.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Governmental Activities	\$ <u>1,292</u>	Capital asset adjustment

**NOTE 12. JOINT VENTURES**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

The District is a member of the Flathead Special Education Cooperative. The Cooperative is comprised of 16 member districts, each of which contributes to the operating costs of the Cooperative based on an annual fiscal budget adopted by the Cooperative and the benefits derived from the Cooperative's services. Every year each member district appoints a member to the Joint Advisory Board. From this board, a four member Management Council is elected to administer the Cooperative. The County Superintendent of Schools is the prime fiscal agent.

The Districts contribution to the Cooperative was \$3,342 for the fiscal year ended June 30, 2014, respectively. Separate financial statements are available from the Flathead Special Education Cooperative.

The District is also a member of the Northwest Montana Education Cooperative. The purpose is to maintain and employ personnel to oversee and coordinate the operation and management of education services including joint purchases of materials and the curriculum development process. The Cooperative is comprised of 22 member districts, each of which contributes to the operating costs of the Cooperative based on an annual fiscal budget adopted by the Cooperative and the benefits derived from the Cooperative's services. Every year, each member district appoints a member to the Joint Advisory Board. From this board, a five member Management Council is elected to administer the Cooperative. The County Superintendent of Schools is the prime fiscal agent. The District's contribution to the Cooperative was \$6,803 for fiscal year ended June 30, 2014, respectively. Separate financial statements are available from the Flathead County Education Cooperative.

SMITH VALLEY PUBLIC SCHOOL  
FLATHEAD COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

The Flathead Special Education Cooperative is host for the Flathead County Program of Students with Severe Communications Disorders. The District participates in this program. This program is a collaborative effort by the school districts of Flathead County to meet the needs to students who have severe communication needs with accompanying behavior and learning difficulties. The goal of the program is to provide a positive environment to meet the unique needs of children and adolescents in these areas. The collaborative effort allows resources to be shared reducing the fiscal impact of these services on each district individually. The member districts provide fiscal responsibility to the Host District in the form of participation and placement fees, and special education tuition. The Special Education Directors from the participating districts serve as the Advisory Board for the program, and are responsible for monitoring the program's compliance with Montana and Federal rules and regulations including all special education law. All monies collected and spent on this program are handled through the Interlocal Agreement Fund.

The District is a member of the Flathead Crossroads Interlocal Agreement which is a collaborative effort by the school district of Flathead County to meet the needs of students who have severe emotional/behavioral needs. The Special Education Directors from the participating district will serve as the Advisory Board of the Interlocal. Evergreen School District, Flathead County, Montana is the host district. Each District electing to participate agrees to provide fiscal responsibility to the Host District which includes a participation fee based on fiscal year ANB. Each district is charged a fee for each student participating in the program. For the fiscal year ended June 30, 2012, the District paid \$500 to the Interlocal.

**NOTE 13. SERVICES PROVIDED BY OTHER GOVERNMENTS**

**County Provided Services**

The District is provided various financial services by Flathead County. The County also serves as cashier and treasurer for the 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 District are accounted for in an agency fund in the District's name and are periodically remitted to the District by the County Treasurer. No service charges have been recorded by the District or the County.

**NOTE 14. RISK MANAGEMENT**

The District faces considerable number of risks 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SMITH VALLEY PUBLIC SCHOOL  
FLATHEAD COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2014

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employee torts, and professional liability. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the District has no coverage for potential losses from environmental damages.

Insurance Pools:

The Montana Schools Group Insurance Authority (MSGIA) was created pursuant to the Interlocal Cooperation Act by execution of an Interlocal Agreement creating the MSGIA. The MSGIA is responsible for paying all workers' compensation claims of the member school districts. Each member of the MSGIA is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program. The MSGIA purchases workers' compensation reinsurance to provide statutory excess limits. The MSGIA contracts with Montana School Boards Association (MTSBA) to provide third party administrative services to the program. The MTSBA provides general program management, claim management, and risk management services to its program members.

The Montana School Unemployment Insurance Program (MSUIP) was created pursuant to the Interlocal Cooperation Act by execution of an Interlocal Agreement creating the MSUIP. The MSUIP is responsible for paying all unemployment insurance claims of the member school districts. Each member of the MSUIP is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program. The MSUIP contracts with Montana School Boards Association (MTSBA) to provide third party administrative services to the program. The MTSBA provides general program management and technical services to its program members.

Separate audited financial statements are available from Montana Schools Group Insurance Authority for MSGIA and MSUIP.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Smith Valley Public School, Flathead County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2014**

	General			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY	VARIANCE WITH FINAL
	ORIGINAL	FINAL	BASIS) See Note A	BUDGET
<b>RESOURCES (INFLOWS):</b>				
Local revenue	\$ 227,160	\$ 227,160	\$ 231,234	\$ 4,074
County revenue	-	-	-	-
State revenue	972,283	1,021,638	1,021,638	-
Federal revenue	-	-	-	-
Amounts available for appropriation	\$ 1,199,443	\$ 1,248,798	\$ 1,252,872	\$ 4,074
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Instructional - regular	\$ 681,959	\$ 708,813	\$ 705,207	\$ 3,606
Instructional - special education	120,046	142,546	133,596	8,950
Supporting services - operations & maintenance	109,079	120,589	135,757	(15,168)
Supporting services - general	28,423	28,423	25,538	2,885
Supporting services - educational media services	45,126	45,126	38,434	6,692
Administration - general	134,752	134,752	127,100	7,652
Administration - business	54,455	54,455	64,842	(10,387)
Student transportation	5,916	5,916	4,298	1,618
Extracurricular	7,850	7,850	6,517	1,333
Community services	-	-	-	-
Debt service expense - principal	1,830	1,830	1,830	-
Debt service expense - interest	295	295	295	-
Capital outlay	-	-	14,294	(14,294)
Other current charges	9,712	9,712	-	9,712
Total charges to appropriations	\$ 1,199,443	\$ 1,260,307	\$ 1,257,708	\$ 2,599
Net change in fund balance			\$ (4,836)	
Fund balance - beginning of the year			\$ 90,045	
<b>Fund balance - end of the year</b>			\$ 85,209	

**Smith Valley Public School, Flathead County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Tuition</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Local revenue	\$ 64,413	\$ 64,413	\$ 62,116	\$ (2,297)
County revenue	-	-	-	-
State revenue	-	-	-	-
Federal revenue	-	-	-	-
Amounts available for appropriation	<u>\$ 64,413</u>	<u>\$ 64,413</u>	<u>\$ 62,116</u>	<u>\$ (2,297)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Instructional - regular	\$ -	\$ -	\$ -	\$ -
Instructional - special education	64,413	64,413	61,419	2,994
Supporting services - operations & maintenance	-	-	-	-
Supporting services - general	-	-	-	-
Supporting services - educational media services	-	-	-	-
Administration - general	-	-	-	-
Administration - business	-	-	-	-
Student transportation	-	-	-	-
Extracurricular	-	-	-	-
Community services	-	-	-	-
Debt service expense - principal	-	-	-	-
Debt service expense - interest	-	-	-	-
Capital outlay	-	-	-	-
Other current charges	-	-	-	-
Total charges to appropriations	<u>\$ 64,413</u>	<u>\$ 64,413</u>	<u>\$ 61,419</u>	<u>\$ 2,994</u>
Net change in fund balance			<u>\$ 697</u>	
Fund balance - beginning of the year			<u>\$ (697)</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ -</u></u>	

**Smith Valley Public School, Flathead County, Montana**  
**Budgetary Comparison Schedule**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Retirement</b>			
	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS (BUDGETARY BASIS) See Note A</b>	<b>WITH FINAL BUDGET</b>
<b>RESOURCES (INFLOWS):</b>				
Local revenue	\$ -	\$ -	\$ 221	\$ 221
County revenue	172,433	172,433	171,156	(1,277)
State revenue	-	-	-	-
Federal revenue	-	-	-	-
Amounts available for appropriation	<u>\$ 172,433</u>	<u>\$ 172,433</u>	<u>\$ 171,377</u>	<u>\$ (1,056)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>				
Instructional - regular	\$ 28,629	\$ 28,629	\$ 125,013	\$ (96,384)
Instructional - special education	21,767	21,767	20,008	1,759
Supporting services - operations & maintenance	-	-	7,774	(7,774)
Supporting services - general	-	-	3,615	(3,615)
Supporting services - educational media services	-	-	4,214	(4,214)
Administration - general	-	-	14,785	(14,785)
Administration - business	-	-	6,322	(6,322)
Student transportation	-	-	1,846	(1,846)
Extracurricular	-	-	987	(987)
Community services	-	-	-	-
Debt service expense - principal	-	-	-	-
Debt service expense - interest	-	-	-	-
Capital outlay	-	-	-	-
Other current charges	152,097	152,097	-	152,097
Total charges to appropriations	<u>\$ 202,493</u>	<u>\$ 202,493</u>	<u>\$ 184,564</u>	<u>\$ 17,929</u>
Net change in fund balance			<u>\$ (13,187)</u>	
Fund balance - beginning of the year			<u>\$ 70,559</u>	
<b>Fund balance - end of the year</b>			<u><u>\$ 57,372</u></u>	

**Smith Valley Public School, Flathead County, Montana**  
**Budgetary Comparison Schedule**  
**Budget-to-GAAP Reconciliation**

**Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures**

	<b>General</b>	<b>Tuition</b>	<b>Retirement</b>
<b>Sources/Inflows of resources</b>			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,252,872	\$ 62,116	\$ 171,377
Combined funds (GASBS 54) revenues	2,805	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds.	\$ 1,255,677	\$ 62,116	\$ 171,377
<b>Uses/Outflows of resources</b>			
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,257,708	\$ 61,419	\$ 184,564
Combined funds (GASBS 54) expenditures	6,318	-	-
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for <i>budgetary</i> purposes, but in the year the supplies are received for <i>financial reporting</i> purposes.			
- Encumbrances reported at the beginning of the year	45,720	-	-
- Encumbrances reported at the end of the year	(29,230)	-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 1,280,516	\$ 61,419	\$ 184,564

**Note B**

**The Miscellaneous Programs fund is a major special revenue fund in which a legally adopted budget is not required.**

**Smith Valley Public School, Flathead County**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2009	\$ -	\$ 357,167	\$ 357,167	0%	\$ 961,129	37.2%
July 1, 2012	\$ -	\$ 568,764	\$ 568,764	0%	\$ 927,271	61.3%

# **SUPPLEMENTAL INFORMATION**







Smith Valley Public School, Flathead County  
EXTRACURRICULAR FUND  
**SCHEDULE OF REVENUES AND EXPENDITURES - ALL FUNDS ACCOUNTS**  
Fiscal Year Ended June 30, 2014

FUND ACCOUNT	Beginning <u>Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	Transfers <u>In(Out)</u>	Ending <u>Balance</u>
Class of 2012	\$ -	\$ -	\$ -	\$ -	\$ -
Class of 2013	990	-	-	(247)	743
Class of 2014	1,633	4,781	5,606	-	808
Class of 2015	1,266	906	-	854	3,026
Class of 2016	1,195	1,607	1,530	(418)	854
Class of 2017	-	788	828	(65)	(105)
Class of 2018	-	-	67	-	(67)
Drill Team	430	-	-	(430)	-
Student Council	1,222	136	-	-	1,358
Uniforms	2,115	-	-	(2,115)	-
Referee	(1,200)	-	-	1,200	-
Yearbook	(121)	1,035	911	-	3
Ski Trip	63	1,377	1,367	-	73
Classroom Supplies	109	-	-	-	109
Undistributed	2,018	200	428	(125)	1,665
Recycling	100	-	-	-	100
Scholarship Fund	4,067	-	1,500	-	2,567
K Graduation Fund	8	-	-	-	8
Exploratory Club	(139)	-	-	-	(139)
Guitar Use Fee	25	-	-	-	25
MBI Store	115	-	-	-	115
Concessions for expenses	-	313	574	-	(261)
Athletics	-	1,988	1,929	1,346	1,405
Total	\$ <u>13,896</u>	\$ <u>13,131</u>	\$ <u>14,740</u>	\$ <u>-</u>	\$ <u>12,287</u>

***Denning, Downey & Associates, P.C.***  
**CERTIFIED PUBLIC ACCOUNTANTS**

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

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

Board of Trustees  
Smith Valley Public School  
Flathead County  
Kalispell, Montana

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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Smith Valley Public School, Flathead County, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Smith Valley Public School's basic financial statements and have issued our report thereon dated June 26, 2015.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described below that we consider to be a significant deficiency listed as item 2014-001.

**2014-001      Financial Statement Reporting**

**Condition:**

Title VI, Part B – Small Rural Schools (SRS) funds and IDEA Part B funds were reported as revenue on the Trustee’s Financial Summary (TFS). Both grants should have been reported as deferred inflows.

**Context:**

The School District reported revenues from the Small Rural Schools (SRS)(\$5,505) and IDEA Part B (\$3,342) federal grants instead of deferred inflows. The audit report has been corrected.

**Criteria:**

Revenue recognition criteria for grant funding is when the expenditure is made.

**Effect:**

Deferred inflows are understated and federal revenue is overstated for SRS (\$5,505) and IDEA Part B (\$3,342) a total of \$8,847.

**Cause:**

The School District did not have internal control procedures in place related to financial reporting.

**Recommendation:**

We recommend that the School District implement an internal control procedure in which the grant revenues are reviewed to ensure the revenue recognition criteria has been met.

**Auditee Response:**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Smith Valley Public School’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*.

### **Smith Valley Public School's Response to Findings**

Smith Valley Public School's response to the findings identified in our audit is described above. Smith Valley Public School's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 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.

*Denning, Downey and Associates, CPA's, P.C.*

June 26, 2015

***Denning, Downey & Associates, P.C.***  
***CERTIFIED PUBLIC ACCOUNTANTS***

*1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957*

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Board of Trustees  
Smith Valley Public School  
Flathead County  
Kalispell, Montana

The prior audit report contained one recommendation. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Revenue Recognition	Implemented

*Denning, Downey and Associates, CPAs, P.C.*

June 26, 2015